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President G.D. Woods Briefs - 20th Annual Meeting
Africa

1965


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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

9/24/65

To: Mr. Woods

Attached you will find (A) a memo by Mike Lejeune on Translation Policy and (B) a proposed statement to be made by you at the African Caucus. The memo does not call for immediate decision and you may wish to skip it if time is short.

The statement for the African Caucus has been cleared by Messrs. Lejeune, El Emary, Wilson and myself. Mendels is showing it to the Fund.



A. Broches 

Enclosures

SEP 24 REC'D

A

OFFICE MEMORANDUM

TO: Mr. George D. Woods (through Mr. A. Broches) DATE: September 23, 1965

FROM: Michael L. Lejeune

SUBJECT: Translation Policy - Statement for the African Caucus

It is almost certain that the question of translation of Bank correspondence and documents into French will come up in the course of the African Caucus which meets with you on Monday afternoon.

We in the Administration Department have been reviewing our translation policy and practices and considering what changes we should recommend. We are on the point of putting forward a comprehensive set of proposals but there has not been time to do this in time to take decisions before the Annual Meeting. Nevertheless it seems to me that it would be wise to give some indication to the African Caucus of the lines along which we are thinking. Consequently I give them here and have also drafted a statement you might care to include in your remarks on Monday. This statement is attached.

It seems clear that much of the usefulness of the Bank's work will be lost in French-speaking Africa and - but to a lesser extent - in Latin America unless we translate a significant part of the documentation produced by the Bank. I am satisfied that we have not gone far enough and should expand the range of documents which are to be translated as a regular matter. Consequently I recommend a policy based on the following principles:

- (1) The Bank would continue to use English as the working language and, mainly because of the obstacles it would put in the way of efficient operation, will not adopt additional "official" or "working" languages.
- (2) Translation of Bank documents will be selective, each document or class of document having to meet the established criterion.
- (3) The criterion applied will be that translation will significantly forward the Bank's purposes and operations, contribute to the efficient conduct of its business or be of significant benefit to the member country.
- (4) Unless otherwise decided in a particular case, the translation provided will be unofficial and ancillary to the official English text.

The need for translation into French is more extensive than the need for translation into Spanish for there is a wider knowledge of English in Spanish-speaking countries, particularly among those with a technical training, many of whom have studied in English-speaking

countries. This difference is taken into account in the specific proposals below.

To begin with, it should be noted that much of the informational material produced by the Bank is already translated into French and Spanish as a regular matter. It is standard practice to translate the Annual Report and press releases for example. Certain internal documents are also already translated as a matter of routine. The translation into French of the regular semi-monthly Report to the Executive Directors on Bank and IDA Operations and the similar Report to the Executive Directors on IFC Operations are examples.

Below are my recommendations for each of the other documents which are regularly produced within the Bank or IFC.

(a) Country Economic Reports

These reports have always been of significant value to the country concerned and the trend is towards making them even more useful as a guide to policy making. Often these reports are of particular value to the government since no other competent and impartial study of this kind exists. I therefore recommend that the main texts and the annexes of economic reports on French-speaking underdeveloped countries be translated into French.

I also recommend that the main texts of reports on Spanish-speaking countries be translated but, as recommended by the Western Hemisphere Department, the annexes not normally be translated.

(b) Appraisal Reports

Appraisal reports are of principal and significant concern to the borrowing country. They are of much less concern to other underdeveloped countries. I am told that, because technically trained people in Latin America often have some knowledge of English, there is no pressing need to translate appraisals of projects in those countries. In the French-speaking countries, however, fewer technically trained people have English. I therefore recommend that we regularly translate appraisal reports into French when the project is in a French-speaking country, but translate other appraisal reports only when there is a specific need for it.

(c) Commodity Studies

While the Bank produces some good commodity studies, there are other institutions with as much or more expertise in this field. Our reports of this kind do not have the unique quality of our

September 23, 1965

country economic studies. Mr. El Emary feels that full translation of these studies is unnecessary and I agree with him. He suggests, and I concur, that we translate the summary appearing at the beginning of each such report. Specifically, I would translate into French or Spanish (or both) the summaries of commodity reports when the commodity is of significant interest to French- or Spanish-speaking countries respectively.

(d) President's Report and Recommendations on a Loan or IDA Credit

These reports, being geared to action by the Executive Directors, are formal documents usually adding little to the substance of discussions in the supporting documents. As with the other reports, it is not practicable to contemplate translations being ready at the time that the Board considers a loan and I would think the usefulness of translations of President's reports on loans issued after the loans have been approved would not be great. I would prefer to leave this item open to further discussion.

(e) Special Studies

Compared with the economic reports and appraisal reports, special studies produced by the Bank are few. I recommend that in each case we consider the question of translation on its merits, with the bias being in favor of translation whenever the study represents a unique and significant contribution.

These proposals are fairly closely in line with what has been discussed in recent times with Mr. Tazi and Mr. Kochman by Mr. El Emary and Mr. Mendels. The attached statement has been discussed with Mr. El Emary, Mr. Wilson and Mr. Broches, and cleared by them.



Attachment

cc: Mr. Wilson
Mr. Broches
Mr. Mendels
Mr. El Emary
Mr. Twining
Mr. Crowley
Mr. Rasmussen

B

AFRICAN CAUCUS

Statement for Mr. Woods on Translation Policy

At the last Annual Meeting in Tokyo a number of delegations from French-speaking member countries pointed to the difficulties which they experience as a result of the fact that most Bank documents are issued only in English, which is the working language of the Bank. At that meeting Mr. Schweitzer and I recognized the problem and said that we would increase our efforts to enable officials in the French-speaking member countries to conduct their business with the institutions and to keep themselves informed of the activities of the institutions, with a minimum loss of efficiency due to language problems.

I would like to report to you what the Bank and its affiliates - I shall limit myself to dealing with this group of institutions - have done to date and what we are planning to do in the future.

As you know, official communications from the Bank to the French-speaking African countries already are normally accompanied by a French translation and much routine and informal correspondence takes place in French alone. Moreover, we gladly receive all communications from French-speaking countries in French; if we need translations, we make them ourselves. I think, too, we have been increasingly successful in seeing to it that missions and negotiation teams include at least some persons who can transact business in French. It is our aim to facilitate the conduct of business between us as much as possible. To this end we intend to increase and improve the instruction in the French language which we already provide for our staff.

Many of our public documents already appear in French. Examples are the Annual Reports and all press releases, as well as such basic publications as the book called "Policies and Operations of the World Bank, IFC and IDA" and the newly published "Guidelines Relating to Procurement Under World Bank Loans and

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IDA Credits", and there are many other pamphlets and papers on special subjects.

Most of the documents and reports produced within the Bank are for internal use. Typically they form the basis for action by our Executive Directors whose meetings, as you know, take place in English. These papers are all originally written in English, but increasingly we are translating certain of them. We have recently begun to issue French translations of the regular Reports on Operations of the Bank, IDA and IFC which are provided to the respective boards. When Bank loans or IDA credits are negotiated, the Borrower and Guarantor are provided with working translations of the relevant loan documents.

Despite what we already do, we are not satisfied. We are well aware that much of the usefulness of the Bank Group is lost if communication between us and the French-speaking and Spanish-speaking countries is impaired by language difficulties. Consequently, we have recently reviewed our present translation practices and I will frankly tell you that we have come to the conclusion they are not adequate. I shall not go into detail since we are in the midst of re-shaping them, and anyway this is not the place for details, but I would like you to know the outlines of the policy we intend to follow, conscious that we will need time to engage the necessary staff.

First, English will continue to be our working language.

Second, we shall always provide French working translations of all official communications and all documents which bind parties in a contract or understanding. As at present much informal correspondence will be in French.

Third, reports on the economies of French-speaking countries and, as soon as we can prepare ourselves to do so, appraisals of projects in those countries will be translated into French. In addition, if there proves to be a demand for them, we will translate reports on the economies of those English-speaking African countries which are particularly relevant to French-speaking countries.

Fourth, we prepare a number of reports which do not relate to a particular country or a particular project. Special studies, such as the report the Bank was asked by UNCTAD to make on the Horowitz Proposal, are an example. Studies on the prospects for certain commodities, such as coffee or tin, are another. We shall consider each one on its merits and wherever it seems useful, we shall provide either a French translation or a French summary. We shall translate the documentation in connection with the pending study of multi-lateral investment guarantees.

I wish to assure you we shall keep our translation practices under continuing review and will not hesitate to make a wider range of translations available if it would serve a useful purpose.

MLLejeune:cmm
September 23, 1965

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: September 24, 1965

FROM: A. G. El Emary

SUBJECT: African Caucus Meeting

This should be inserted in place of paragraph 10 of my note
of September 16. It has been cleared with I.F.C.

cc: Mr. Knapp
Mr. Rosen
Mr. Diamond

Paragraph 10 of proposed statement by Mr. Woods to the African Caucus

Last year, I told you how sensitive we were to the particular problems of financing industry in the African environment. The World Bank family intends to be as flexible as possible in acting to meet the needs of its African member countries. The inadequacy of private savings and of private initiative is an important limitation to the industrial development of many of your countries, and governments often have to provide capital and initiative. We have been unwilling in the past to lend for industrial enterprises which are not privately controlled; for I am convinced that industrial enterprise is best run by private shareholders represented by their own Board of Directors who have delegated appropriate powers to an experienced management. But I am prepared to adapt to your realities. If there is no feasible alternative to a substantial government position, or even to a government majority, the Bank will be prepared to lend to sound industrial enterprises, so long as we can be sure that adequate arrangements have been made for continuing experienced management.

A large proportion of the industrial enterprises in your countries will be medium or small in scale and not large enough for the World Bank family to deal with directly. We have therefore encouraged, and assisted in, the creation of development finance companies. We have done so in Morocco, Nigeria and the Ivory Coast, and are about to participate in another in Liberia. In the case of development finance companies which are designed to finance the private sector, I believe that it is vital that voting control be in private hands. We are

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ready (as has been the case in the countries mentioned before) to join with governments and private interests, both domestic and foreign, in financing such companies. But I consider it inappropriate for the government to have voting control. Even with this limitation, I am sure there is much room for us to work with the government and the private sector in some of your countries, in the establishment of new development finance companies to provide finance for indigenous industrial enterprise.

There will remain some small countries where the possibilities of doing business and the opportunities for investment are so small that a development bank cannot operate profitably. I can only suggest that in such cases an effort be made to combine the efforts of several neighboring countries; and I would also suggest for such cases that an approach be made to the African Development Bank itself which has had as one of its principal objectives the promotion of national and regional development banks.

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: September 16, 1965

FROM: A. G. El Emary

SUBJECT: African Caucus Meeting

With reference to your memorandum on the African Caucus this Department has been working on a draft statement. It was to be sent to Mr. Knapp and to Mr. Rosen for clearance.

The attached statement may seem long, but we thought that, by anticipating the likely questions and answering them, the meeting would not take long.

cc: Mr. Knapp
Mr. Rosen

September 16, 1965

NOTES FOR MR. WOODS' MEETING WITH AFRICAN FINANCE MINISTERS

1. I am glad today to have this opportunity of meeting representatives of our African member countries for a free exchange of views on policy issues which affect the Bank, IDA and IFC operations in Africa. I extend a warm welcome to the Finance Ministers of Malawi and Zambia, who are joining this meeting for the first time as representatives of our newest member countries.
2. In the past fiscal year, the Bank and its affiliates extended a record volume of finance for economic development in Africa. The amount of IDA commitments increased two fold over the preceeding year's figure, while the Bank's lending increased by one third. Africa's share in total Bank and IDA lendings reached 18%, as compared with 10% in 1963/64 and less than 6% in 1960/61. Significantly, IDA's contribution to our total commitments in Africa was raised from 22% in 1963/64 to nearly 34% in 1964/65. We made Bank or IDA commitments in new African countries and for new types of projects. We have made special efforts to adapt the terms of Bank lending to special requirements of the projects and to the economic conditions of our borrowers; we made loans with long maturities and long grace periods.
3. Among the projects which we assisted in Africa, power, transportation and agriculture projects remain prominent. We also financed education projects in some African countries. In the near future, I expect to see a significant increase in our lending activities for agriculture and education, the two foremost development sectors in Africa. Several of our loans and credits in Africa were made to cover both external costs and part of local currency requirements of our projects. We extended the scope of the Bank's technical assistance in Africa to help the Governments in their task of development and to improve the quality of the economic performance of our member countries. Of the twelve studies for which the Bank made financial contributions last

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year, five were located in Africa. Of the four U.N. Special Fund studies for which the Bank agreed last year to act as Executing Agency, three were located in Africa. We seconded the Bank's staff to five African countries for various periods as planning or development advisers.

4. Looking to the years ahead, I expect to see greater activity and closer relations between our African member countries and the Bank family of institutions. For this, we intend to widen our interest in the broader aspects of development, to have a better knowledge of the economies and development problems of our member countries. Last year, we sent a large Bank mission to an African country to examine its development plans and policies. We intend to undertake similar studies, which we call "studies in depth", for most of our member countries in Africa in the course of the next few years. I am sure that these studies will be useful to your Governments and to the Bank and its affiliates in channelling investment funds to the highest priority economic sectors and projects.

5. A continuing shortage of suitable projects remains one of the serious bottlenecks in our lending activity. Our two permanent missions for eastern and western Africa are now helping the member countries to identify high priority projects in agriculture and transport and to launch the necessary feasibility studies for them. ~~We may eventually extend their activities to other sectors as well.~~ The permanent missions are also explaining to the governments our requirements for projects and procedures for lending. Thanks to our cooperative agreements with FAO and UNESCO, we have been able to increase significantly our assistance to African countries in the preparation of development programs and specific projects in agriculture and education. I am glad to say that we shall be setting up later this year an Agricultural Development Service which will include staff experienced in the preparation and execution of agricultural development projects. This service will be located in Nairobi,

together with our Permanent Mission for Eastern Africa, and its staff will be available for assisting the governments in Eastern Africa in the preparation of suitable agricultural development projects and programs and also for management of projects until local staff are properly trained. If this experiment is successful, we shall expand the Service and make it available for operations in other parts of the Continent. By the end of this year, the results of a two-year study by a Bank team of African agricultural development problems will be available. I hope that this study will present valuable information on the experiences with the development of African agriculture.

6. In Africa, as in some other parts of the world, a lack of trained manpower remains a serious bottleneck in the economic development process. While we shall be extending our technical assistance to our African member countries in a growing scale, our efforts can at best supplement the Governments' work for the preparation of sound development programs and projects. There is an urgent need for measures to maintain and improve the efficiency in government, through effective training programs and temporary employment of foreign experts. There is also a clear need for careful financial planning, to enable the Governments to finance a growing volume of high priority projects within the limits of their ability to service loans.

7. The Bank remains keenly interested in all efforts which may increase the flow of official and private capital from the developed countries to Africa. I am pleased to say that we participated last year with FED (the development fund of the European Common Market) in the financing of a road project in an African member country. We would welcome similar collaboration with all international, regional or national development agencies which are interested in Africa. Our Permanent Mission for Western Africa is operating in close contact with the African Development Bank and I hope that we shall soon be participating with this new African institution in joint financing of development projects of common interest.

8. For an orderly and timely flow of development assistance to African countries, there is a growing need for coordination of aid from all aid-giving sources. For three African member countries, we have set up "Consultative Groups" of capital exporting countries and international developmental agencies, ~~and~~ we intend to extend the application of this device in suitable cases. To organize and effectively serve such Consultative Groups require great efforts by both the Bank and the developing countries concerned. While Consultative Groups may not be a suitable device in the case of many developing countries, there are other, less formal, techniques which can be successfully applied in coordinating aid. Our growing activities in the field of coordination of aid will take shape in the course of the current fiscal year and, I hope, will lead to better economic performance by aid-receiving countries and a greater interest in Africa by the donor countries.

9. A growing inflow of foreign private investment funds is an important source of capital for the developing countries and I am sure that our African member Governments will be giving particular attention to measures which may increase private foreign investments in their countries. The Centre for Settling Investment Disputes, which we are now in the process of setting up will, I hope, help to maintain and to enhance private investors' confidence for investment in developing countries. I am glad to know that some of our African member Governments have been among the first to sign the Centre's convention. I recommend to other members to take speedy action to become part to this convention.

10. As you know, IFC has, among the Bank family of institutions, the main responsibility for evaluating development finance companies and industrial projects for investment by IFC or lending by the Bank or IDA. IFC's charter requires it to invest only in enterprises that are predominantly private in character. Our main difficulty in assisting state-owned development finance

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companies and industrial enterprises has been the often-proven difficulty of assuring efficient management on a business-like basis and free of political interference. I am aware that, in many African countries, a serious lack of private savings and private enterprise limits the scope of private development finance companies and private industrial ventures. The Bank and its affiliates are prepared to consider suitable industrial development projects and development finance companies for which effective management can be assured, notwithstanding a lack of complete private ownership. I can not set any hard and fast rule which must be applied in all cases, but each case would be considered and determined on its merits.

11. I look forward to seeing that the results of various programs which the Bank, IDA and IFC have launched last year will be increasingly available in the near future. I expect that, this year, the Bank and its affiliates will be making commitments in new African countries and will increase their lending in countries where they already had one or more operations. There is in the pipeline a great number of projects extending over the fields of agriculture, education, transport, communications, mining and others. There are also one or two projects which will serve more than one African member country. The results which we attained last year, while significant, are still too modest in comparison with what we would be achieving in future, given full cooperation between our developing members in Africa and the Bank family of institutions. I will be happy to hear your views on any measures which will help to achieve this end.

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RESPONSE BY MESSRS. WOODS AND SCHWEITZER
TO MEMORANDUM DATED SEPTEMBER 11, 1964,
AND TRANSMITTED TO THEM BY
AFRICAN MEMBER COUNTRIES IN TOKYO

1. The following paragraphs contain the responses of the Bank, Fund, IDA and IFC to the questions and proposals contained in the memorandum submitted by the African member countries in September 1964. The responses are given in the order of the paragraphs in the memorandum received. For added convenience in reading, these paragraphs are reproduced immediately before the replies.

I. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PARAGRAPH A - (1)

"A. The African member countries, having noted the decision to broaden the scope of the activities of the IBRD and to increase for the moment the resources of IDA, urge strongly that:

- "(i) the policies favoring lending operations to the agricultural and social sectors be put into effect as of the new fiscal year 1964-1965 and that special attention, if not priority, be given to the needs and requests of the African members;"

Financing of Agricultural Projects

2. The Bank and IDA have long been active in the agricultural sector. Agricultural loans and credits amount to about \$760 million. They account for seven percent of total Bank loans and 20 percent of IDA credits (eight percent and 26 percent in the case of operations in Africa). These totals do not include road loans or credits, a large part of which are primarily intended to increase agricultural production.

3. The Bank and IDA are taking various steps to increase their activities in agriculture. Under the recent Bank/FAO Cooperative Agreement, five FAO missions have been working in African countries to identify or prepare projects suitable for Bank or IDA financing. A dozen others are scheduled for the next few months. Two Bank offices are now in process of being established in Africa, one in Abidjan and one in Nairobi, to assist when needed in the preparation of projects. Initially they will consist of agricultural and transportation specialists and one of their main tasks will be to help prepare agricultural projects and road projects connected with agricultural development. The Abidjan office will also serve as liaison between our institutions and the African Development Bank, with which we hope to establish close working relationships.

Social Projects

4. The Bank and IDA direct their attention mainly toward economically productive rather than social welfare projects, such as public housing and public health. The only "social" sector in which the Bank Group is active is education, where investment in the production of skilled manpower makes an essential contribution to economic productivity and development.

5. In the education sector, IDA is already making a serious effort. The first two education credits by IDA were for projects in African countries (Tunisia and Tanganyika), negotiations are substantially completed for a third one (Nigeria) and five are in various stages of examination (Kenya, Malagasy Republic, Morocco, Uganda and Ethiopia). The Bank Group intends to pursue this effort with the help of Unesco, with whom arrangements similar to those with FAO have been concluded recently.

Priority to African Needs

6. The question of giving priority to the needs of the African countries is discussed in paragraphs 19, 20 and 21 below:

PARAGRAPH A - (ii)

"(ii) the Bank should continue to transfer part of its net annual income to IDA and should at the same time increase its efforts to persuade the developed nations to augment IDA's resources by agreeing to increase their contributions;"

7. We are prepared to do our best to secure for IDA all the resources which it needs for its operations. The Governors in Tokyo approved of the allocation to IDA of a portion of the Bank's profits for the last fiscal year and it is hoped that allocations out of future profits will also be possible.

PARAGRAPH A - (iii)

"(iii) The IBRD, whose Articles of Agreement at present prohibit it from refinancing suppliers' credits, should nevertheless study the possibility of arranging refinancing credits or granting guarantees to African member countries in order to enable them either to obtain new credits of this nature or to negotiate more favorable conditions for credits already received;"

8. The Bank is not prepared to use its loan or guarantee powers for the purpose of refinancing other obligations. The Bank feels that it can make a more effective contribution to economic development by financing new productive projects.

9. As for assisting in the creation of new suppliers' credits, the Bank looks upon excessive or inappropriate use of this type of financing with great concern and has issued many warnings to member governments against incurring undue short-term indebtedness in this form. Suppliers' credits can be a

useful means of financing. Too often, however, they are granted without an objective appraisal of the economic justification of the project. They are frequently too short in term and therefore weigh too heavily on the receiving country's balance of payments and budget. Moreover, where the orders being financed by suppliers' credits are not based on international competitive bidding, they may prove to be very expensive, since, although the interest rate may appear to be low, there is often a concealed cost in the price. In any case, it would be better, if a project is found to be good, to finance it with a direct Bank loan, which is likely to be less expensive and better adjusted to the needs of the borrower.

10. The Geneva Conference on Trade and Development has requested the Bank (Recommendation R of the Conference) to make a special study of suppliers' credits, and it is hoped that this study when issued will be helpful to the African governments in considering their problems in this field.

PARAGRAPH A - (iv)

"(iv) IDA should consider extending its operations to the financing of investments related to the development of communication and transportation, in particular railroads and railroad equipment."

11. IDA is already financing transport projects, including railroads. Transport credits account for 43 percent of IDA operations in general and 58 percent of IDA operations in Africa. However, the fact that IDA provides low cost financing for transport (or any other) projects does not mean that it will give support to projects which render an inadequate economic return. For instance, in the case of a railroad project, whether financed by the Bank or by IDA, it would be expected that operating revenues would cover operating expenditures and provide an adequate return (after depreciation) on the investment.

PARAGRAPH B - (i)

"B. The African member countries, anxious to derive the greatest possible benefits from the activities and operations of the IBRD and its affiliates, strongly favor:

"(i) The establishment of uniform rules and procedures for the submission of loan and credit applications, notably by setting down standard requirements for the preparation and presentation of dossiers and by working out procedures for the speedy consideration of projects, thereby substantially reducing the cost of preparing loan applications."

12. The Bank has not found it practicable to establish standard requirements for the preparation and presentation of dossiers relating to loan and credit applications, since the type of information which the Bank requires on specific projects varies so much with the nature of the project. However, the Bank supplies questionnaires which are formulated on the basis of the specific

nature of the project in question. Furthermore, one of the main tasks of the two offices which the Bank is establishing in Africa will be to assist member governments in the preparation of projects and to make clear the Bank's requirements concerning information needed in each specific case. This should speed up the consideration of projects.

PARAGRAPH B - (ii)

"(ii) More flexible terms for project financing, in particular:

- " - A change in the commitment charge: we regard the reduction of the commitment charge from 3/4% to 3/8% as a positive step.
- " - A revision of interest rates: it is desirable that interest rates be determined according to the nature of the project.
- " - Extended periods of grace and of repayment: for conventional loans the minimum grace period should be 10 years."

Reduction of the Commitment Charge

13. The Bank incurs costs in holding borrowed funds to cover future disbursements. The commitment charge has already been reduced to a very modest figure and it would be difficult to reduce it further.

Differential Rates According to Projects

14. It might be thought that there is an advantage to the borrower in differential rates in order to adjust the interest rate to the economic return on the investment. However, it is important for the developing countries to give priority to projects with the highest economic return. Differential rates according to projects might encourage countries to present to the Bank not the best projects with the highest priorities but those which because of their low economic return appeared to justify the lowest rates.

Lengthening of the Period of Grace

15. There have already been cases where the Bank has lengthened the period of grace of its loans much beyond the construction period. A notable recent case was in Africa (Liberia). Where appropriate the Bank is willing to provide quite a long period of grace, but this may not always be in the true interest of the borrower. The Bank considers it preferable to judge each case according to its needs, rather than adopt an inflexible formula.

PARAGRAPH B-- (iii)

- "(iii) Financing local currency costs, which may have unforeseen effects on the budgetary or monetary situation of the countries concerned, compelling them to abandon projects even though they may have been approved by the Bank or are being considered for Bank financing.

16. The Bank and IDA have already gone a long way in this direction. In a policy decision last year, the Executive Directors confirmed that the amount of Bank lending would not necessarily be limited to the foreign exchange component of the project financed. It was recognized (and this has particular relevance in Africa) that the direct foreign exchange cost of agricultural and educational projects is often very low and, if taken as the sole basis for financing, would not permit the Bank or IDA to make an adequate contribution to projects in this field. This does not mean, of course, that the Bank and IDA are ready to finance the total costs of projects. Except in very exceptional cases, they always ask for a substantial domestic contribution to the financing of projects, if only to assure the borrower's active involvement in the success of the project.

PARAGRAPH C - (i)

"C. Finally, the African member countries request the Bank to consider with the greatest attention and all possible sympathy the following suggestions:

- "(i) Possibility of joint financing by the Bank and IDA.
The African member countries are unanimous in their preference for the financing of projects by IDA, whose terms are so much less onerous.

"However, some of them have suggested that consideration should be given to the possibility of joint financing by Bank and IDA of projects to which they attach particular importance but which could not otherwise be considered either because of the extreme severity of the Bank's conditions or the insufficiency of IDA funds. By combining the advantages and disadvantages of both institutions joint credits could make possible the adjustment of the financial burden to the actual capacity of the countries concerned."

17. The practice of joint Bank and IDA lending for the financing of the same project already operates. For instance, Bank loans and IDA credits have financed the same agricultural project in the Sudan (Roseires Dam). We are prepared to use this practice whenever appropriate, even for small projects.

18. Again, this is not intended to facilitate the financing of projects with an inadequate economic return which would not justify a Bank loan. It is just as important not to use the relatively scarce money of IDA for uneconomic projects as the more expensive money of the Bank. Whether financing comes from the Bank or from IDA or from both depends on the economic circumstances of the country concerned and not on the project financed. It may be noted that in the case of self-liquidating projects financed by IDA, the credit is made initially to the government, but on condition that the proceeds be relent to the agency responsible for the operation of the project at an appropriate rate, usually one approximating the Bank's rate of interest. The same would apply to any IDA credit involved in a joint Bank/IDA financing of a self-liquidating project.

PARAGRAPH C - (ii)

- "(ii) More equitable distribution of IBRD and IDA financial assistance. The African members are pleased to note that in the past years the developing countries of other continents have benefited greatly from the operations of the IBRD and its affiliates. They believe, however, that it would be desirable to take account of the lead taken by these countries as well as the lag of Africa, its urgent and growing needs, when arriving at a more balanced and equitable distribution of credits in the future."

19. The limit on the volume of Bank/IDA operations in Africa is controlled less by the lack of money than by the lack of acceptable projects. Although submitting suitable projects is essentially the responsibility of governments, the Bank is making increasing efforts to help governments identify and prepare projects (Bank/FAO and Bank/Unesco Cooperative Agreements, establishment of two offices in Africa equipped with transportation and agricultural specialists, financing by the Bank of the foreign exchange cost of pre-investment studies, etc.).

20. In the case of IDA, a serious problem of rationing might arise if the African countries were to submit a large number of interesting projects in a short period of time. Should this situation come about, IDA would take into consideration the needs of each country, the effectiveness of its development effort and, of course, the volume of credits it had already received.

21. The trend in Africa seems to be in the desired direction. On a per capita basis, Africa ^{1/} has received perhaps less than Latin America but more than Asia. The share of Africa ^{1/} in Bank and IDA lending has increased steadily, from 5.8 percent of the total in 1960/61 to 10 percent in 1963/64.

PARAGRAPH C - (iii)

- "(iii) Financial assistance to development banks. The need to promote rapid economic development has led many African states to take steps to mobilize more efficiently domestic savings, in particular public savings, by establishing development banks. Due to their governmental or semi-governmental nature these institutions find it difficult to approach the traditional private capital markets where they are met with great reserve. These development banks at times obtain credits from foreign public financial organizations but often in limited amounts due to the limited resources at the disposal of those organizations in terms of the needs of their own countries.

"We therefore feel that it is highly desirable that the development banks be able to borrow from the IBRD on politically and financially acceptable terms and we suggest that the Bank institute a study, as soon as possible, to establish conditions for such future financial assistance."

^{1/} Not including South Africa.

22. The Bank Group is already contributing to the financing of development finance companies and is prepared to increase its technical and financial assistance to these institutions. As regards assistance to government-owned development finance companies, the Bank Group is not yet ready to take a positive decision. However, this matter, as well as related questions having to do with assistance by the Bank Group to member governments in the field of industrial development, is being actively studied with the object of finding a constructive solution.

PARAGRAPH C - (iv)

"(iv) Establishment of an "interest reduction fund". Following the recommendation of the recent United Nations Conference on Trade and Development, it is to be hoped that the Bank will see its way to establishing as soon as possible an "interest reduction fund" fed by sums to be transferred from the Bank's annual net profits. The purpose of the fund would be to alleviate in part the interest payments due on loans made by private sources or public organizations other than the Bank and its affiliates. In so doing, the fund would constitute a financial guarantee an encouraging factor for public and private foreign capital."

23. At the request of the Geneva Conference, the Bank is giving careful study to a number of proposals to increase the volume and improve the conditions of aid to underdeveloped countries, including some which would call for the application of interest subsidies. The results of these studies will be communicated in due course to all member countries of the Bank. In the meanwhile, the \$50 million transfer to IDA out of the Bank's profits recently approved by the Bank's Governors will directly increase the volume of "soft money" available on an untied basis to member countries.

PARAGRAPH C - (v)

"(v) Increase of IFC resources and diversification of its operations. The African member countries have welcomed, although with some reservations, the decision to expand the resources of the IFC whose basic purpose is to promote and encourage private investments. Now, it is becoming increasingly obvious that the newly independent African countries inspire less and less confidence in private capital, concerned as it is with both profitability and security. We feel that the prejudice of the African member countries against the IFC would be removed if the President were prepared to revise the policy of the IFC to enable it in particular to participate in financing industrial or other projects undertaken by governments."

24. IFC's essential function is to assist in the economic development of its member countries by promoting the growth of the private sector of their economies. In consonance with this objective, the Articles of Agreement of IFC—uniquely among the public international institutions—provide that IFC may make investments of its funds only in productive private enterprises in the territories of its members.

25. However, the existence of a relatively small government or other public interest in such an enterprise does not preclude IFC from making an investment and IFC has already made investments in enterprises in which minority governmental interests exist.

PARAGRAPH C - (vi)

"(vi) Harmonization of financial assistance by the Bank and its affiliates with development plans. Almost all African states have prepared long-term development programs, the execution of which is carried out on an annual basis. The financing of these plans come from two sources: domestic resources, which can always be estimated, and external resources, in particular financial assistance from international organizations, the amount and utilization of which is not, unfortunately, known in advance. This lack of knowledge about future external financial assistance conflicts with the whole idea of planning and thus constitutes a serious obstacle to the implementation and success of development plans. For this reason the African members request the Bank to study the possibility of placing at the disposal of their countries, upon submission and after study of their development plans, a global amount of credit, the precise utilization of which would be spelled out in terms of projects included in the plans and approved by the Bank. With such assurances for the long-term financing of projects which they deem essential African member countries would be in a position to carry through their plans without fear of serious setbacks."

26. It is very difficult for the Bank or IDA to give formal commitments for a long period and, for instance, to make available to countries global lines of credit to be used gradually for specific projects. What IDA's resources will be for a long period is not known. More importantly the judgment of the creditworthiness of countries for Bank loans and of their eligibility of IDA credits changes from time to time, largely in the light of the economic performance of the country concerned. However, in an informal manner, an effort is made to indicate to countries the general magnitude of Bank loans or IDA credits that they may expect to receive over a period of time, at least in cases where countries are able to present development programs which are sufficiently well prepared to permit such judgments to be made, and subject of course to their economic performance.

PARAGRAPH C - (vii)

"(vii) Financial assistance for regional development. The African member nations have noted with great satisfaction the expressed willingness of the Bank to give financial and technical assistance to projects of a regional character. They express the wish that this decision be rapidly implemented and urge the Bank to increase its efforts in this direction in the future."

27. The Bank is anxious to encourage regional development wherever this is justified by economic considerations. It will consider with particular sympathy requests either for the financing of a project which interests several neighboring states, or for financial studies aimed at the coordination of investment among a number of neighboring countries. However, it is difficult for the Bank to take the initiative because these decisions are often associated with political considerations, including the composition of regional groups, which are outside the Bank's competence.

II. INTERNATIONAL MONETARY FUND

PARAGRAPH (i)

"The African member nations submit the following recommendations to the attention of the International Monetary Fund Management:

- "(i) Compensatory financing of export fluctuations. The African member countries have welcomed with great interest the Fund's scheme for compensatory financing of export fluctuations with respect to primary commodities. While acknowledging the positive nature of this move, they feel, however, that this scheme does not provide a definitive solution to the crucial and basic problem of rapidly falling prices for primary commodities which constitute the bulk of Africa's exports and their main source of income.

"The African member countries strongly urge that in the study now being undertaken, long-term compensatory financing be given careful and objective consideration."

28. The Management of the Fund is gratified by the favorable reception given to the Fund's scheme for compensatory financing of export fluctuations by the African member countries, and wishes to assure them that the scheme is under constant examination with a view to introducing any adjustments that may prove to be useful.

29. The Fund provides only short- to medium-term financing and could not embark on the financing of long-term balance of payments deficits even where these are attributable to adverse trends in primary products prices. However, certain questions relating to long-term compensatory financing are at present under consideration in the IBRD, and the Fund is prepared to cooperate with the Bank in its consideration of these questions.

PARAGRAPH (ii)

- "(ii) Payment of gold tranche. The African member countries urge the revision and amendment of the 25 percent gold payment requirement, both with respect to the projected general increases and to compensatory financing of export fluctuations, in order to take into account the difficulties with which this obligation has always faced them."

30. Various techniques whereby any strain on the reserves of member countries involved in the payment of gold subscriptions to the Fund could be spread over time or otherwise mitigated are under consideration in connection with the current quinquennial review of quotas. However, it should be borne in mind that for most of the African members in the Fund any loss of gold or foreign exchange reserves that may be involved in the gold subscription when quotas are established or increased will be offset by a gain in gold tranche drawing rights, and that in addition the subscribing countries will benefit from a much larger increase in their ability to draw from the Fund in the credit tranches in accordance with the Fund policies applicable to these tranches.

PARAGRAPH (iii)

"(iii) The African member countries further recommend that the Fund, in conjunction with other international institutions, undertake studies of world trade and international liquidity with a view to recommending ways of improving the share accruing to African countries. In view of the great importance of these problems for the African member countries, they strongly urge that the committee entrusted with these studies be as broadly representative as possible."

31. The Fund, as the most representative international organization in the field, continues to pursue its studies on problems of international liquidity. It is also at present collaborating with the committees of the Group of Ten (the ten countries participating in the GAB) in their study of the ways and means of creating reserve assets and it is prepared to collaborate similarly with any group of experts that may be set up under the UNCTAD Recommendation No. A.IV.19 on International Monetary Issues. It should be borne in mind, however, that it is impossible to ensure that the liquidity in the possession of any particular group of countries will be permanently enhanced. Especially if this liquidity is unconditionally available on demand and does not have to be reconstituted, the countries initially receiving it may not retain it but use it to make payments to other countries.

III. THE BANK AND FUND

PARAGRAPH (i)

"The African member countries strongly urge the International Monetary Fund and the World Bank to take into consideration their concern on the four points set forth below:

"(i) Strengthening of the technical assistance by the IMF, IERD and its affiliates. The African member countries hail the Bank's initiative in setting up two technical assistance advisory offices in Africa to enable African countries to make better use of the assistance offered by the Bank. They would nevertheless recommend that technical assistance provided by the IMF and the IERD be strengthened by placing at their

disposal, with the least possible delay, and on acceptable conditions, a large number of advisers or experts in every field: financial, monetary, banking, fiscal, economic, technical and even administrative. Moreover, it seems advisable that both institutions give special attention to the rapid training of Africans as economic and financial officials, either by increasing the number of training sessions, or by granting scholarships in specialized institutions."

32. The Bank is steadily increasing its activities in the field of technical assistance through economic planning studies, project preparation and training.

33. At the request of six African countries (Kenya, Libya, Morocco, Nigeria, Tanganyika and Uganda) the Bank has organized what are known as general economic survey missions to help governments in formulating long-term development programs. These missions review and analyze a country's development problems and potential, indicate what would be a reasonable level of investment for the country to undertake in the light of the resources prospectively available, suggest the most effective allocation of their resources among the principal sectors of the economy and recommend the related economic and financial policies required to accelerate economic growth.

34. The Bank has also seconded experienced economists as advisers to several African governments and is always prepared to consider sympathetically the provision of specialists to advise governments in particular fields. Staff so seconded are independent of direction by the Bank and function in all essential respects as part of the machinery of government or of autonomous bodies in that country.

35. In recent years more and more weight is being given to technical assistance directly related to the identification or preparation of projects which may be suitable for lending by the Bank, IDA or other financing institutions. Seven such studies in six African countries have been organized by the Bank and more than \$2,000,000 in grants have been allocated by the Bank toward the cost of the studies. In addition, the Bank has been or now is Executing Agency of three Special Fund feasibility studies in Africa. The pace of this activity is increasing and the Bank has currently under consideration the organization of eight to ten more feasibility studies, the foreign exchange cost of which would be financed either by the Bank or the Special Fund.

36. As already noted, two Bank offices are being established in Africa to help African governments to identify and prepare projects, which is also one of the primary purposes of the Bank/FAO and Bank/Unesco Cooperative Agreements.

37. In 1955 the Bank established its Economic Development Institute to organize courses for senior government officials in economic development and project evaluation. In the 18 courses given since its establishment there have been 388 participants from 87 countries of which 95 have come from 30 African countries; the majority of the latter have attended since 1962 when courses given in the French language were added to the program. The Institute is actively studying the possibility of increasing further its service to officials of developing countries and particularly of African member countries.

38. The technical assistance activities of the Fund in Africa are growing in scope and importance as an increasing number of the Fund's new African members turn to the Fund for assistance. The manner in which this assistance is provided can be conveniently divided into four broad categories—general technical assistance, the new Central Banking Service, the new Fiscal Affairs Department, and the IMF Institute.

39. For some years the Fund has assigned staff officers to member countries to give technical advice in the field with which they are concerned. Such assignments were usually in connection with modifications of the exchange system or with programs of monetary stabilization, but in a number of cases the Fund specialists have given advice on such subjects as the improvement of monetary, financial and balance of payments statistics. Under this program the Fund has assigned staff members to Congo (Leopoldville), Ethiopia, Liberia, Somalia and Tunisia on the African continent. The assistance offered to the Congo is of a special character. Since it became independent on June 30, 1960, the Congo has requested and received technical assistance and advice from the Fund staff on a wide range of financial problems. In particular, the Fund staff has assisted the authorities in the establishment of an independent monetary system and in the preparation and implementation of appropriate monetary and exchange policies. In addition, however, the Fund in coordination with the United Nations has set up a special technical assistance program in view of the great need for qualified experts for positions of responsibility in monetary and financial institutions in the Congo.

40. The Fund has recently established a Central Banking Service to strengthen, improve and expand the technical assistance facilities extended to member countries in the field of central banking. The Service is equipped to advise countries wishing to set up new central banks on the design, constitution and legislation most suited to their requirements. The Service also advises countries which already have central banks but which wish to remodel them to meet changing circumstances, or wish to improve the instruments of monetary policy, such as credit controls. In addition, the Service is capable of helping countries which need persons with central banking experience to work with them for varying periods, in order to strengthen the policies and operations of their central banks. The Service maintains a panel of experts drawn from the established central banks of member countries who are available for filling senior executive positions, such as governor or general manager, or more specialized positions in fields such as credit, foreign exchange, research, accounting, and bank administration. Several African countries have already made use of this Service.

41. The Fund has for some time been increasingly concerned with fiscal problems in member countries, particularly in less developed countries, where deficits in the public sector have been a substantial destabilizing factor in their economies. A new Fiscal Affairs Department provides technical assistance in an advisory capacity to members who request it in the fields of tax policy, tax administration, and budget. The technical assistance will also concentrate on governmental accounting practices, expenditure controls and financial reporting techniques to ensure centralized knowledge and control of expenditures in the public sector, including the special problems of state enterprises. Advice will also be given concerning the coordination of planning for the annual budget with that of the longer range development or investment budget.

42. The Fund has long recognized that a training program is an important part in the service to its members, and that every effort should be made to strengthen it in the light of emerging requirements. Effective May 1, 1964, the Fund regrouped and reorganized its training activities in an "IMF Institute", which has been given the assignment to expand and diversify the training facilities offered to member countries. The first task assumed by the IMF Institute was to satisfy the urgent need for a program in French, especially for the benefit of the African countries where French is the business language. The IMF Institute has now completed two seminars in French of six weeks each, organized for very senior officials from the above countries. During the first half of 1965, the IMF Institute is offering a regular course conducted in English of 4-1/2 months' duration for which the governments of all member countries, including those in the African continent, have been requested to submit the names of applicants. An equivalent regular course conducted in French will be organized as soon as possible. In the meantime a ten-week course conducted in French will be organized probably toward the end of 1965. More detailed particulars will be published in a brochure which the Fund is planning to send to member countries in the early months of 1965.

PARAGRAPHS (ii) and (iii)

"(ii) Extension to African members of the privilege granted to Latin America of voting en bloc for the election of the Executive Directors of both institutions.

"(iii) Increase in the number of seats on the Boards. Under the Articles of Agreement of the Fund, the Latin American member countries are allocated three seats on the various Boards. The African member countries request that the same consideration be given to them."

43. Since the 1962 Regular Election of Executive Directors, the Boards of Governors of the Fund and Bank have increased the total number of Executive Directors of each of the two institutions from 18 to 20 to take account of the increase in Fund and Bank membership, including the large number of new members from Africa. With respect to the election of Executive Directors by the Latin American members, it is to be noted that Article XII, Section 3(b)(iv) of the Fund's Articles of Agreement requires that a certain number of Executive Directors of the Fund be elected by the American Republics not entitled to appoint Directors. The Bank's Articles of Agreement contain no such requirement. A legal requirement for the election of a specified number of Executive Directors of the Bank and Fund by African members would involve amendment of the Articles of Agreement of both institutions.

44. Aside from the requirement of the Fund Agreement regarding the election of Executive Directors of the Fund by the American Republics not entitled to appoint Directors, the question of the composition of the elected Executive Directors of the two institutions is a matter which lies wholly with the members not entitled to appoint Directors. In the past, several groups of countries have developed a pattern of arrangements, of varying degrees of formality, for selecting candidates for Executive Directorships and for grouping the electing countries in the voting for such candidates. It should be emphasized that in

the Bank, which does not have the (Latin) "American Republics" requirement as to the number of directorships, the results of each biennial election have shown the same number of Executive Directors elected by the (Latin) American Republics as in the Fund.

45. Some African countries have for years voted for non-African Executive Directors on both Boards and did so in the 1964 election and Executive Directors from African countries have received the votes of non-African members. Two Executive Directors were elected by only African countries (with the single exception of Trinidad and Tobago), and two more were elected by both African and non-African countries.

46. It should be borne in mind that the composition of the groups of electing countries, rotation of the elective directorships among these countries, and other arrangements and understandings arrived at in connection with the elections are matters which rest entirely with the member governments entitled to participate in such elections.

PARAGRAPH (iv)

"(iv) Recommendation that French, like English, be made an official language of both institutions."

47. It must be recognized that the use of one working language has great advantages, even without considering the cost factor, from the standpoint of the efficiency of the institutions. Even greater problems arise with respect to a proposal for multiple "official" languages. Experience has shown that legal and language difficulties arise when operations are conducted on the basis of two or more equally official texts of documents especially those involving legally binding arrangements.

48. However, in both the Bank and the Fund the special needs of some African countries for dealing in the French language are recognized and extra efforts are being made to accommodate these needs. Although English is the working language of these organizations, French is being increasingly employed in connection with training programs, in the assignment of personnel to missions and in an expanded program of translation into French. Within the latter class are economic and other reports, legal and other documents, and communications. It is the aim of these efforts to ensure that the officials in French-language member countries are able to conduct their business, including consultations, transactions, loan negotiations, operations generally, and voting, with a minimum loss of efficiency due to multi-language problems.

49. Similarly, the participation of member delegations at annual meetings of the Boards of Governors is now being facilitated by full simultaneous translation into French at all plenary and certain committee sessions, and by the circulation of an increasing number of conference documents in French.

MEMORANDUM ON AFRICAN PROBLEMS

To: Mr. Pierre-Paul SCHWEITZER, Managing Director of the International Monetary Fund

Mr. George D. WOODS, President, World Bank, IDA and IFC

From: The African Member Countries

The African member countries assembled together welcome the efforts made by the financial institutions under your dynamic leadership and congratulate you and your colleagues on your competent and energetic management. They have noted with great satisfaction the undertakings you have given particularly with respect to the prospective extension of the activities of the international financial organizations in matters of economic development and international trade.

While thanking you for the additional information and assurances that you have given us on a number of questions of a general nature, the African members have thought it useful to put forward to you recommendations on various problems with which they are particularly preoccupied:

I. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

A. The African member countries, having noted the decision to broaden the scope of the activities of the IBRD and to increase for the moment the resources of IDA, urge strongly that:

- (i) the policies favoring lending operations to the agricultural and social sectors be put into effect as of the new fiscal year 1964-1965 and that special attention, if not priority, be given to the needs and requests of the African members;
- (ii) the Bank should continue to transfer part of its net annual income to IDA and should at the same time increase its efforts to persuade the developed nations to augment IDA's resources by agreeing to increase their contributions;
- (iii) the IBRD, whose Articles of Agreement at present prohibit it from refinancing suppliers' credit, should nevertheless study the possibility of arranging refinancing credits or granting guarantees to African member countries in order to enable them either to obtain new credits of this nature or to negotiate more favorable conditions for credits already received;

MEMORANDUM

from ~~the~~ 1964

AFRICAN CAUCUS.

- (iv) IDA should consider extending its operations to the financing of investments related to the development of communication and transportation, in particular railroads and railroad equipment.

B. The African member countries, anxious to derive the greatest possible benefits from the activities and operations of the IBRD and its affiliates, strongly favor:

- (i) The establishment of uniform rules and procedures for the submission of loan and credit applications, notably by setting down standard requirements for the preparation and presentation of dossiers and by working out procedures for the speedy consideration of projects, thereby substantially reducing the cost of preparing loan applications.
- (ii) More flexible terms for project financing, in particular:
- A change in the commitment charge: we regard the reduction of the commitment charge from 3/4% to 3/8% as a positive step.
 - A revision of interest rates: it is desirable that interest rates be determined according to the nature of the project.
 - Extended periods of grace and of repayment: for conventional loans the minimum grace period should be 10 years.
- (iii) Financing local currency costs, which may have unforeseen effects on the budgetary or monetary situation of the countries concerned, compelling them to abandon projects even though they may have been approved by the Bank or are being considered for Bank financing.

C. Finally, the African member countries request the Bank to consider with the greatest attention and all possible sympathy the following suggestions:

- (i) Possibility of joint financing by the Bank and IDA. The African member countries are unanimous in their preference for the financing of projects by IDA, whose terms are so much less onerous.

However, some of them have suggested that consideration should be given to the possibility of joint financing by Bank and IDA of projects to which they attach particular importance but which could not

otherwise be considered either because of the extreme severity of the Bank's conditions or the insufficiency of IDA funds. By combining the advantages and disadvantages of both institutions joint credits could make possible the adjustment of the financial burden to the actual capacity of the countries concerned.

- (ii) More equitable distribution of IBRD and IDA financial assistance. The African members are pleased to note that in the past years the developing countries of other continents have benefited greatly from the operations of the IBRD and its affiliates. They believe, however, that it would be desirable to take account of the lead taken by these countries as well as the lag of Africa, its urgent and growing needs, when arriving at a more balanced and equitable distribution of credits in the future.
- (iii) Financial assistance to development banks. The need to promote rapid economic development has led many African states to take steps to mobilize more efficiently domestic savings, in particular public savings, by establishing development banks. Due to their governmental or semi-governmental nature these institutions find it difficult to approach the traditional private capital markets where they are met with great reserve. These development banks may at times obtain credits from foreign public financial organizations but often in limited amounts due to the limited resources at the disposal of those organizations in terms of the needs of their own countries.

We therefore feel that it is highly desirable that the development banks be able to borrow from the IBRD on politically and financially acceptable terms and we suggest that the Bank institute a study, as soon as possible, to establish conditions for such future financial assistance.

- (iv) Establishment of an "interest reduction fund". Following the recommendation of the recent United Nations Conference on Trade and Development, it is to be hoped that the Bank will see its way to establishing as soon as possible an "interest reduction fund" fed by sums to be transferred from the Bank's annual net profits. The purpose of the fund would be to alleviate in part the interest payments due on loans made by private sources or public organizations other than the Bank and its affiliates. In so doing, the fund would constitute a financial guarantee and encouraging factor for public and private foreign capital.

- (v) Increase of IFC resources and diversification of its operations. The African member countries have welcomed, although with some reservations, the decision to expand the resources of the IFC whose basic purpose is to promote and encourage private investments. Now, it is becoming increasingly obvious that the newly independent African countries inspire less and less confidence in private capital, concerned as it is with both profitability and security. We feel that the prejudice of the African member countries against the IFC would be removed if the President were prepared to revise the policy of the IFC to enable it in particular to participate in financing industrial or other projects undertaken by governments.
- (vi) Harmonization of financial assistance by the Bank and its affiliates with development plans. Almost all African states have prepared long-term development programs, the execution of which is carried out on an annual basis. The financing of these plans come from two sources: domestic resources, which can always be estimated, and external resources, in particular financial assistance from international organizations, the amount and utilization of which is not, unfortunately, known in advance. This lack of knowledge about future external financial assistance conflicts with the whole idea of planning and thus constitutes a serious obstacle to the implementation and success of development plans. For this reason the African members request the Bank to study the possibility of placing at the disposal of their countries, upon submission and after study of their development plans, a global amount of credit, the precise utilization of which would be spelled out in terms of projects included in the plans and approved by the Bank. With such assurances for the long-term financing of projects which they deem essential African member countries would be in a position to carry through their plans without fear of serious setbacks.
- (vii) Financial assistance for regional development. The African member nations have noted with great satisfaction the expressed willingness of the Bank to give financial and technical assistance to projects of a regional character. They express the wish that this decision be rapidly implemented and urge the Bank to increase its efforts in this direction in the future.

II. INTERNATIONAL MONETARY FUND

The African member nations submit the following recommendations to the attention of the International Monetary Fund Management:

- (i) Compensatory financing of export fluctuations. The African member countries have welcomed with great interest the Fund's scheme for compensatory financing of export fluctuations with respect to primary commodities. While acknowledging the positive nature of this move, they feel, however, that this scheme does not provide a definitive solution to the crucial and basic problem of rapidly falling prices for primary commodities which constitute the bulk of Africa's exports and their main source of income.

The African member countries strongly urge that in the study now being undertaken, long-term compensatory financing be given careful and objective consideration.

- (ii) Payment of gold tranche. The African member countries urge the revision and amendment of the 25% gold payment requirement, both with respect to the projected general increases and to compensatory financing of export fluctuations, in order to take into account the difficulties with which this obligation has always faced them.
- (iii) The African member countries further recommend that the Fund, in conjunction with other international institutions, undertake studies of world trade and international liquidity with a view to recommending ways of improving the share accruing to African countries. In view of the great importance of these problems for the African member countries, they strongly urge that the committee entrusted with these studies be as broadly representative as possible.

III. THE BANK AND FUND

The African member countries strongly urge the International Monetary Fund and the World Bank to take into consideration their concern on the four points set forth below:

- (i) Strengthening of the technical assistance by the IMF, IERD and its affiliates. The African member countries hail the Bank's initiative in setting up two technical assistance advisory offices in Africa to enable African countries to make better use of the assistance offered

by the Bank. They would nevertheless recommend that technical assistance provided by the IMF and the IBRD be strengthened by placing at their disposal, with the least possible delay, and on acceptable conditions, a large number of advisers or experts in every field: financial, monetary, banking, fiscal, economic, technical and even administrative. Moreover, it seems advisable that both institutions give special attention to the rapid training of Africans as economic and financial officials, either by increasing the number of training sessions or by granting scholarships in specialized institutions.

- (ii) Extension to African members of the privilege granted to Latin America of voting en bloc for the election of the Executive Directors of both institutions.
- (iii) Increase in the number of seats on the Boards. Under the Articles of Agreement of the Fund, the Latin American member countries are allocated three seats on the various Boards. The African member countries request that the same consideration be given to them.
- (iv) Recommendation that French, like English, be made an official language of both institutions.

Made in Tokyo on September 11, 1964

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

GDW's MEETINGS

✓ Algeria	Fri., September 24 - 11:00 am
Egypt	
Ghana	Sun., September 26 - 4:00 pm 3 ³⁰
Ivory Coast	Mon., September 27 - 3:30 pm
✓ MALI	THU. SEP. 23 - 4:15 pm
Morocco	Mon., October 4 - 4:00 pm
Nigeria	Sun., September 26 - 4:30 pm

SEP 22 REC'D

OFFICE MEMORANDUM

S - Incent
in Brief

TO: Mr. George D. Woods (through Mr. Knapp)

DATE: September 21, 1965

FROM: A. G. El Emery

SUBJECT: ALGERIA: Delays in Loan Repayment

In connection with your meeting on September 24 with the Algerian delegation, I would like to draw your attention to a considerable delay which has occurred in Algeria's payment of its maturities on its loan, No. 131 FR (Electricite et Gaz d'Algerie). The maturities which were due on August 25 and September 1 amount to \$402,630.75. The borrower has informed us that it requested the Algerian Treasury to effect the transfer on August 27, but a number of cables to the Algerian authorities have as yet yielded no result or reply. I understand from the Treasurer's Department that there have been complaints by several of the 11 establishments which have purchased portions of this loan. One of these purchasers holds the full principal amount due September 1, i.e. \$246,000.

I think it would be useful to draw the attention of the Algerian delegation to the damage which can be done to their standing (and the Bank's) by such delays. This is not the first time that there have been delays with this particular loan, but this is the longest so far.

Cleared with and cc: Mr. Deely, Treasurer's Dept.

Sept. 22, 1965

Mr. Woods:

Mr. Knapp has asked me to add that this loan is guaranteed by the French Government.

GW

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CONFIDENTIAL

September 8, 1965

BRIEFING PAPER - 1965

ALGERIA

I. MEETING WITH DELEGATION

September 24, 1965 - 11:00 o'clock

II. MEMBERS OF DELEGATION

Ahmed KAID

Minister of Finance and Planning: Governor of IMF, IBRD and IDA, Chairman of Delegation

Kemal ABDALLAH-KHODJA

Director General of Planning and Economic Studies: Alternate Governor of IBRD and IDA

Seghir MOSTEFAL, Governor, Banque Centrale d'Algerie: Alternate Governor of IMF

Layachi YAKER, Director of Economic and Cultural Affairs, Ministry of Foreign Affairs: Adviser

Yahia KHELIF, Director of Treasury and Credit: Adviser

Mahfoud ZEROUTA, Deputy Director, Caisse Algerienne de Developpement: Adviser

Hachemi SAIBI, Deputy Director of Foreign Finance: Adviser

Mohamed ABERKANE, Counselor, Embassy of Algeria: Adviser

III. BANK/IDA PROSPECTIVE OPERATIONS

For the time being the Bank is not engaged in active operations in Algeria. In view of the uncertainty that has surrounded many aspects of the economic and political situation, it has seemed desirable to treat the requests for new activities in Algeria with prudence. The new Algerian Government has recently approached the Bank with a view to submitting a number of projects for financing (see para IV(c)).

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- Present position of Algeria's balance of payments.
- Present outlook for industrial and agricultural production.
- Present intentions of Algeria in the petro-chemical field.

- (b) To be raised by Bank at meeting with President or Vice President:

None

- (c) Likely to be raised by delegation:

The Algerian delegation is likely to ask for our preliminary reaction to a list of projects recently submitted through Mr. Tazi and the Algerian Charge d'Affaires. These are:

- i. Secondary and technical education as well as teachers' training colleges;
- ii. Construction of jetty and enlargement of the industrial area of the harbor of ANNABA (Bone);
- iii. Road maintenance;
- iv. Eventually, an industrial outfit relating to the production of ammonia and presenting, from the financial point of view, some similarity with the CAMEL operation (Compagnie Algerienne du Methane Liquide);
- v. Technical assistance, i.e.
 - a. a general survey of the Algerian economy;
 - b. two sectoral surveys concerning:
 - rationalization of internal transport,
 - organization and development of fishery, industrial fishing included.

With particular reference to a general survey mission, the Bank will suggest that a more practical and time-saving way to operate would be to send to Algeria a reconnaissance mission composed of a few persons, including sectoral specialists. This mission would permit the Bank, without unreasonable delay, to have a more accurate view of the general and sectoral economic situation and also allow the Bank to reach conclusions on the relative priorities within the list of projects which the Algerian delegation is prepared to present for discussion during the meeting.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1955	Electricite et Gaz d'Algerie (EGA)	Power	10.0 ^{1/}	0.0
1959	Societe Petroliere de Gerance (SOPEG)	Pipeline	50.0 ^{1/}	0.0
1964	Compagnie Algerienne du Methane Liquide (CAMEL)	Gas liquifi- cation	20.5	0.0
Total			80.5	0.0
of which has been repaid			<u>10.4</u>	
Total outstanding			<u>70.1</u>	
Amount sold		33.4		
of which has been repaid		<u>13.4^{2/}</u>	<u>20.0</u>	
Net Amount held by Bank			<u>36.7</u>	

^{1/} Guaranteed by France.

^{2/} Concerns loans of 1955 and 1959 only.

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None yet (see III above)

(d) Access to Private Capital Markets

None except for industrial projects like CAMEL.

(e) Bank 9% Capital Subscription

\$7.2 million. Algeria cannot now afford release.

(f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Nothing reported.

VI. POLITICAL SITUATION

An event of great political significance occurred in Algeria in the spring of 1965 - the overthrow of Mr. Ben Bella and his replacement by Colonel Boumedienne. Since the change of regime on June 19, 1965, the new Government, while proclaiming its intention to achieve socialism, seems to have followed a more moderate line than its predecessor, drawing the attention of Algerian public opinion to various inefficiencies in the recently nationalized agricultural and industrial sectors. It has also voiced a desire for foreign private investment in Algeria. This shift in emphasis should have a direct bearing on the management of the agricultural sector now under workers' "self-management."

VII. ECONOMIC SITUATION

- (a) 10.5 million inhabitants (mid-1964 estimate); GDP at market prices per capita US\$180; foreign exchange reserves (end of 1963) Dinars 1.1 billion (or 3 months' imports).

- (b) In the economic, as well as in the political, field, the agreement between France and Algeria on the development of oil and natural gas resources of the Sahara is the second important event which occurred during the recent past. This agreement provides for maintenance of the concessions of the French companies in existing oil fields, with increased profits accruing to Algeria. More important, it provides for joint ownership by Algeria and French companies of new oil fields, thus bringing Algeria's share of oil income in those areas to 75%. The agreement thus largely increases the various financial and technical advantages to accrue to Algeria from the development of its oil and natural gas production. It also opens the way to renewal of research and development of new oil fields. Furthermore, France is committed to devote \$200 million during the next five years to the creation in Algeria of a large-size petro-chemical industry and an additional \$200 million in general and technical assistance. As a consequence, the economic prospects of Algeria should gradually improve over the next few years.

Conclusion

Algeria might become eligible for Bank/IDA assistance, especially for suitably guaranteed enclave projects, subject to an examination of the new Government's economic and financial policy.

Criteria for IDA eligibility:

Poverty: Doubtful if oil revenue grows as foreseen.

Performance: Subject to review.

Creditworthiness (lack of): Marginal.

BURUNDI

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BRIEFING PAPER - 1965

September 9, 1965

BURUNDI

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WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Eric Manirakiza - Vice President, Banque du Royaume de Burundi.

III. BANK/IDA PROSPECTIVE OPERATIONS

We have been requested to finance a water supply project in Bujumbura, the capital city of the country. The Bank indicated its willingness to negotiate a \$1.1 million IDA credit representing the foreign cost of the project, however, pending the formation of a new government it was not possible to set up a date for the negotiation. We are also awaiting up-to-date information on steps to be made to strengthen the management and improve the financial position of the water authority.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

(See under III.)

(b) To be raised at meeting with President or Vice President:

None.

(c) Likely to be raised by delegation:

In 1957 the Bank made a \$4.8 million loan to the Rwanda-Urundi Trust Territory, administered by Belgium (which is also a guarantor for this loan), in order to help finance the construction of a lake port at Usumbura (now the capital of Burundi) and a 20-mile highway. Both projects are in the territory of the Kingdom of Burundi.

The road was seriously damaged probably due to faulty construction, inadequate maintenance, and more than normal rainfall over a series of years.

The port functions at present at barely half of its capacity due to the political and economic instability in this region of Central Africa. All installations are seriously threatened by floods in Lake Tanganyika.

Repayments of principal and interest on the loan started only after Rwanda informed the Bank that it considered itself discharged from its obligations. As a matter of fact, repayments to the Bank are made by Burundi out of financial aid it receives from Belgium, who is the guarantor of the loan. These payments amount at present to about one-third of Belgium's financial assistance.

Until recently, the Bank's position has been that legally Burundi and Rwanda are jointly and severally liable for the entire debt service. The existence of a common central bank for the two countries gave some support to our position. Since this institution disappeared in May 1964, it is more difficult than ever to maintain the fiction of joint responsibility for the loan.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

Date	Borrower	Purpose	Amount (\$ Million)
1957	Rwanda-Urundi	Road and Port	<u>4.8</u>
	Total (Net of cancellations and refundings)		4.8
	Of which has been repaid		<u>1.0</u>
	Total now outstanding		<u>3.8</u>
	Amount Sold	3.0	
	Of which has been repaid	<u>1.0</u>	<u>2.0</u>
	Net Amount now held by Bank		<u>1.8</u>

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$1,350,000 No release.

(f) IDA Subscription

\$684,000 No release.

(g) Holding of Bank Bonds

None.

(h) I. F. C.

VI. POLITICAL SITUATION

Burundi became an independent kingdom on July 7, 1962. The Mwami, Mwambuka IV, has broad powers but he has barely exercised them outside of changing the composition of his government (four times in three years). Although no tensions comparable to those existing in Rwanda are evident between the Watusi minority and the rapidly upcoming Bahutu majority, there is a certain awareness that the present evolution might eventually become a revolution if politicians should want to take advantage of the situation.

On the international level Burundi relations with bordering Rwanda are bad as a result of Watusi invasions into Rwanda territory; all common institutions have disappeared and the two economies have drifted apart.

Early in 1965 the Prime Minister was dismissed in the aftermath of a controversy regarding relations with Mainland China. Legislative elections were held in May through July 1965. The outcome of the elections was that the major party, the Uprona, although obtaining 21 seats out of 33, lost an important part of its influence. No new government has as yet been reinstated.

Important political personalities besides the King are:

Joseph Ba Mira, former Prime Minister, President of Uprona.

VI. ECONOMIC SITUATION

Population 2.3 Million.

GDP per Capita \$50

In view of the scarcity of land, the general poverty of the soil, the inadequate resources of the country, the absence of industrialization and the high population growth, the demographic situation is one of over-population.

The main cash crop is coffee of an excellent quality which accounts for about 80% of total export value. Due to declining interest of the farmers and to a lack of adequately trained personnel in the agricultural extension services, coffee production dropped to one-quarter of its former level in 1963. After improving considerably in the 1964 season, output dropped slightly in 1965. The government makes a considerable effort to promote the crop and guarantees coffee prices which are supported by a stabilization fund. Falling world coffee prices have serious effects on the economy.

Manufacturing and transit activities concentrated in Bujumbura, serving also Rwanda and a large part of the Congo-Kivu Province, operate in many cases at barely 30% to 50% of capacity due to political circumstances.

The country is an associated member of the EEC. Since May, 1964 Burundi has had its own central bank. Balance of payments problems have been great and there was a constant pressure on the value of the Burundi Franc. With the assistance of the IMF, a stabilization program has been established and put into effect together with a 75% devaluation in February of this year. An IMF standby credit was agreed upon. Indications are that this program has been successfully implemented and that the monetary situation has considerably improved.

As the economy is nearly dependent on coffee earnings, this year's drop in coffee output as well as in export prices have had adverse effects on the government's finances. However, the government remains able to balance the budget on current income.

Burundi appears to be suitable for IDA assistance in view of its poverty, its indebtedness, and its performance in the recent past.

CAMEROON

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CAMEROON

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WBG ARCHIVES

I. MEETING WITH DELEGATION

Department meeting being arranged.

II. MEMBERS OF DELEGATION

Victor Kanga, Minister of Finance
Laurent Ntamag, Managing Director, Cameroon Development Bank
Theodore Koule, Director of Exchange
Alfred Ekoko Mpondo, Director Central Bank of Equatorial Africa
and Cameroon, Yaoundé.

III. BANK/IDA PROSPECTIVE OPERATIONS

In July 1964 the Bank approved the financing of the foreign cost of two studies, one a cocoa rehabilitation study in the southern part of the country (agricultural and transport study) and one for the improvement of the N'Gaoundéré-Garoua road in the northern part of the country. The first study, undertaken with the cooperation of FAO, is now completed. The project will be appraised when the government has completed soil and land tenure surveys of the two specific areas selected by the FAO mission. The N'Gaoundéré-Garoua road study (Ingeroute, Consultant) is likely to be completed at the time of the Annual Meeting. Both studies may lead to projects to be appraised before the end of the year.

In May 1965 the government presented an agricultural program in West Cameroon prepared and to be executed by the Cameroon Development Corporation, a government-owned agency which receives technical assistance from the Commonwealth Development Corporation. Part of the Camdev program is to be financed by the FED, the other part has been submitted to the Bank. The project is to be appraised in November and may lead to Bank or IDA lending of about \$10 million.

In May 1965 the government also informed Mr. El Emary of its intention to submit a palm oil project, a water supply project in Yaoundé and a power project in Mbakaou. All of them are at a very embryonic stage. Feasibility and preliminary engineering studies are being financed by the FAC. The government also mentioned the possibility of associating the Bank with the financing of the second section of the trans-Cameroon railroad. We have not received any information about the cost, economic justification and technical aspects of the project.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Bank at Staff Level:

When will the soil and land tenure surveys, required before the final appraisal of the cocoa rehabilitation programme, be completed?

(b) Topics to be raised by Bank at meeting with President or Vice President: None.

(c) Likely to be raised by delegation:

Request for the establishment of a regional office of the Bank in Yaoundé similar to those set up in Abidjan and Nairobi. We should reply along the lines of our letter dated January 28. The Abidjan office is intended to serve Cameroon and Equatorial Africa as well as West Africa and we will make all possible efforts for the experts of the Abidjan group to meet the requirements of all countries within their jurisdiction. Should this purpose appear to be inadequately served by the Abidjan office, we would reconsider our position concerning the number of regional offices in Africa.

Requests for financing projects mentioned in III. above. We should say that the Cameroon Development Corporation project and the cocoa rehabilitation program will be appraised shortly subject to the government's completing soil and land tenure surveys in the case of the cocoa project. For the N'Gaoundéré-Garoua road and the other projects, we will have to wait for the results of the studies financed by the Bank or to be undertaken by other agencies. For the water supply, railroad and power project we have not yet even received preliminary information.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

(See Section III.)

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$1,800,000 No release.

(f) IDA Subscription

\$909,000 No release.

(g) Holding of Bank Bonds

None.

(h) IFC

In 1964 IFC was asked by the Director General of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (Mr. Panouillot) whether it would consider assisting a predominantly private development finance company operating in Cameroun, the Central African Republic, Chad, Congo (Brazzaville) and Gabon. In January 1965, following a conference of the heads of state of these countries, Mr. Woods was asked whether IDA could assist a regional development financing institution. Mr. Woods expressed willingness to explore cooperation between the Bank family with such an institution, but doubt about direct financial assistance. Subsequently, we learned from Mr. Panouillot that the latter had urged that private capital be brought in to the institution proposed by the heads of state, but that they had decided that it should be a governmental institution.

VI. POLITICAL SITUATION

The Federal Republic of Cameroon has existed since October 1, 1961 and is composed of two former trust territories--the French Cameroon, independent since January 1960, and the southern part of the British Cameroon which chose federation with the Cameroon Republic in 1961 (while the northern part joined Nigeria).

Since Cameroon is the largest country and has the largest population in the Equatorial African Customs Union and Central Bank territories, Cameroon has an important influence on its neighboring countries.

M. Ahidjo, the President of ex-French Cameroon, became the Federal President, while Mr. Foncha, the Prime Minister of ex-British Cameroon, became Vice President. Both have been re-elected in 1965 with a 99% majority.

Important political personalities besides the President and Vice President are:

Victor Kanga, Minister of Finance
Daniel Masuke, Minister of Planning.

VII. ECONOMIC SITUATION

Population: 4.2 Million (East 3.3: West 0.9)

GDP per Capita: \$110.

Cameroon has a predominantly agricultural economy on which 85% of its population depends and which provides three-fourths of its foreign exchange earnings. Cocoa is the main export product, Cameroon being the sixth most important world cocoa producer. The quality of the cocoa produced represents, however, a problem. Whereas export receipts from this source are sharply declining due to significantly lower prices on the world market, price and marketing prospects for coffee and bananas, the country's two other main export products are not very favorable.

Cameroon is the eighth most important world producer of aluminium (60,000 tons). However, industrial activity, although expanding, is still of limited importance.

The construction of a nearly 200-mile extension of the Cameroon railway from Yaoundé to Belabo is being undertaken by the Italian firm, Cogitar. U. S. AID, FAC (French) and FED (European) funds have committed \$29 million to this purpose. The same institutions seem willing to provide the bulk of the financing of a second stage of the railway extension to N'Gaoundéré in the north of Cameroon. Further extensions to Chad are under study.

The country is a member of the franc zone and shares a monetary system with Chad, CAR, Congo (Brazzaville) and Gabon. One central bank in Paris issues the CFA franc (1 CFA = 0.02 French francs = 0.4 U. S. cents). The country is also a member of the Equatorial African Customs Union and belongs to the group of countries associated with the EEC.

Although present debt service is low, several factors make the Cameroon unsuitable for any extension of external borrowing on conventional terms. Among the most important of these are the necessity of expanding essential services and the adjustment that the country will have to make to reduce prices for its export goods. The Cameroon should therefore be considered as an IDA country.

CENTRAL AFRICAN
REPUBLIC

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September 10, 1965

BRIEFING PAPER - 1965

CENTRAL AFRICAN REPUBLIC

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WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Charles Bornou

Minister of Finance

Francois Giscard d'Estaing

Director, Banque Centrale des Etats
de l'Afrique Equatoriale et du
Cameroun, Paris.

Jean-Paul Mokodopo

Chief, Cooperation Service,
Ministry of Foreign Affairs.

Pierre Idrac

Technical Adviser to Minister of
Finance.

III. BANK/IDA PROSPECTIVE OPERATIONS

(1) The CAR Government considers the rail connection between the country's capital (Bangui) and the coast (i.e. Douala in Cameroon) a top priority investment project and together with the Government of Cameroon requested from the Special Fund the financing of the preliminary engineering of the rail link. Considering that the economic justification of the project is doubtful, the Special Fund proposed to finance a general survey covering all transportation possibilities - road, river and railroad - in order to ascertain the most realistic solution for the CAR's transport problems. In January 1965 the Governing Council allocated \$2.1 Million to the survey. The Bank has agreed to be the Executing Agency. The survey will be made in two phases. The first stage consists primarily of an economic study of the traffic potentials and transport requirements of the southern regions of Cameroon and CAR with a view to selecting the most economic means of transportation to be developed. The second stage would consist of the preliminary engineering of the solution selected in the first stage. As a part of their contribution to the project, the governments of CAR and Cameroon should undertake a forest inventory and topographic studies, which are necessary even for the first phase of the study. Since the two governments have not yet made the arrangements necessary for carrying out these collateral studies, the beginning of the survey has had to be postponed until April 1966, if not later.

(2) A project to improve livestock raising was mentioned during the economic mission. Although some assistance would be needed to prepare the project, it could be of interest to the country and could possibly be financed by an IDA credit. However, no information has reached the Bank on the subject during 1965.

(3) In July 1965 the government presented a list of road improvements to be undertaken during the next few years. The information submitted is neither clear nor complete. We envisage sending members of the Abidjan Office to identify and help prepare a road project.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

What is the timing of the forest inventory and topographic surveys to be undertaken by the governments, possible with FED and/or FAC financial assistance?

(b) To be raised by Bank at meeting with President or Vice-President:

None.

(c) Likely to be raised by delegation:

Timing of the transport survey. We should say that it depends on the timing of the collateral studies to be undertaken by the two governments concerned. If they face problems in the execution or financing of these studies, they should inform us to enable us to report to the Special Fund on the matter and to recommend the appropriate course of action.

Request for financing the road program mentioned in Paragraph (a) (3). We should say that we are asking members of our Abidjan office to visit the country to identify and help prepare road projects within the list submitted.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

(See under III. (1).

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$900,000. No release.

(f) IDA Subscription

\$450,000 No release.

(g) Holding of Bank Bonds

None.

(h) I. F. C.

In 1964 IFC was asked by the Director General of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (Mr. Panouillot) whether it would consider assisting a predominantly private development finance company operating in Cameroun, the Central African Republic, Chad, Congo (Brazzaville) and Gabon. In January 1965, following a conference of the heads of state of these countries, Mr. Woods was asked whether IDA could assist a regional development financing institution. Mr. Woods expressed willingness to explore cooperation between the Bank family with such an institution, but doubt about direct financial assistance. Subsequently, we learned from Mr. Panouillot that the latter had urged that private capital be brought in to the institution proposed by the heads of state, but that they had decided that it should be a governmental institution.

VI. POLITICAL SITUATION

The Central African Republic became independent in August 1960. Its constitution, which was revised by the end of 1963, provides for a presidential type of government. The President, David Dacko, who was re-elected last year by direct universal suffrage, is in firm control of the country. He is also the leader of the single party, MESAN, which controls all the seats of the Legislative Assembly.

Relations with neighboring countries are good, in particular with Cameroon, with whom CAR is trying to establish close economic links, symbolized by the projected rail link between Bangui and the future trans-Cameroon railroad.

CAR is member of UDEAC and OCAM.

Important personalities, besides President Dacko, are:

Charles Bornou, Minister of Finance

Bernard Ayandho, Minister of National Economy.

VII. ECONOMIC SITUATION

Population: 1.2 Million.

GDP per Capita: \$64

The CAR is a very poor, landlocked country of peasant cultivators. Tropical products account for about 50% of foreign exchange earnings. The output of cotton, the major cash crop in the largest part of the country, remains at present stable at a modest level. It may, however, suffer from the abolition of guaranteed prices. The coffee output has reached a top in 1964 but price prospects in general are not very bright.

The country's rich forest resources have barely begun to be exploited. The activity in the temporarily important sector of diamond mining, for an important part independent prospecting, remains stable and has provided in 1964 over 40% of the country's export earnings. It is however, not clear how long this activity may last, as no profound prospecting has yet taken place. Industrial activity in general is negligible.

There has been a net improvement in the commercial balance of the C.A.R. by an increased income from diamond export which reduced the chronic trade deficit of the past to insignificant proportions in 1964. The country's current budget remains in balance without a foreign subsidy; this balance is however very precarious. Investment expenditure is almost completely dependent on foreign aid which amounts to roughly \$7 million annually.

The C.A.R. is a member of the franc area and shares a monetary system with Cameroon, Chad, Congo (Brazzaville) and Gabon. A common central bank with headquarters in Paris issues the CFA franc (1 CFA = 0.02 French francs = 0.40 U.S. cents). The C.A.R. is also a member of the Equatorial African Customs Union and belongs to the group of African countries associated with the EEC.

Although the C.A.R.'s debt service is low, under 2% of export earnings, it is increasing as new loans for investment are incurred. In view of the low income per capita, and the poor economic prospects, the C.A.R. should be considered as an IDA country.

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BRIEFING PAPER - 1965

Sept. 3, 1965

CHAD

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WBG ARCHIVES

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

Mr. Djidingar, Minister of Finance
Mr. Diguimbaye, Planning Commissioner
Mr. Nendigui, Director of Office "des Changes"
Mr. René Rouston, Director of Central Bank of Equatorial Africa
and Cameroon.

III. BANK/IDA PROSPECTIVE OPERATIONS

We are studying the possibility of a FAO reconnaissance mission to help the government identify and prepare a livestock project.

In March we proposed a reconnaissance mission identifying possible education projects. The government could not receive the proposed mission at the time suggested and has shown no sign of further interest.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level: None.
- (b) To be raised by Bank at meeting with President or Vice President: None.
- (c) Likely to be raised by delegation:

The government places a high priority on the construction of an all-weather road Fort Archambault - Abéché. However, the road is unlikely to expand traffic appreciably. We might reconsider the question of the road when we receive a study FAC is making of the Ouadai area (near Abéché) provided it appears that something can be done to promote the economic development of the area.

V. BACKGROUND INFORMATION

- (a) Bank loans as of July 31, 1965
None.
- (b) IDA Credits as of July 31, 1965
None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$900,000 No release.

(f) IDA Subscription

\$450,000 No release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

VI. POLITICAL SITUATION

Chad became independent in August 1960. Elections were held and resulted in President Tombalbaye's party (PPT-Chad Progressive Party) gaining control of about 57 seats out of 85 in the National Assembly. In March 1962 a one-party system (the PPT) was introduced and new elections were held which greatly strengthened the position of the President. A constitution adopted in April 1962 provided for a semi-presidential regime with the President being responsible to the National Assembly. While the country's relationship with France remains close, the National Assembly passed a resolution in April 1964 calling for the departure of French troops and rapid Africanization of the civil service. A sharp reduction of the French military establishment and the departure of those among the French who played a too active political role have improved the relations between the two governments appreciably.

The most important political personalities are:

Francois Tombalbaye, President of the Republic.
Abdoulaye Lamana, Minister of Economic Affairs and
Transportation
Michel Djidingar, Minister of Finance
Georges Diguimbaye, Planning Commissioner.

VII. ECONOMIC SITUATION

Population 2.8 Million
GDP per capita: \$57

Agriculture (primarily subsistence) and nomadic animal husbandry occupy about 90% of the active population and account for most of the gross domestic product. The output of cotton, the most important cash crop, has been growing steadily and represents about 80% of recorded and over half of the actual exports. Exports of livestock account for another 25%. Industrial development is limited to cotton ginning and a few consumption goods industries. The lack of mineral and power resources combined with the country's relative inaccessibility are major obstacles to economic development. The gradual loss of foreign-financed subsidies accounting for 20% of the price paid to the producer is likely to have serious effects on the country's economy and government's revenues.

While the current budget is now in balance, public investment depends almost fully on foreign aid most of which is received from France and FED.

Chad is a member of the franc zone and shares a common monetary system with Cameroon, Gabon, Congo (Brazzaville) and the C.A.R. A common central bank with headquarters in Paris issues the CFA franc (1 CFA franc = 0.02 French francs = 0.40 U.S. cents). Chad is also a member of the Equatorial African Customs Union and belongs to the group of African countries associated with EEC.

Poverty and reasonable performance in face of financial and economic difficulties largely resulting from factors beyond its control, qualifies it as an IDA country.

CONGO (BRAZZAVILLE)

CONFIDENTIAL

BRIEFING PAPER - 1965

September 9, 1965

CONGO-BRAZZAVILLE

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APR 25 2012

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Edouard Ebouka-Babackas, Minister of Finance, the Budget and Planning.
Bernard Banza Bouiti, Managing Director, Banque Nationale de Developpement du Congo.

Elie Dinga, Deputy Director of African Affairs, Ministry of Foreign Affairs.

Nicaise Samba.

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank has been approached to help finance the exploitation of potash deposits in the Holle area and a hydroelectric project on the Bouenza. In April 1965, a Bank mission visited the country for identification of road projects. ATEC, a government-owned agency common to Congo, Gabon, CAR and Chad, requested financing for a port and a railroad project.

The potash project is being sponsored by the Mines Domaniales des Potasses d'Alsace and American Potash Company. A Congolese company, Potasses du Congo, was set up in 1964 with a 15% government participation. The cost of the project is estimated at \$75-80 million, including port facilities. The technical preparation of the project is fairly advanced and bids are being opened for the sinking of the mine shaft. However, many important elements in the financing plan have to be discussed and clarified. One of the conditions of the investment of American Potash Company was a U. S. Government guarantee. After the recent deterioration in relations between the U. S. and the Congo, the guarantee of the U. S. Government is no longer under consideration for the moment. We might consider financing up to 50% of the cost, subject to satisfactory arrangements concerning the financial plan and the guarantee of the loan.

The hydroelectric project would have been a possibility if the potash project had agreed to use the power. As this is now unlikely, it is doubtful if there would be enough demand for the power produced by the dam.

The April road mission identified a road project, Komono-Zanaga, intended to open new areas to forest exploitation. We are planning to organize a FAO reconnaissance mission for a brief inventory of forest resources which would be made accessible by the road.

The port project submitted by ATEC consists of the construction of a wharf for the shipment of potash ore. We have recommended the inclusion of this project in the cost of the potash project (See above).

The railroad project would consist of improvements to the track on a number of sections of the Pointe Noire-Brazzaville railroad. This may be required for the transportation of the potash ore but would also serve the general traffic of the railroad (manganese and timber). We are awaiting additional information on the project.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

None.

(b) To be raised by Bank at meeting with President or Vice-President:

None.

(c) Likely to be raised by delegation:

Status of the potash project, the road project and related forest inventory. We should say that we will proceed with the final appraisal of the potash project when we have received revised preliminary engineering for the port facilities and detailed proposals concerning the financing plan.

With respect to the road project, we are planning a FAO reconnaissance mission with a view to assessing the forest resources of the area.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$0.90 Million. No release.

(f) IDA Subscription

\$0.450 Million. No release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

In 1964 IFC was asked by the Director General of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (Mr. Panouillot) whether it would consider assisting a predominantly private development finance company operating in Cameroun, the Central African Republic, Chad, Congo (Brazzaville) and Gabon. In January 1965, following a conference of the heads of state of these countries, Mr. Woods was asked whether IDA could assist a regional development financing institution. Mr. Woods expressed willingness to explore cooperation between the Bank family with such an institution, but doubt about direct financial assistance. Subsequently, we learned from Mr. Panouillot that the latter had urged that private capital be brought in to the institution proposed by the heads of state, but that they had decided that it should be a governmental institution.

VI. POLITICAL SITUATION

The Congo became independent in August 1960 with a presidential type of government and a multi-party system. The President, Mr. Fulbert Youlou, was forced to resign in August 1963 and a provisional government was set up by the army, who chose Mr. Massemba-Debat, a moderate leftist and former Minister, Provisional Premier. In December 1963 a new constitution was drawn up and a new assembly elected. Mr. Massemba-Debat became President of the Republic. The new constitution calls for a semi-presidential regime with the President and the Assembly being elected for five years. The President appoints the Ministers who are responsible to him. However, the Assembly can overthrow the Government by a majority of two-thirds.

Under the new regime one political party, the Mouvement National de la Revolution M.N.R. has been gradually set up and all of the unions have been integrated into the Confédération Syndicale Congolaise (CCSC). In 1964 and 1965 several changes in the composition of the government strengthened the leftist and nationalist tendencies.

The government is aware of the economic difficulties facing the Congo and the necessity of outside assistance, both private capital and foreign aid. It has therefore made some effort, although not always successful to reassure the expatriate community with respect to the safety of its investments and maintained its traditional close ties with France and other European countries. It has also sought to diversify its sources of financial and technical assistance and entered into agreements with Mainland

China, the USSR and other countries of the eastern bloc. The U. S. has provided some financial assistance since independence, however, it recently withdrew its diplomatic and AID personnel from the Congo, while not officially breaking off diplomatic relations.

The most important political personalities besides M. Massemba Debat are:

Pascal Lissouba, Prime Minister
Edouard Babackas, Minister of Finance, National Economy
and the Plan.
Claude Da Costa, Minister of Defense and Forestry.

VII. ECONOMIC SITUATION

Population 850,000
GDP per Capita: \$160

While agriculture occupies a large proportion of the working population, agricultural production contributes less than one-third of the Congo's GDP. The most important sources of money income are services (particularly administration and trade) and forestry. Excluding the inflation of export earnings from diamonds smuggled into the country from Congo (Leopoldville), exports of timber and wood products account for over one-half of total export earnings, and their value increased by 40% in 1964 over the level of the preceding year largely as a result of the opening of rich forest regions by the COMILOG Railroad.

The breakup of the Federation of French Equatorial Africa, of which Brazzaville was the capital, left the Congo with excessive budgetary expenditures which were no longer offset by the contribution of other members of the Federation. Direct budget subsidies were provided by France for a few years after independence, but these ceased in 1963. While the Congolese Government has succeeded in raising tax revenues and holding down the rate of increase in current expenditures, the growth in fiscal revenues has lagged behind the increase in total budgetary expenditures, leaving a deficit of about CFA 500 million in 1964, primarily for capital outlays. Foreign assistance therefore continues to be of great importance to the country and substantial amounts have been made available by France and the European Economic Community. Additional financial and technical assistance is provided by the U.S.S.R., Mainland China, north Korea, Yugoslavia and Western Germany.

In addition to the economic hardships resulting from the breakup of the Federation, the departure of French troops last year also had an adverse effect on the trade, invisible earnings and employment. While the Congo continues to provide transit services for the CAR and Chad, these will decline in importance with the completion of the Trans-Cameroon

railway. However, the government is making a determined effort to expand new sources of economic growth. Recent investments in the sugar industry, the establishment of a cement plant, the continued development of forest resources and the possible exploitation of the potash deposits at Holle are all promising factors.

The Republic is a member of the franc area and shares its monetary system with Cameroon, Gabon, Chad and C.A.R. A common central bank with headquarters in Paris issues the CFA franc (1CFA = 0.02 Fr. frs. = 0.4 U.S. cents). The country is a member of the Equatorial African Customs Union and belongs to the group of African countries associated with the EEC.

In view of acute transitional problems, uncertain economic prospects and financial difficulties, the creditworthiness of the country is very limited and Congo Brazzaville should be considered as a soft blend or wholly IDA country.

CONGO (LEOPOLDVILLE)

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SEP 14 1965

BRIEFING PAPER - 1965

CONGO (LEOPOLDVILLE)

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WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Alfred J. Roux, Managing Director, Banque Nationale du Congo.

III. BANK/IDA PROSPECTIVE OPERATIONS

The government has approached the Bank (and IFC) about the financing of a power project (INGA). However, the annual growth of demand in the Leopoldville region does not appear to justify an investment of the magnitude of even the first stage of INGA (300 M W) unless new massive industrial loads are established.

In any case we do not consider providing Bank or IDA funds as long as the government is not more successful in achieving political and economic stability.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

None.

(b) To be raised by Bank at meeting with President or Vice-President:

None.

(c) Likely to be raised by delegation:

Financing of the INGA power project. We should say that we will consider the project when we are informed of definite plans for the establishment of new massive industrial loads in the area:

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

(U.S. \$ Millions)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1951	Congo	Equipment for de- velopment.	40.0	
1957	Congo	Roads	40.0	
1960	Congo	Agriculture	0.4	
1960	Congo	Roads, Ports, Waterways	7.2	
1960	Otraco	Transport equip- ment.	<u>4.1</u>	
<u>TOTAL</u>			91.7	
Of which has been repaid			<u>33.1</u>	
Total now Outstanding			58.6	
Amount Sold		56.8		
Of which has been repaid		<u>32.1</u>	<u>24.7</u>	
Net Amount now held by Bank			<u>33.9</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

No release.

(f) IDA Subscription

Member.

Release of 90% not requested.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

In early 1964, IFC commented on a United Nations' proposal for a development financing institution in the Congo. In July, 1965, Mr. Paul Mushiété, Congolese Ambassador to France, sent to IFC for comment draft documents relating to the establishment of a proposed Banque Congolaise d'Equiptement et de Développement Industriel. Ambassador Mushiété is expected in Washington around September 10 to discuss his project.

VI. POLITICAL SITUATION

The political situation remains confused. Renewed disturbances in various parts of the country led to the resignation of Prime Minister Adoula. Mr. Tshombe formed a new government on July 10 in which are represented Katangans, members of the Binza Group, young moderates who served Adoula, and representatives of the Left, among which is Mr. Kidicho, Minister of Transport, who was clearly a Lumumbist.

At the end of 1964 rebels were controlling virtually the largest part of the Eastern and Central Provinces. It took a few months for the government to reconquer all the cities and most of the surrounding areas.

New elections in 1965 gave a great majority to Mr. Tshombe's party. However, the developing competition between President Kasavubu and Prime Minister Tshombe may seriously affect the attempts made to re-establish a more stable and efficient government.

Congo is an associated member of the E.E.C. and a new member of OCAM, an economic cooperative organization common to 13 French speaking African countries.

Important political personalities are:

Joseph Kasavubu, President of the Republic
Moise Tshombe, Prime Minister, Minister of Foreign Affairs,
External Trade and Information.
Albert Kalonji, Minister of Agriculture (a member of Adoula's
Radeco Party).
Victor Nendake, Minister of the Interior.
Jules Kidicho, Minister of Transport (A member of the National
Common Front).
Godefroid Munongo, Governor of Katanga.

VII. ECONOMIC SITUATION

Population: 14.5 Million

GNP per Capita \$87

The Congo is a large country, with many natural resources and a well diversified economy. Palm products, rubber, coffee, cocoa, bananas and tea are grown in an equatorial forest belt on the eastern highlands, largely on European-owned plantations, while African farmers grow cotton on the savanna. Union Minière du Haut Katanga produces copper, cobalt and other minerals. In Kasai, two affiliates of the BCK Railroad Company work a large manganese deposit and fields of industrial diamonds, of which Congo is the world's leading supplier. Bauxite was recently discovered in the Bas-Congo, and the hydro-electric potential of the country is tremendous, particularly near the bauxite deposits.

The disturbances have adversely affected production but to a different extent depending on the region and type of production. Agricultural production has severely decreased in Kasai but somewhat increased in the former "Province de Léopoldville" and "Province Orientale." Food crop production has apparently been maintained, and perhaps increased, although the total increase is insufficient in relation to the growing population. Production of export crops has declined and the rate of exchange has for a long time made the recovery of agricultural exports impossible, except in the border area where production can easily be smuggled out. As a general rule, the decline in production and exports is relatively small for large plantation crops, such as palm products, rubber and bananas. It is particularly acute for cotton and other crops produced on small African farms.

Mineral production has not been notably affected and the production of manufacturing industries has been stimulated by the growing demand for consumer goods.

The first condition for the Congo's economic recovery is the stabilization of its currency. In November 1963 the Congo franc was devalued. The Congolese authorities fixed different buying and selling rates for the Congolese currency in order to provide a new source of revenue for the budget. In 1964 the reform seemed to have been comparatively successful. Prices increased considerably but the increases were far less than proportionate to the exchange rate adjustment. Imports have stepped up considerably and there has been a notable increase in export proceeds as a result of reduced smuggling of agricultural exports and of higher prices for key agricultural and mining products. However, the outbreak of disturbances in the interior had unsettling effects on the budget, prices, and the balance of payments position.

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WBG ARCHIVES

I. MEETING WITH DELEGATION

Meeting with staff to be arranged.

II. MEMBERS OF DELEGATION

François Aplogan (B)	Minister of Finance, Economic Affairs, and the Plan
Nicephore Soglo (F)	Head, Inspectorate of Finance
Jean Charpentier (F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Cotonou
Marcel Tokpanou (B)	Charge de Mission, Ministry of Finance, Economic Affairs, and the Plan

III. BANK/IDA PROSPECTIVE OPERATIONS

- (a) The Dahoman Government has submitted a list of transport and agriculture studies for which it asked the financial assistance. We are considering road maintenance study in which the Government has already showed interest. A Bank/FAO mission in March identified some projects which the Abidjan Office will review as soon as possible.
- (b) The Dahoman Government also mentioned:
 - (i) The development of the Mono River - A project common to Togo and Dahomey since the river forms the border. Studies now under way with the financial aid of U.N. Special Fund. The Abidjan Office is following up.
 - (ii) A joint Togo and Dahoman power supply system - Studies under way with financial aid of U.N. Special Fund.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

A review of action to be taken to carry out some of the studies suggested by the Government.

(b) To be raised by Bank at meeting with President or Vice President:

No meeting.

(c) Likely to be raised by delegation:

A program of technical assistance.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$0.9 million. No release.

(f) IDA Subscription

Part II member - \$0.450 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Not a member.

VI. POLITICAL SITUATION

Dahomey became independent in August 1960. The political situation is unstable. Unemployment aggravated by the return of Dahomans who served as civil servants or as workers in other French speaking countries creates latent discontent and maintains political

tension. In October 1963, the labor unions forced President Maga to resign. A new constitution was voted in 1964. Since then, the power is shared by the President: Mr. Sourou Migan Apithy and the Vice President: Mr. Ahomadegbe, whose serious divergencies weaken the Government.

VII. ECONOMIC SITUATION (Population 2 million; per capita income \$70)
(Foreign reserves as of May 1965 \$8.0 million.)

The economy of Dahomey is based on traditional agriculture. Palm oil and kernels are the main export products. The economy, particularly agriculture, is stagnating. Unemployment is a serious problem. However, efforts have been made with the financial and technical aid of France and EEC to develop and modernize palm oil production within the next few years.

Deficits in foreign trade occur regularly, financed by the large volume of aid. Exports after a sharp decrease in 1961-62 have about regained the same level as in 1958. The financial performance of the Government remain poor. The Central Government's budget always shows substantial deficits and foreign budget support. In July, the Government publicly recognized that the financial situation was appalling and announced drastic financial measures. Investment in the public sector is financed by grant aid mainly from France and the EEC. Subject to the improvement of its financial situation, Dahomey would be eligible for IDA.

September 14, 1965

EAST AFRICA GENERAL

BRIEFING PAPER - 1965

EAST AFRICA (General)^{1/}

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WBG ARCHIVES

1. East Africa is a geographical term which covers the three independent countries of Kenya, Tanzania, and Uganda. Through long association under British rule, these three countries have developed close ties and common institutions, including a common market (common customs area), common currency, and a number of common public services. An East African Federation based on these common institutions and the common African heritage, which has always been the earnest hope of many African nationalists, has not been realized so far and may not be attained in the near future. Divergent national interests and policies and competition among the three countries for industrial development have recently been threatening the common institutions.

I. THE COMMON MARKET

2. Following demands by Tanzania and Uganda for a greater share of industrial investment in East Africa, the East African Common Market has last year experienced a severe strain. Tensions were eased somewhat, and apparently only temporarily, by an agreement of the three East African leaders at Kampala (the Kampala Agreement) in May 1964, which provided a framework for more equal distribution of industrial development within the region. In June 1965, Tanzania and to a lesser extent, Uganda, have imposed restrictions over some industrial exports from Kenya, seriously compromising the terms of the Kampala Agreement.

3. At the same time, the three Finance Ministers announced their Governments' intentions to establish separate central banks and national currencies, replacing the present East African Currency Board and the East African shilling. The break-up of the common monetary and currency system may take place over the next year. The IMF has been closely consulted by the Governments on these decisions. The effect that separate monetary institutions and potentially divergent monetary policies may have on the Common Market is difficult to predict, but it is likely that administration of the Common Market will become more difficult, especially in the somewhat strained circumstances that now prevail.

II. THE EAST AFRICAN COMMON SERVICES ORGANIZATION (EACSO)

4. EACSO succeeded the East Africa High Commission in 1961. It provides for all three East African countries certain services, mainly in the fields of transport and communications. The responsibility for the general policy

^{1/} This brief covers matters of common concern to all three East African countries. See separate briefing papers on Kenya, Tanzania and Uganda on developments in each country.

of EACSO rests with the Common Services Authority (EACSA) which consists of the three chief executives (Presidents of Kenya and Tanzania and Prime Minister of Uganda). Several Ministerial Committees and a Central Legislative Assembly, all with equal national representation, are responsible for formulating policies applicable to each of the common transport and communications services and to various financial, industrial, trade and research activities of EACSO.

5. The most prominent common services are the financially "self-contained" East African Railways and Harbours administration (EAR&H), and East African Posts and Telecommunications administration (EAP&T). The East African Airways Corporation will soon become a full-fledged EACSO body and a common shipping line is being established. There is also a variety of "non-self-contained" services financed from the General Fund of EACSO, which is formed by annual budgetary contributions by the three East African countries. These services include collection of import, excise and income taxes; compilation of meteorological reports; and a wide range of regional research activities. Under a 1961 "Raisman formula", each East African country's net benefit from or net contribution to EACSO's General Fund roughly balances its net contribution to or net benefit from the Common Market. Any change in the distributive effects of one institution tends to create a demand for compensatory changes in the distributive effects of the other. Following the restriction of some imports from Kenya, the Kenya Government has notified the Governments of Tanzania and Uganda that it would no longer wish to contribute some 50% of the EACSO General Fund. Discussions on this matter, probably together with a reviewing of the trade matters, will take place in the near future. In their meeting in Nairobi in August, the three East African leaders have announced their decision to strengthen EACSO. They agreed to guarantee (on a joint and several basis) the Bank loan of \$38 million to EACSA, which includes a covenant on the maintenance of EACSO as presently constituted.

6. It is difficult to predict at this time the future of EACSO with any degree of accuracy. Although the Common Market and EACSO are two distinct entities, if the Common Market has to disappear completely over the next few years, there would be consequential changes in EACSO. It is likely, however, that EACSO's "self-contained" administrations (EAR&H and EAP&T) would be the last entities to be dismantled.

III. BANK/IDA LENDING PROSPECTS (EAST AFRICAN PROJECTS)

7. (a) Bank Loans as of July 31, 1965:

<u>Date</u>	<u>Borrower</u>	<u>Guarantors</u>	<u>Purpose</u>	<u>Amount (\$ million)</u>
1955	East African High Commission (EACSA)	U.K., Kenya, Tan- zanian, Uganda	Railways and harbors	24.0
Total (net of cancellations and refundings)				24.0
of which has been repaid				8.9
Total now outstanding				15.1
Amount sold		23.8		
of which has been repaid		8.8		15.0
Net amount now held by Bank				.1

- (b) Lending Prospects: As far as Bank/IDA operations are concerned, all three East African countries are classified as "soft blend" countries. As a matter of convenience, we have been reserving their limited margin of creditworthiness for Bank lending for EACSO projects, leaving - at least for the time being - national projects for consideration for IDA lending.
- (1) Railways and harbors: Our loan of \$38 million to EACSO for East Africa Railways and Harbours administration's 3-year (1965-67) program for renewal and expansion of its locomotive and rolling stock fleets and other equipment is expected to be ready for signing during the Annual Meeting. It would be highly desirable to organise a signing with the three Finance Ministers.
- (2) Telecommunications: The project, which involves a Bank loan of \$8-9 million to help finance the East African Posts and Telecommunications administration's \$21 million, 1966-70 development program will be appraised in October. It appears to be a suitable project. Our appraisal of it has been delayed, pending the East African Government's acceptance of the terms of the railway loan, which will provide the general pattern for the proposed telecommunications project lending.
- (3) The East African University: At the 1964 Annual Meeting, the East African delegations raised the question of possible Bank/IDA finance for the East African University which consists of national institutions of higher education in Uganda, Kenya and Tanzania. Our response was to defer consideration of lending for a "general" university for at least a year or two, pending the formulation of firm Bank/IDA lending policies in the education field. As a part of the recent East African Common Market crisis, the Uganda Government has asked for the dismantling of the East African University, as a result of its dissatisfaction with the present disparity among the three countries in the receipt of development funds for various constituent elements of the University. The future of the University now seems at stake and it is not very likely that the question of Bank/IDA lending for it will come up at this time.
- (c) Proposal for a Bank-sponsored East African Consultative Group: The three East African countries, with their reasonably good development potential and fairly sound development planning, have been attracting development assistance by the Bank's major capital exporting member countries. A DAC Coordinating Group for East Africa has been in existence for a year or so, but its activities have been seriously handicapped by a lack

of adequate supporting economic and project studies. In the course of the last year, DAC Coordinating Group has made useful studies on problems of external assistance and development planning in East Africa and arranged a conference to achieve some uniformity in the general terms of employment for foreign technical assistance experts in East Africa.

The main donor countries for East Africa have recently expressed their preference for a Bank-sponsored Consultative Group for East Africa. Mr. Woods has addressed similar letters to the three East African Finance Ministers on July 28, 1965, proposing to have an exchange of views with them on this proposal during the Annual Meeting and inviting them to let him know before the meeting if they have any particular views or suggestions (the form of Mr. Woods' letter is reproduced - without the enclosure - in the Annex attached). The Kenya Government expressed active interest in discussing the proposal during the Annual Meeting.

From the East African Governments' point of view, the proposed Consultative Group will probably be welcome if it can contribute to a greater flow of external aid to the region and, in particular, to each country concerned. As far as we know, the Kenya Government is clearly in favor of the proposal, while Tanzania and Uganda would probably be in favor of separate consultative machinery for each country. All three countries would, presumably, agree on the usefulness of a Consultative Group for EACSO projects, but the scope offered by EACSO projects would be limited and could easily be handled on an ad hoc basis. An obvious solution would be one Consultative Group for East Africa, but separate sessions for EACSO (including also points of common concern for all three East African countries) and each of the individual countries. This or any other alternative will require exploration with both the East African countries and major donor countries. For a free exchange of views during the Annual Meeting, it is advisable that each of the three Finance Ministers should be approached separately on the Consultative Group proposal, to be followed by a joint meeting if the earlier discussions justify it.

- (d) Possible Bank Assistance on Basic Policies on future Economic Cooperation in East Africa: When the East African Common Market was on the verge of collapse last year, the Bank had made tentative arrangements with Lord Caradon (then Sir Hugh Foot) on a conciliatory mission to East Africa. The East African countries soon reached agreement between themselves (the Kampala Agreement) and there has been no need for any Bank role.

During the present crisis on currency and the Common Market issues, there has been no direct or indirect East African suggestions for a possible Bank role (except

probably some suggestions by Western observers in East Africa). The IMF has been consulted on the currency issue and will be helping the three countries in setting up their separate central banks. On the Common Market and the EACSO issues (see paragraphs 2-5 above), there is a need for a sober analysis of all economic and financial factors involved, with a view to recommending a workable basis for a continuing economic cooperation between the three countries. In a meeting on August 31, 1965, the three East African leaders agreed to set up a 10-men commission, consisting of three representatives from each country and a chairman from outside East Africa, to review all outstanding matters concerning future economic cooperation in East Africa and to recommend for approval by the three leaders comprehensive proposals on all outstanding matters. There is a possibility that the Bank would be asked to recommend an impartial chairman for this commission.

To strengthen East African economic cooperation, the Bank's assistance may be of significance and if the question comes up during the Annual Meeting, the Bank should be forthcoming in offering assistance, subject to a careful study of the best way of rendering such assistance.

IV. I.F.C.

8. Early in 1965, IFC was approached by the Aga Khan interests for a possible participation in the Industrial Promotion Service (IPS) companies operating in East Africa. After learning that the Governments involved would prefer that any initial investment by IFC should be in institutions having a broad and diversified ownership base, instead of being sponsored by a single community, IFC informed the sponsors it could not participate.

July 28, 1965

His Excellency
Paul Bomani
Minister of Finance
Dar es Salaam
The United Republic of Tanzania

Dear Mr. Minister:

The Bank and the International Development Association have for some time been active in helping to promote the economic development of the three East African countries and I look forward to seeing a significant increase in our lending and technical assistance activities in the region in the near future. The recent establishment of our Permanent Mission for Eastern Africa, I am sure, will enable us to assist the East African governments in the preparation of high-priority developmental projects for possible financial assistance by the Bank or IDA. Several of our member countries have also been actively engaged in financial and technical assistance activities in East Africa, and some of them have recently suggested that the Bank should take an active role in helping to coordinate their and its own aid programs in the region by setting up a Consultative Group.

The purpose of the proposed aid coordination would be to provide a framework in which the aid-giving countries and the Bank/IDA can better assess the development potential, performance and aid requirements of each country concerned, adapt the character and terms of their aid to each country's special circumstances, and identify and attend to its priority needs. The proposed Consultative Group would also provide a forum in which the aid-giving countries can discuss among themselves and with each recipient country the terms of aid appropriate for that country's financial position. I enclose a copy of a paper which sets forth in general terms the Bank's proposed approach with regard to aid coordination groups, which I believe you will find of interest. Obviously, the approach described in this paper will have to be adapted to the circumstances of particular countries. As you know, a coordinating group for East Africa was set up about two years ago under the auspices of the Development Assistance Committee (DAC) of OEEC, and has played a useful role in channelling to East Africa some aid from OEEC member governments. The present proposal envisages that, if the Bank assumes responsibility for the coordination of aid to East Africa, the coordinating function of DAC would be transferred to us.

I would think that a Consultative Group for East Africa would be very useful in helping to direct available aid to the most urgent projects and would bring about more effectively external support for the development efforts of the three East African governments. While we have yet to consider the present proposal in all of its aspects, I can say that we would, in principle, be willing to assume this responsibility if all parties concerned wish us to do so.

We have had so far some tentative discussions with aid-giving countries and with DAC officials; but, before taking any definitive steps towards organizing a Consultative Group for East Africa, I feel that the proposal should first be discussed with each of the three East African governments. I am sure that you would like to give careful consideration to this proposal, and I suggest that the Bank's coming Annual Meeting in Washington will be a most suitable occasion for a full exchange of views with you on this matter. In the meantime, I would be interested in hearing from you if you have any particular views or suggestions concerning the proposed discussions, including their timing, or on the proposal itself.

I am addressing similar letters to His Excellency G.S. Gichuru and His Excellency L. Kalule Settala.

Sincerely yours,

George D. Woods

CONFIDENTIAL

September 14, 1965

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APR 25 2012

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BRIEFING PAPERS - 1965

ETHIOPIA

I. Meeting with Delegation:

11:30 - Tuesday, Sept. 21 (tentative) - Africa Department
10:30 - Friday, Sept. 24 (tentative) - Mr. J. Burke Knapp

II. Members of Delegation:

Yilma DERESSA (B-F)
Minister of Finance

Bulcha DEMEKSA, Adviser
Director General, Budget Dept.
Ministry of Finance

Menasse LEMMA (F)
Governor, National Bank of Ethiopia

Stanislaw KIRKOR, Adviser
Ministry of Finance

Yawand-Wossen MANGASHA (F)
Vice Governor,
National Bank of Ethiopia

Damte ASFAW, Adviser

III. Bank/IDA Prospective Operations:

(a) Telecommunications

A third Bank loan to the Imperial Board of Telecommunications (IBTE) has been under discussion since June 1964. Loan documents covering a proposed loan of US\$ 5.6 million were negotiated in February/March 1965. The Minister of Finance thereafter announced that he planned to introduce amendments to IBTE's Charter to provide for payment of taxes and dividends. Since the financing plan on which the Bank's loan was based assumed no such payments during the construction period, the Bank informed the Minister that it could not accept the proposed amendments without an overall review of IBTE's future financial situation. The minister has, reluctantly, accepted the Bank's position. Another problem has been IBTE's request to include in the amount of the loan US\$ 1 million for the new Addis Ababa central exchange, for which a contract had already been concluded with Ericsson, Sweden, without international bidding. We have insisted that the amount of the proposed loan be reduced by US\$ 1 million and suggested that IBTE renegotiate with Ericsson the terms of the contract. Finally, IBTE has yet to implement improvements in its accounting system - as recommended by the auditors - although the Bank has strongly advised them to do so at an early date. Newly submitted financial data were reviewed in Ethiopia mid-September.

(b) Education

An Appraisal Mission in April/May recommended assistance of US\$ 6 million to a secondary and vocational education project, the total cost of which is estimated at US\$ 10.2 million. The Government is seeking a larger credit. The report is under consideration, with negotiations possible before the end of the year.

(c) Agricultural Credit

The Bank has agreed to send a mission in October 1965 to advise the Government on the establishment of an agricultural credit institution. The mission will assist the Government in the preparation of a suitable agricultural project for which financial assistance could be rendered.

IV Background Information:

(a) Bank Loans as of July 31, 1965

				US \$ Million
<u>Year</u>	<u>Borrower</u>	<u>Project or Purpose</u>	<u>Amount Less Cancellations</u>	<u>Undisbursed Balance</u>
1950	Ethiopia	Highway Rehabilitation	5.0	0.0
1950	Ethiopia	Development Bank	2.0	0.0
1951	Ethiopia	Telecommunications	1.5	0.0
1957	Ethiopia	Highway Construction and Improvement	15.0	0.0
1961	Dev. Bank of Ethiopia	Development of Agriculture and Industry	2.0	0.4
1962	IBTE	Telecommunications	2.9	0.4
1963	EELPA	Electric Power	23.5	19.3
Total			51.9	20.1
of which has been repaid			5.7	
Total now outstanding			46.2	
Amount sold			3.2	
of which has been repaid			1.5	1.7
Net amount held by Bank			44.5	

(b) IDA Credits as of July 31, 1965

1963	IHA	Ethiopia Highway Construction and Improvement	13.5	3.8
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V Topics for Discussion:

(a) To be Raised by Bank at Staff Level

(i) Revision List of Goods, Third Highway Credit (35/ET) in view of increased cost of asphalt program and of consultants' services. The credit amount (\$13.5) is insufficient to cover the expenditures for which the Borrower is seeking allocation of funds.

(ii) Steps taken to expedite construction schedule for power station (Awash II) financed with Bank Loan 375/ET (US \$23.5 million).

- (b) To be Raised by Bank at Meeting with President or Vice President

None

- (c) Likely to be Raised by Delegation

- (i) Proposals to introduce tax and dividend provisions in IBTE Charter

We should confirm our position that Bank does not object to such payments in principle but that introduction during current investment program would jeopardize IBTE's ability to help finance it. Bank would be prepared to consider in light of IBTE's future financial position.

- (ii) Increase in IDA's share in financing Education Project (See III(b))

Proposed IDA Credit would finance 60% of the project cost. We consider Government should make an effort to provide the balance as well as face up to recurrent costs of the project.

- (iii) Agricultural Development in Awash Valley

A UNSF/FAO survey report to be completed shortly will recommend development of large scale agriculture in Middle-Awash. A total area of about 350,000 acres is involved; development is estimated to cost about Eth.\$110 million (= US \$44 million). The Bank should be willing to consider this project, once the FAO report has been made available by the Government.

- (iv) Financing of Cadastral Survey

During 1965 the Government asked the Bank to finance the cost of a (FAO-recommended) cadastral survey in connection with planned land reform. The total amount requested was about US \$5 million over five years, mainly for administrative expenditures and cost of services. We should reconfirm our position that the very low investment costs involved make the project ineligible for loan financing and that the amount is too large for the Bank's technical assistance program. This project can best be handled by UNSF.

- (v) Joint Financing with AID of Finchaa Power Project

A feasibility study financed by AID reportedly indicates the feasibility of a 100-MW hydro-electric station on the Finchaa River. Total cost estimated at \$23 million if put to international tender but \$26.5 million if procured in U.S. AID hopes for joint financing and delegation may request it.

We would be prepared to consider project after completion of the AID study but would wish to take account of other possible locations, e.g., (Awash IV), but we would reserve our position on joint financing as the AID funds will be tied.

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Not applicable

(e) Bank 9% Capital Subscription

\$0.9 million; entire amount paid and lent in dollars.

(f) IDA Subscription

\$450,000; no release requested or made.

(g) Holdings of World Bank Bonds

\$1.0 million

(h) IFC

(i) Cotton Company of Ethiopia; total investment
\$2.5 million

(ii) Ethiopian Pulp and Paper Share Company; maximum
underwriting commitment \$1.7 million.

V Political Situation

In the past year an attempt seems to have been made by a group of officers to overthrow the Government. Though quickly and ruthlessly suppressed, it was like the recent defection of Ethiopia's ambassador in the U.S.A., another sign of dissatisfaction with an autocratic regime and rather slow progress in development.

Though fighting on the Ethiopia-Somalia border appears to have stopped in the past year a solution for this problem has not yet been found.

Accusations that Sudan was accommodating Eritrean dissidents and supplying them with weapons created strained relations although recent official Sudanese denials have eased the tension.

Ethiopia continues to adhere to a neutral position between East and West and to stand as a promotor of African unity.

VI Economic Situation

GNP per capita:	US \$43
Population:	21 million (rough estimate)
Foreign Exchange Reserves:	US \$75 million per June 30, 1965

Ethiopia is a very poor country with a considerable economic potential. Mineral potential is far from being fully explored, while agricultural resources are potentially among the best in Africa. Institutional factors are perhaps a more important handicap than in most other African countries.

Economic growth has been accelerated, according to official estimates, from around 2.5% in the first postwar decade to around 3.4% during the last five years. The government has played a large role in the economy in the past as a result, in part, of the lack of private Ethiopian entrepreneurs and private local capital formation. Most recently the government has shown greater interest in attracting foreign private capital. Up to now there has been very little inflation in Ethiopia, mainly due to prudent financial and credit policies.

Ethiopia's debt record is excellent. Ethiopia appears credit-worthy to service limited additional debt on conventional terms.

Since the outlook is for an increase in capital requirements exceeding the probable limit of Ethiopian capacity to service debt on conventional terms, it is recommended that Ethiopia receive additional credits on non-conventional terms.

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BRIEFING PAPER 1965

I. MEETING WITH DELEGATION

Mr. Woods - September 22nd, 3:00 P.M. for Minister of Finance.

II. MEMBERS OF DELEGATION

Andre Gustave Anguile	Minister of State without portfolio
Daniel Nna EKamkam	Minister of Economy, Planning & Mines
Claude Panouillot	Director General Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroon, Paris

III. BANK/IDA PROSPECTIVE OPERATIONS

As a result of the completion of the technical study of the Mekambo railroad, discussions have commenced with the Government and Somifer with respect to the proposed exploitation of the Mekambo iron ore deposits. Total cost of the investment (port, railroad and mine) is estimated at about \$280 million. Somifer is prepared to finance its share of the project and to start operation in 1974 on the basis of an annual production of 5 million tons of iron ore instead of 10 million tons as originally projected, a level of production which, in Somifer's opinion, might have too serious adverse effects on the world market. However, shipments of 5 million tons may not provide an adequate justification for the railroad part of the project which the Government is expected to carry out with external financing.

Included in a road construction loan made by the Bank in 1964 is the financing of feasibility studies of additional roads and of river port facilities which may lead to future projects.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

On the occasion of a Bank mission in mid 1965 preliminary discussions were held concerning an education project in Gabon. The Government was told that it would probably not be possible to intervene in Gabon with IDA credits, and for that reason was not eager to pursue the matter. The Projects Department found promising indications for a possible education project following a study which has been transmitted to us on a confidential basis, we might reopen discussions on this subject.

(b) To be raised at meeting with President and Vice President:

None.

(c) Likely to be raised by delegation:

Financing of the Mekambo project. The government has requested the Bank to organize a consortium of possible lending. We should say that while we are prepared in principle to consider making a loan and coordinating the other sources of finance, our decision will be made on the basis of a detailed examination of the mining, as well as the transport, aspects of the project and after consultation with other possible lenders. We should also indicate that we would find it difficult to finance a project which would not provide an adequate return, even if all the financing should be made on conventional terms.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

Date	Borrower	Purpose	Amount (\$ Million)
1959	COMILOG	Manganese Ore Mining	35.0
1964	Republic of Gabon	Road Project	<u>12.0</u>
Total (Net of cancellation and refundings)			47.0
Of which has been repaid			<u>5.7</u>
Total now outstanding			<u>41.3</u>
Amount Sold			21.1
Of which has been repaid			<u>3.4</u>
Net Amount now held by Bank			17.7
			<u>23.6</u>

(b) IDA Credits as of July 31, 1965.

None.

(c) Technical Assistance Activities

The U.N. Special Fund is financing technical and economic studies of the transportation part of Mekambo iron ore (See III.) The U.N. Special Fund has allocated US\$2,092,000 to the study, which is estimated will take about two years. The Bank is acting as Executing Agency. The Plan of Operation was signed in June 1963.

Foley Brothers, a New York consulting firm, has completed the technical study. SEDES, a consulting firm of Paris expects to have completed the economic studies in September.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$900,000. Entire 9% released in annual installments of \$180,000 through January 1, 1970, convertible into any currency.

(f) IDA Subscription

\$450,000 , no release.

(g) Holding of World Bank Bonds

None.

(h) IFC

In 1964 IFC was asked by the Director General of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (Mr. Panouillot) whether it would consider assisting a predominantly private development finance company operating in Cameroun, the Central African Republic, Chad, Congo (Brazzaville) and Gabon. In January 1965, following a conference of the heads of state of these countries, Mr. Woods was asked whether IDA could assist a regional development financing institution. Mr. Woods expressed willingness to explore cooperation between the Bank family with such an institution, but doubt about direct financial assistance. Subsequently, we learned from Mr. Panouillot that the latter had urged that private capital be brought in to the institution proposed by the heads of state, but that they had decided that it should be a governmental institution.

VI. POLITICAL SITUATION

Gabon became independent in August 1960. A new constitution in February 1961 established a presidential type regime, with Leon M'Ba as President. It seemed for some time that the regime was gradually moving toward one party domination. In February 1964, a military coup d'etat established a revolutionary government with Mr. Aubame, leader of the opposition, as Chief of Government. However, this lasted for only one day and President Leon M'Ba took power once again after the military rebels were subdued by French forces. During the following month, unrest developed in the country and in the elections of April 1964 opposition lists won 16 seats and the BDG, Leon M'Ba's political party, 31 seats. The situation now

appears to be almost completely stabilized.

The most important political personalities are:

Leon M'Ba, President of the Republic and Chief of Government

Paul-Marie Yembit, Vice President of the Government.

Andre-Gustave Anguille, Minister of State

Daniel Nna Ekamkam, Minister of National Economy, Plan and Mines

Paul Malekou, Minister of Labor and Social Affairs (the Representative of the opposition in the new Government)

Leonard Badinga, Minister of Finance

VII. ECONOMIC SITUATION

Population: 450,000

GNP per capita: \$180

Agriculture is primarily subsistence farming. Lumber has long been the basis of Gabon's economy and still accounts for over 50% of all exports. Gabon is the world's principal exporter of koumbe (raw material for plywood). A constantly growing contribution to the economy of the country is derived from Gabon's mineral resources. Maganese production and oil fields are both expected to produce, in 1965, over one million tons of ore and oil respectively. It is likely that output will continue to grow. In the oil sector this will be mainly due to the entering into production of off-shore oil fields.

Although the Government is making a serious effort to introduce local population into the monetary economy, by far the largest part of the population is still active in the subsistence agricultural sector where production and income are very low and where the benefits of the developing economy penetrate through stabilized prices for agricultural export products.

The financial position of the country is sound. Economic and financial policies remain rather conservative. Gabon relies on external aid, mainly from France and EEC, for a part of its capital expenditures. However, the current budget has consistently shown a surplus which is allocated to financing public investment.

Gabon is a member of the franc area and shares a monetary system with Cameroon, Chad, Congo (Brazzaville) and the C.A.R. One central bank in Paris issues the CFA franc (1 CFA franc = 0.02 French francs

= 0.4 U.S. Cents). Gabon is also a member of the Equatorial African Customs Union and belongs to the group of African countries associated with EEC.

Gabon's external debt service absorbs slightly over 1.5% of Government revenues and slightly over one-half of 1% of net export income. This factor and the country's good economic prospects qualify it for loans on conventional terms. However, debt will be increased in the coming years as new obligations are undertaken.

~~August 17, 1965~~

CHANA

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September 23, 1965

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GHANA

I. MEETING WITH DELEGATION

Mr. Woods, Mr. Knapp, Mr. Friedman
Africa Department

Sunday, September 26 3:30 p.m.
Monday, October 4 10:30 a.m.

II. MEMBERS OF DELEGATION

Mr. K. Amoako-Atta
Mr. Albert Adomakoh
Mr. Samuel Arthur (Temp.)

Minister of Finance
Governor, Bank of Ghana
Principal Secretary (Budget),
Ministry of Finance

Advisers

Mr. E.P.L. Gyampoh
Mr. B. K. Mensah
Mr. A.E.K. Ashiabor
Mr. John Orleans-Lindsay
H.E. Miguel Augustus Ribeiro

Managing Director, National
Investment Bank
Principal Assistant Secretary,
Ministry of Finance
Principal Assistant Secretary,
Ministry of Finance
Research Economist, Bank of Ghana
Ambassador of Ghana

III. BANK/IDA PROSPECTIVE OPERATIONS

Until Ghana takes effective steps to stabilize and is in a position to negotiate rescheduling the present short and medium term debt, Bank and IDA lending are excluded on grounds of uncreditworthiness and bad performance. There is more hope than there was, say, six months ago that Ghana is prepared to rethink at least some of its policies and to improve its practices. In these circumstances, the Bank has every interest in doing all that is possible to push, encourage and help Ghana to get its house in order. There is in fact everything to gain (including the protection of the whole Volta investment) and nothing to lose. There will, however, be a very tricky problem of judgment, of measuring how far Ghana has gone and is still willing to go, and how far and fast the Bank should itself go at any given stage.

The Economic Mission will be reassembling in Washington during the week of September 27 and hopes to complete a draft report for transmittal by Mr. Woods to President N'Krumah by the end of November to be followed by detailed discussion in Ghana.

The mission's preliminary general conclusions (see VI and VII below) have been discussed extensively in Ghana with the President, interested ministries and agencies, with attention closely focussed on immediate steps required in connection with consolidation, on the need to consolidate on the development front as well as on the financial front and the impossibility of doing one without the other.

In talking to the President, the mission concentrated heavily on the need for him to throw in his full authority not only if the immediate situation is to be overcome but if the whole Seven Year Plan is to be saved, and to concentrate responsibility for implementation in the hands of the Governor of the Bank of Ghana, the Minister of Finance and the Chairman of the Planning Commission. This urging met an encouraging response.

The Government has been told that stabilization and rethinking development on a realistic basis would not only secure present gains and lead to the possibility of greater gains in the future, but could reasonably be expected to open the way to support from international agencies and friendly governments. The Government was also told that without necessarily waiting until the consolidation program had advanced to the point at which Bank lending could be resumed, the Bank would be willing to help identify and prepare new projects that would in due course qualify for Bank lending.

The full report will present the first thorough analysis of what investment has in fact taken place in recent years and the first serious analysis of the relationship between investment, the public finances and the balance of payments. It will set out in as much detail as practicable the immediate improvements that can be made, often at minor cost, and the criteria to be applied in investment decisions. The mission will also report to the Bank on the areas in which possible projects could be worked up. At first sight these are power distribution, roads, water supply and possibly education.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

On return of Mission, continued discussions as appropriate of mission findings. Preliminary discussions on possible project identification and preparation.

(b) To be raised by Bank at meeting with President:

See (c) below.

(c) Likely to be raised by delegation:

The Minister of Finance is likely to argue

(i) that if the international organizations want to see Ghana consolidate, they should commit themselves firmly now to support Ghana;

(ii) that the international organizations should accept Ghana's request to take the lead in debt renegotiations.

While maintaining a constructive posture, it is essential to get across to the Minister of Finance that it is up to Ghana to take sufficient steps to convince Bank and Fund and other government that there is a real chance of stabilization and by the same token put Ghana in a reasonable negotiating position with existing creditors. An essential condition of both is that no more suppliers credits be signed until the existing credits are renegotiated.

The Governor of the Central Bank is well aware that it is up to Ghana to act decisively before expecting help: on the other hand, he is the one who is immediately up against a wall and has got to go all out for short term accommodation to buy time while effective steps can be put in hand. If he is by any chance head of the delegation, a much more positive approach would be warranted without danger of overcommitting the Bank.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	U.S.\$ million	
			Amount less Cancellation	Undisbursed Balance
1962	Volta River Authority	Volta River Project	47.0	13.2
		of which has been repaid	-	
		Total outstanding	47.0	
		Amount sold	-	
		of which has been repaid	-	
		Net amount held by Bank	47.0	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$4.2 million. The original \$2.7 million has been completely released, convertible into any currency. The additional \$1.5 million has not yet been released. There is no point in requesting it at this time.

(f) IDA Subscription

Part II member - \$9.124 million - no release. Not timely to press for use of 90 percent.

(g) Holdings of Bank Bonds

U.S. \$0.78

(h) I.F.C.

Member.

VI. POLITICAL SITUATION

Although his fear of assassination has possibly abated somewhat, and virtually all potential opposition has been systematically weeded out or discredited, the President was profoundly shaken by the fall of Ben Bella, to which he reacted by changing his own defense chief and assuming direct control of the armed forces. But the price of security for the President has been an ineffectual government. The cabinet is a careful blend of tendencies, some of them quite extremist. It contains few really effective figures and virtually none who are prepared to tell the full truth or give disinterested advice. Further, few ministers are members of the Party central committee, where real political influence lies. While sole authority is concentrated in the President's hands, executive responsibility is highly fragmented and dispersed among a continually increasing number of ministries and agencies. The consequential loss of coordination and even of communication of essential information has had damaging effects on economic and financial performance.

The President's main preoccupation remains foreign policy in its broadest sense, but he is slowly becoming aware of the dangers to himself and to Ghana building up on the economic front. He had accepted the IMF recommendations on what is required for stabilization, without comprehending their severity, but now appears to have followed the strong urging of the Bank mission, first to assume direct responsibility for the stabilization program and the related review of the Seven Year Plan and, secondly, to concentrate executive responsibility for the program in the hands of the Governor of the Central Bank, the Minister of Finance and the Chairman of the Planning Commission, with a small staff from all three agencies. He has added to what is called the "Finance Committee" his Economic Adviser, Ayah Kumi.

Ayah Kumi, business man in the broadest sense, despises the whole idea of the state enterprises, but has made a fortune out of their financial arrangements. His presence on the Finance Committee was inevitable but unfortunate in view of his close association with the past. However, he is shrewd enough not to cook the goose that lays his golden eggs and can probably be counted on as an enthusiastic, if short term, stabilizer.

The former Governor of the Central Bank, the ineffectual and less than straightforward Mr. Halm, responsible for a number of highly disadvantageous commercial and credit arrangements, was replaced in August by Albert Adomakoh, the honest and courageous managing director of the National Investment Bank (of which he remains chairman).

The Minister of Finance, who cuts no political ice in Ghana, remains a schizophrenic socialist and xenophobe with an unexpected capacity for facing, if not always willingly accepting, facts. He has toughly raised taxes and argued strongly in favor of the recent cut in cocoa prices to the farmers. While he recognizes that the present

economic situation is serious, that the budget deficit must be cut, he is out of his depth and freely blames his colleagues and deplors his lack of influence over them. Unfortunately he, too, has now been caught in the suppliers credit mesh, has signed credits for another £19 million since the IMF mission recommended an immediate halt for the time being in May and obviously has strong reasons for not seeing the need to desist. He and Adomakoh have differed bitterly in the past because of the latter's refusal to see the Development Bank finance state enterprises he thought were not sound. In the short run their views on stabilization may generally overlap, but they are essentially incompatible. There is some reason to believe that Amoaka-Atta has lost the President's confidence, that he is in any case regarded as not being the man to lead negotiations with the Fund and Western creditor countries. It is just possible that he may not come to Washington from the Commonwealth Finance Ministers' conference. If he does, he may not be in charge of the delegation. If he is, he may still be replaced soon after his return.

The new Chairman of the Planning Commission, Botsio, is the Mikoyan of Ghana, one of the very few surviving early associates of the President. A durable politician, formerly Foreign Minister, with no particular experience in finance or economics, he is clearly aware that something has gone dangerously wrong with the regime and is probably best placed to handle the party diehards who argue that the whole thing is a neo-colonialist, capitalist conspiracy.

VII. THE ECONOMIC SITUATION

Despite its considerable potential, great development drive and remarkable fiscal effort, Ghana's growth rate in recent years has been disappointing: Ghana has probably spent, in proportion, more on development than any other country in Africa and has less to show for it than many others less well placed and spending less. Not only has performance been poor, but Ghana is close to a major crisis.

In recent years, the principal test of economic progress has been the rate of spending on all fronts -- social services, defense, development -- rather than the results. The President has a personal fixation in this respect and last year personally ordered a budget of £200 million. Concentration on how much is being spent has become all the more dangerous in that the Ministry of Finance, the Bank of Ghana and the Planning Commission have all been working on incomplete and frequently inconsistent data. Despite a very substantial tax effort (about 20% of GNP), Ghana has financed even higher spending only by drawing exchange reserves down to the vanishing point, printing large quantities of money and borrowing extensively abroad on increasingly unfavorable terms.

The fall in cocoa prices has been offset up to now by the very rapid increase in volume over the last two years (itself a major factor

in the price break). While Ghana's exchange reserves would, of course, have been much healthier if prices had not fallen, the price break was not itself a cause of present difficulties. (Because cocoa prices paid to the farmers had been kept at an unrealistic level for too long, the immediate effect of the price break was a rapid liquidation of the Cocoa Marketing Board's reserves.) The major disservice of the price break, which will have serious consequences from now on, has been to divert attention from Ghana's own responsibility for its own troubles.

These troubles result essentially from acute overstrain. On the development front, too many projects have been undertaken too fast. Some were badly chosen in the first place, many inadequately prepared, inadequately supervised, inadequately managed and financed on wholly inappropriate terms. In every sector there are instances of projects stalled by lack of spare parts or raw materials or good management and sometimes of all at once.

The Central Bank's disposable foreign exchange assets, net of commercial bank's foreign liabilities, are down to less than £2 million. By the end of December, the Central Bank estimates its cumulative net foreign exchange shortfall at £12 million. The mission tentatively estimates foreign exchange earnings in 1966 at about £120 million, compared to £136 million in 1965 and £123 million in 1964. Higher debt service will reduce the amount available to cover imports (other than those that may be financed by new foreign credits) from about £90 million in 1965 to something of the order of £65 million, an amount far below the value of import licenses currently being issued and well below Ghana's import needs.

Short and medium term debt outstanding is in excess of £200 million (the mission will produce a precise figures). Unless the debt be rescheduled, interest and principal payments in the next four years will total £130 million, nearly a quarter of probable foreign exchange earnings in each year.

In 1965, the budget will have generated a cash surplus available for development expenditures of the order of £38 million: in 1966, unless heavy cuts are made in expenditures, this surplus may well be halved, due mainly to loss of taxes on cocoa and lower customs receipts, as dutiable imports drop sharply.

The Government talks as if fully committed to implementing the Fund mission's recommendations on the content of a stabilization program ("consolidation" is the preferred word in Ghana). But

- (i) total spending continues unchecked;
- (ii) additional suppliers credits of £19 million have been entered into since the Fund mission was in Ghana in May;

- (iii) the key agencies have barely started the basic homework required for a stabilization program (e.g. a thorough scrutiny of departments' expenditure estimates, of what projects are actually in hand and about to be started, of the rate of utilization of suppliers credits against their repayment, of the level and composition of imports against realistic estimates of foreign exchange receipts;
- (iv) the key directives have not yet been given and the key ministries and agencies are still working on unrealistic and mutually inconsistent assumptions about, for example, budget possibilities, the level of investment and the availability of foreign exchange.

On the positive side, the cocoa price to farmers has been cut and taxes have been further increased, both politically difficult actions. The Governor of the Central Bank, after four weeks in office, has completed an inventory of foreign exchange assets and liabilities of commercial and suppliers' credits obligations and of banking system lending to the public sector. He has given this to the President, probably the first time a complete and honest account has been made and submitted. The new Chairman of the Planning Commission has also come to realize the need to put his staff onto stocktaking, rather than planning for 1966 in a vacuum. The Minister of Finance has started to work on consolidation measures according to his understanding of the Fund's recommendations. Perhaps the most important step forward is the fact noted in the "Political Situation" that the President has constituted an economic defense staff to take charge of stabilization and work out coherent policies for the government as a whole. He has begun to recognize that Ghana has had poor value for money, that the results, rather than the amount spent, are important and that Ghana will have to cut its coat according to the shrinking cloth.

If there is a slightly better chance than there was some months ago that Ghana may pull through, the odds are still not good. The civil service, still able at the top, although generally demoralized, will be strained to the limit to work out the details of a program. The political decisions on limiting expenditure and then holding it within bonds will be very painful. The President's capacity for periodic "folies de grandeur" is fundamental and cannot be changed and he is surrounded and shielded by advisers bent on discrediting any western or international advice. On the other hand, he has agreed to concentrate responsibility for economic affairs in the essential hands and is now beginning to get the hard facts put before him.

Paradoxically perhaps, the economic situation is favorable to consolidation in that there is ample scope for a year or two for obtaining higher output in a number of areas while spending less. This could be possible by concentrating on getting output from projects that are stalled or producing under capacity because they lack raw materials, spare parts and effective management, by concentrating, too, on finishing rather than starting. Moreover, there are now some areas, e.g. ports and railways, where little or no further new investment will be required for some time. With between a third and a half of vehicles off the road for lack of spares, a relatively small investment in spares and workshop equipment could give a large increase in transport capacity.

An essential condition is that Ghana be able to finance the minimum necessary level of imports required in 1966 to keep the economy running. The allocation of foreign exchange could be greatly improved through being based on a more realistic appraisal of spare part and raw material requirements. However, at the likely level of cocoa prices, and unless there is an early and substantial debt rescheduling, Ghana's own foreign exchange receipts available after interest and principal payments on commercial, short and medium debt appear insufficient to maintain the minimum level of imports required and the reserve position leave no room for maneuver. If Ghana takes the minimum essential steps towards stabilization (and that means much more than she has done now), the situation calls for a rapid injection of funds by both IMF and friendly governments. These funds must, however, be provided on conditions that maintain full pressure on Ghana to continue with a full stabilization program that may easily require two years to achieve.

During these two years, a thorough review of the development plan and development policies should be carried out along lines to be recommended by the Economic Mission and the Bank should help Ghana in the identification and preparation of high priority projects. If Ghana does stabilize effectively, but long terms funds are not then quickly forthcoming, Ghana will be unable to resist the pressure to rely again on a large volume of suppliers credits. It is therefore essential that project preparation be pushed forward parallel with stabilization so that long term financing from the Bank/IDA and bilateral sources can be made available quickly as soon as the overall position permits.

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A special brief or memorandum will be made on the return of the mission from Ghana.

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September 15, 1965

BRIEFING PAPER - 1965

GUINEA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Moussa DIAKITE

Minister of Foreign Commerce and
Banks, and, Governor, Banque
Centrale de la République de Guinée

N'Faly SANGARE

Director of Issue and Credit,
Banque Centrale de la République
de Guinée

Baba Hady THIAM

Director, Banque Guinéenne du
Commerce Extérieur

III. BANK/IDA PROSPECTIVE OPERATIONS

- (1) A technical mission, in April 1964, has reviewed the possibility of financial assistance for the construction of a road between KISSIDOUYOU, N'ZEREKORE and the Liberian border which is a section of the main axis of transportation in Guinea. A proposal to finance the feasibility study of this section and a study of the organization and executive capacity of the Road Authority will be considered at one of the next meetings of the Board.
- (2) The Guinean Government has asked the Bank to help finance the construction of the infrastructure (Port and Railway) required for the BOKE bauxite deposits and estimated to cost \$44 million, of which \$33 million should be financed from a Bank loan and \$11 million from an AID credit. Exploitation of the deposits will be undertaken by "Compagnie des Bauxites de Guinée" (CBG), a company in which the Guinean Government is associated with Harvey Aluminum. With regard to the convention signed by Guinea and Harvey regulating CBG's functioning, there are still some outstanding issues. Concerning the level of operation, CBG is committed to a minimum of one million tons per annum. This probably not

being enough, Harvey has been encouraged to find other partners or long term buyers of bauxite. Negotiations to this effect are under way, notably with ALCAN. An economic mission arrived in Guinea on August 27 and is expected to remain 3-4 weeks in order to analyze the economic and financial situation of the country. Our mission is cooperating closely with an IMF mission in the field at the same time.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- 1) Efforts, recent and previsible, to restore internal monetary and financial stability;
- 2) Evolution of external debt;
- 3) Questions linked to the new Seven-Year Plan;
- 4) Latest evolution of BOKE project;
- 5) IDA membership formalization.

(b) To be raised by Bank at meeting with President or Vice-President:

None

(c) Likely to be raised by delegation:

None

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

CF Section III. Par. (1)

(d) Access to Private Capital Markets

Guinea has no access to private capital markets, except for the BOKE project or similar ones.

(e) Bank 9% Capital Subscription

\$1.8 million. Request for release should not be made now.

(f) IDA Subscription

Period for completing membership formalities extended until September 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Not a member

VI. POLITICAL SITUATION

Guinea became independent in October 1958. President Sekou Toure rules the country without opposition, through the Government which he heads and through the one recognized party which he leads.

President Sekou Toure is an ardent supporter of African unity. He maintains a neutral policy, particularly since his reliance on Soviet aid and assistance in the immediate years following independence proved disillusioning because of the ineffectiveness and inadequacy of the assistance received. In the last few years, relations with the West have become correspondingly closer. Nevertheless, it is worthwhile to note President Sekou Toure's recent travel to Moscow, of which he seems to have profitted to discuss with the Soviet Government a commitment on Russia's financing the feasibility survey of Konkoure dam. Relations with France remained cool for a long time. Recently an agreement was reached with France for the settlement of financial difficulties which arose after Independence.

VII. ECONOMIC SITUATION

- (a) Total population: 3.2 million
GNP per capita can be estimated at \$80-100
Foreign exchange reserves (1963): \$43 million (or 6 months' imports).

- (b) Guinea is a country well endowed in natural resources. Almost all tropical products can be cultivated. In addition, Guinea possesses large mineral resources: bauxite, iron ore, gold, diamonds. Despite this fact, Guinea is facing economic difficulties. If the mining production has increased, agricultural production has not improved and is insufficient to meet local consumption. Imports of food products have had to be increased. The results of the development plan ending in 1964 have been disappointing. The investment program, while contributing little to increasing production, was very expensive (about \$170 million for four years) and left Guinea with a heavy foreign debt (about \$100 million at the end of 1964). The sudden withdrawal of French personnel, the inadequacy of Soviet aid and the inexperience of the Guinean officials are believed to be largely responsible for this poor performance. The Government seems determined to rectify the past mistakes. A new seven year plan has been prepared. Short-term prospects for the Guinean economy depend to a large extent on the efforts which will be made to restore internal monetary and financial stability. Over the long run, prospects are good for the development of mineral resources which already provide the bulk of export earnings; the agricultural potential constitutes another considerable asset.

CONCLUSION

There is no possibility for Guinea to incur any new debt on conventional terms except for enclave projects for which special guarantee arrangements could be made. Subject to further details on external debt obligations and examination of the necessity for some rescheduling of external debt, and to improved performance in the public sector, Guinea could be regarded as eligible for IDA.

CRITERIA FOR IDA ELIGIBILITY

Poverty: eligible

Performance: marginal, subject to further investigation

Creditworthiness (lack of): eligible

IVORY COAST

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BRIEFING PAPER - 1965

IVORY COAST

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WBG ARCHIVES

I. MEETING WITH DELEGATION

Meeting with Messrs. Woods and Knapp tentatively set for Monday, September 27 at 3:30 p.m.

II. MEMBERS OF DELEGATION

Raphael Saller (B-F)	Minister of Finance, Economic Affairs and the Plan
Mohamed Diawara (B)	General Director of the Plan
Jean-Baptiste Amethier (F)	Director of Foreign Finance and of Credit
François Eliard (Temp.)(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Abidjan

III. BANK/IDA PROSPECTIVE OPERATIONS

- (a) The Government submitted last year a series of feasibility reports on power and agricultural aspects of the Bandama project. In April we informed the Ivory Coast that the rate of return on the project, considered as a power project alone, would be too low, but that we would reconsider our position if it could be shown that returns from irrigation would be sufficient to increase the return on the whole project and to a level which could justify Bank financing. A power mission in June determined that the return on power would be even lower than previously estimated.

In August we received additional reports mainly on agricultural aspects of the project, which resulted in a substantially new project with a total estimated cost of over \$150 million.

A mission went to the Ivory Coast at the end of August to appraise the agricultural aspects of the project. In view of the very large investment proposed, the mission was instructed to examine both the solution proposed and any practical alternative that could attain the results expected from irrigation at lower cost, i.e. without the scale of dam needed for power.

There are quite serious doubts both about the creditworthiness of the Ivory Coast for substantial new borrowing and its capacity to contribute adequately to a very large project. Mr. Lutolf visited Ivory Coast early September to form a preliminary view on both points. A full economic mission is planned for October/November.

- (b) Mr. Saller has previously mentioned the San Pedro project for possible Bank financing. San Pedro is a large, scarcely populated and mostly forest-covered area near the Liberian border. The Government intends to undertake infrastructure investments (roads, port) to encourage timber, rubber and palm oil production. The project, now under study by Development and Resources Corporation, New York (financed by AID), is still in a very preliminary stage.
- (c) Our office in Abidjan is undertaking a general review of projects now under study by the Government and which could be submitted to the Bank for total or partial financing. We are awaiting their conclusions.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

The Bandama project and perhaps the conclusion of the review made by our office in Abidjan.

- (b) To be raised by Bank at meeting with President or Vice President:

Mr. Saller will certainly press for a favorable answer on the Bandama project to which he is heavily committed. We have already told him that we would not be able to discuss the project in detail since the agricultural appraisal mission will barely have completed its field work by the end of September, but that we hoped to discuss some of the more general aspects, especially the possible implications resulting from the disproportionate size of the project in relation to the financial capabilities of Ivory Coast.

- (c) Likely to be raised by delegation:

The same problem.

V. BACKGROUND INFORMATION

- (a) Bank Loans as of July 31, 1965

None

- (b) IDA Credits as of July 31, 1965

None

- (c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Government placed bonds with French insurance companies 2 billion CFA francs in 1962 and 1.5 billion in 1963 with the guarantee of the French Government.

(e) Bank 9% Capital Subscription

\$1.8 million. No release.

(f) IDA Subscription

Part II member - \$0.909 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Member. In February 1965, IFC invested the equivalent of \$204,000 in the Banque Ivoirienne de Développement Industriel (BIDI), whose chief sponsors were Chase Manhattan and Lazard (New York).

VI. POLITICAL SITUATION

The Ivory Coast became independent in August 1960 under President Houphouet-Boigny who stands out as a liberal and a moderate in African politics. The Ivory Coast has the familiar one-party system with the "Rassemblement Democratique Africain" (RDA) headed by President Houphouet-Boigny as the only authorized party. Through the party, which he leads, and through the Government, which he heads, President Houphouet-Boigny is the dominant political figure in the country. The President's and his Government's dominant position as well as the fact that foreign advisors exert a strong influence on the administration has in the past given rise to opposition from young, radical elements. In 1963 President Houphouet-Boigny had to face various attempts to take over the Government. Since then, his position appears strengthened and stable. General elections will take place in November.

The Ivory Coast maintains very close relations with France, other European countries and the U.S. and the President exercises very considerable influence throughout much of former French Africa.

VII. ECONOMIC SITUATION (Population - 3.7 million; GDP per capita - \$200)
Foreign reserves as of May 1965 - \$46 million

Economy of the Ivory Coast is mainly based on agriculture. Four-fifths of the population derive their livelihood from agriculture. The economy depends heavily on exports of coffee, cocoa and timber. The Government is trying to diversify agricultural production by developing rubber, palm oil, cotton, sugar and rice production. Industry, quite negligible some years ago, is taking an increasing place in the economy and now contributes some 10% to domestic output. This is due, to a considerable extent, to the comparative political stability and Western orientation of the Government whose liberal economic policy strongly favors private foreign investment.

The overall economic situation is good. Increased production and higher world market prices, particularly for coffee and cocoa, up until about one year ago resulted in a per capita income of some \$200. More recently, because of falling prices, the outlook has become less certain and prospects for raising export earnings and hence continued rapid economic growth are less favorable. Another factor which will affect export earnings is the dismantling of the preferential arrangements which so far have assured Ivory Coast producers of higher prices in the French market. On the other hand, the Ivory Coast gains access to the Common Market.

The financial and monetary situation is sound. The current budget is balanced at \$130 million and a surplus of some \$22 million of investments in the public sector. External debt amounted to approximately \$65 million as of December 31, 1964. Service of the public debt for the time being remains within the financial abilities of Ivory Coast, but there has been a rapid increase in supplier and contractor financing and we have to take a careful look at the future debt service position.

September 14, 1965

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BRIEFING PAPER - 1965

KENYA

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I. MEETING WITH DELEGATION

Meeting will be scheduled for preliminary discussions on the East African Consultative Group proposal.

II. MEMBERS OF DELEGATION

The Honorable J. S. Gichuru
Mr. J. N. Michuki

Minister for Finance
Permanent Secretary to the Treasury

Advisers
Mr. L. Baranski

Adviser to the Kenya Government

III. BANK/IDA PROSPECTIVE OPERATIONS

- (1) Land Settlement and Development (Loan 303 KE): We approved 6 subprojects under this loan, involving Bank disbursements of about \$2.3 million. Two remaining subprojects (including a subproject to develop sugar cane in the Muhoroni area) were appraised in August. We (and CDC) require clarification of certain points before we can approve them. These clarifications should be forthcoming within a few months. The 8 subprojects, which would complete the area to be settled (180,000 acres), involve Bank disbursement of about \$3.5 million, leaving \$4.9 million of the loan unused.
- (2) Secondary and Technical Education and Teacher Training: This project, which may involve IDA lending of \$7-8 million for the Government's 1966-68 program, was appraised in August. We may negotiate in November.
- (3) Agricultural (Feeder) Roads: This project, which may involve an IDA credit of \$2-3 million, includes mainly feeder roads in the Muhoroni-Chemelil sugarcane development area (see item (1) above), and also some feeder roads serving the land settlement areas. Preliminary engineering and economic studies are now under way and we may appraise the project early in 1966.
- (4) Agricultural Credit (Land Consolidation and Development): This project involves land consolidation and development essentially in former African areas of Kenya. The total cost is tentatively estimated at \$35 million equivalent over a 5-year period. Our assistance will be sought mainly to help finance development

loans to farmers. The Permanent Mission for Eastern Africa has been assisting in the preparation of the project and Mr. P. Reid also visited Kenya in August 1965 to give advice on project preparation. Kenya expects that the U.K. Government will provide funds to cover the costs of land surveys and registration of titles.

- (5) Range Management: This livestock development project is tentatively estimated to cost roughly \$22 million equivalent over a 4-year period. Our Permanent Mission is being consulted in its preparation.
- (6) Smallholder Tea Development: The Kenya Tea Development Authority, with the support of the Kenya Government, intends to come to us with a second Smallholder Tea Development project which would be executed from 1969 onwards. We have indicated our willingness in principle to consider the new project. The present tea project is being implemented satisfactorily.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- (1) The availability of IDA Funds: Kenya has borrowed \$10.3 million from IDA in the course of the last fiscal year. With the proposed education project, this amount may reach \$18 million by January 1966. Kenya has two big agricultural projects (listed above) and intends to prepare for us a second trunk roads project. Kenya's limited creditworthiness for Bank lending is being absorbed by our conventional loans for East African projects. Our ability to finance these and any additional projects will depend on the availability of fresh IDA commitments and the Government should put greater reliance on grants or soft loans from elsewhere. The proposed East African Consultative Group may be helpful.
- (2) The Government's views regarding the uncommitted portion of the Land Settlement and Development loan (303 KE) should be explored. The period of the submission of the subprojects will terminate by the end of this year; the Closing Date is June 30, 1968. The loan is guaranteed by the U.K. and any arrangements for using these funds for some related purpose requires the U.K.'s agreement.

(b) To be raised by Bank at meeting with President or Vice-President:

- (1) Proposal for a Consultative Group for East Africa: (see separate briefing paper for East Africa).

(2) Future of East African Economic Cooperation: As a matter of both general and operational interest, we should ask the Kenya delegation about the prospects of continuing economic cooperation among the three East African Governments (for background information, see the East Africa briefing paper).

(3) Agricultural Development Service: We should find out about the Government's intentions for utilizing the services of the Agricultural Development Service, in particular in the Ministry of Settlement.

(c) Likely to be raised by delegation:

Financing for Nairobi Airport Improvements: The Kenya Treasury has inquired about possible IDA lending for the improvement of certain sections of the Nairobi airport. Our preliminary reaction to this proposal has been cool, mainly because the inadequacies of the airport appear to be more organizational and administrative than physical, and the proposal does not appear to have a high developmental priority. If the question is raised, we should discourage the delegation on this matter.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965 (Guaranteed by the U.K.)^{*/}

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1960	Kenya	Agriculture and roads	5.6	-
1961	Kenya	Land Settlement and Development	<u>8.4</u>	<u>7.6</u>
	Total		14.0	7.6
		of which has been repaid	<u>1.4</u>	
		Total outstanding	12.6	
		Amount sold	4.3	
		of which has been repaid	<u>1.4</u>	<u>2.9</u>
		Net amount held by Bank	9.7	

^{*/} Excluding the 1955 loan of \$24.0 million for East African railways and harbors, which is jointly and severally guaranteed by the U.K., Kenya, Tanganyika and Uganda.

(b) IDA Credits as of July 31, 1965

Date		Amount less cancellations	Undisbursed Balance
August 17, 1964	African smallholder tea development	2.8	2.53
December 29, 1964	Trunk roads	4.5	4.46
June 30, 1965	Roads for smallholder tea development	<u>3.0*</u>	<u>3.0</u>
	Total	10.3	10.0

*/ not yet effective.

(c) Technical Assistance Activities

General economic survey mission, 1963.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Subscription

\$3.0 million; no release.

(f) IDA Subscription

\$1.512 million; no release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

No investment so far; an earlier inquiry in connection with a paper and pulp development project has not been followed up by the Government.

VI. POLITICAL SITUATION

Kenya achieved independence in December 1963. The political situation since then has been stable, contrary to preindependence fears of serious inter-tribal or inter-racial strife. Kenya became a Republic in December 1964, but it remains within the Commonwealth. A new Constitution, which became effective in December 1964, has strengthened the central government, at the expense of the Regions. The opposition party, KADU, has at the

same time merged itself with the Government party, KANU, making Kenya a single-party state. President Kenyatta (KANU) has established himself as a moderate African leader with undisputed authority within the country, while the position of his left-leaning Vice President, Mr. Oginga Odinga, has steadily declined.

Kenya pursues a foreign policy of non-alignment. It has trade and diplomatic relations with both western and eastern countries, although relations with the latter have recently been rather cool. Relations with the Somali Republic remain strained over Somalian ambitions for the Northern Region of Kenya, which is inhabited by semi-nomadic Somali tribes. Kenya's close relations with Uganda and Tanzania are at present somewhat strained by a continuing dispute over shares of industrial development in East Africa.

VII. ECONOMIC SITUATION - (Population: 9.1 million)
(GNP per capita: \$88)
(Foreign exchange reserves: \$83 million)

Real output in Kenya increased by about 4.5% in 1963 and 5% in 1964, compared with an average increase of only 2.5% over the 1960-62 period. Recent growth is attributable mainly to increased agricultural production for export, under favorable world price conditions. In 1964, private investment began to respond to the increasingly favorable political climate in Kenya. The Government's current budget continues to be in the red, but noticeable progress has been made to hold down current expenditure and to increase revenue. Development expenditure is increasing steadily. Both the current budget deficit and the development expenditure have been, for the most part, financed from overseas sources, mainly by the U.K.

Kenya's balance of payments on current account has improved steadily over the past four years, although it continues to be in deficit. On the capital side, increased official receipts have not kept pace with growth of debt service on top of a continuing net outflow of private capital. Hence, Kenya drew on its reserves in both 1963 and 1964. The general outlook for Kenya is one of increasingly favorable conditions for economic growth, despite adverse export price trends (mainly for coffee, sisal and tea) and the present cloudy prospects of the East African Common Market. Kenya's external debt service payments on present debt, including a notional third of EACSO debt, amount roughly to 5% of total current receipts, with a peak of over 8% in 1970. The 1964-70 Development Plan, involving investment of some \$895 million equivalent by both public and private sector, calls for a substantially higher rate of capital inflow than has obtained in the past.

Kenya has a margin of creditworthiness which is likely to be absorbed by the present and prospective Bank lending for East African projects through EACSO. Kenya needs capital beyond the limits of its creditworthiness, and should be considered eligible for IDA credits on the basis of performance and poverty.

LIBERIA

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BRIEFING PAPER - 1965

LIBERIA

I. MEETING WITH DELEGATION

Meeting with staff on Monday, October 4.
Meeting with Mr. Knapp on Monday, October 4 at 3:30.

II. MEMBERS OF DELEGATION

Charles Dunbar Sherman (B-F)	Secretary of the Treasury
J. Milton Weeks (B-F)	Director General, Office of National Planning

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) The Bank is considering a request made by the Government for financing a new road program including:

- (i) the construction of the 40 miles stretch Tartuke-Karloke;
- (ii) the completion of the 8 miles of the Kle-Pujehun road to the Sierra Leone border;
- (iii) a feasibility study, including final engineering, of about 250 miles of high priority roads in the southeast area.

A As far as the first item is concerned, we asked the Government to have the existing design of the road reviewed. This work could be completed within a short time.

As to the completion of the Kle-Pujehun road until the Sierra Leone border it is first necessary to determine the exact location of the road to be constructed in Sierra Leone and of the site of the international bridge on the Mono River.

The feasibility study of roads in the southeast area must be based on an economic survey of this area now under way and due to be completed in early November.

- (b) In September 1964, Liberia submitted to the Bank a list of priority projects and recently requested the Bank's assistance with a view to improving the list of projects both by undertaking a more thorough study of the economic feasibility of the projects included and by adding suitable projects. The Government also expressed the hope that the Bank could play a role of coordination between possible foreign lending agencies. We indicated that the drawing up of a list of projects would seem to be the prime task of the Planning Agency and the Harvard advisory group which is now working within the Agency. But we also pointed out that our Abidjan office would

be ready to help the Government in the preparation of projects.

(c) A DAC meeting held in Paris last July recommended that a series of meetings by local representatives of aid-giving countries should take place in Monrovia in order to ensure a continuing exchange of information and to coordinate all aid efforts. The Bank would be ready to join the Fund in organizing such a series of meetings if we had a representative in Monrovia. But since we have no representative there, we suggested that the Fund representative should convene the first meeting.

(d) The question of a possible steel mill project in Liberia was discussed with Secretary Sherman during his visit to Washington in June. Our conclusions were summarized in a letter sent to President Tubman by Mr. Woods on July 13. We underlined the problems of management and heavy financing and emphasized in particular the fact that it was quite doubtful whether the project could make steel products at competitive prices. In this connection we also pointed out the importance of as wide as possible a West African market as one of the basic conditions for the success of the project. A conference of nine West African countries held in Monrovia did not endorse the Liberian plan for steel mill but decided to set up a study group to look into the matter.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

The status of the studies concerning the projects submitted to the Bank and mentioned in paragraph III (a) above.

(b) To be raised by Bank at meeting with President or Vice President:

The ways to develop the financial relations with Liberia. Mr. Sherman will certainly want to know the action which could be taken shortly to have new projects financed by the Bank.

(c) Likely to be raised by delegation:

The delegation will certainly discuss with the Bank the different questions mentioned in paragraph III.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

(US \$Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1964	Republic of Liberia	Roads	3.25	3.06
		of which has been repaid	---	
		Total outstanding	3.25	
		Amount sold	---	
		of which has been repaid	---	
		Net amount held by Bank	3.25	

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

The Bank office in Abidjan is helping the government in the preparation of the road project mentioned in paragraph III. (a).

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$1.35 million. No release.

(f) IDA Subscription

Part II member - \$0.684 million - No release.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Member. An investment of up to \$250,000 out of a total share capital of \$1 million in the Liberian Bank for Industrial Development & Investment, a new private development finance company that is being formed in Liberia, was approved by IFC's Board on August 10, 1965. Formalities needed for completion of this investment are still in progress.

VI. POLITICAL SITUATION

The political situation is apparently stable. President Tubman who was re-elected for the fifth time in 1963, leads the country since 1943. Under his leadership, the government is trying to push the economic development of the country which remained behind until recently and to strengthen its unity by promoting the development of indigenous people.

VII. ECONOMIC SITUATION - (population 1 million; GDP per capita - \$170 - Foreign reserves: not available, currency in U.S. \$)

Liberia has only recently begun the process of economic development. Production of rubber in the 1930's and the recent exploitation of the abundant mineral resources discovered in different parts of the country have eased Liberia's exit from stagnation. The economy grew quickly in the 1950's and early 1960's as a result of considerable investment in iron ore, rubber, timber, buildings and housing. Exports increased greatly from 1953, mainly exports of iron ore which, with rubber, represent 90% of total exports. Since 1962, the rate of growth has fallen off sharply with the completion of construction of iron ore mining facilities and a sharp curtailment of public sector investment. Unemployment has increased and exports have suffered due to the fall of rubber and iron ore prices.

The Government has been faced with a difficult financial situation since 1963. For some years it had been trying to build as quickly as possible the framework for a modern country, much of which was financed by suppliers' credits covered by short-term government notes. The outstanding public debt as of September 30, 1963 was \$133 million and the full debt service in 1963 was estimated to reach 70% of government current revenues. The Government negotiated with its main creditors a rearrangement of its debt. In May 1963 the IMF granted a stand-by credit of \$5.7 million for 1963/64. A second stand-by of \$4.4 million was granted for 1964/65 and a third of \$4.0 million for 1965/66. The rearrangement extended debt repayments by some six years and greatly eased the burden of the debt over the years 1963 to 1968. However, the annual debt service will average about \$10 million a year in this period or about one-fourth of current government revenues.

To restore the financial situation, the Government is continuing to follow strict financial policies along the lines defined under the stand-by agreement with the IMF. The Bank's loan agreement requires an approval of borrowings for a term of less than 15 years. This strict financial policy followed by the Government does not allow it to devote large amount of funds for capital expenditures. This slowing down in the Government's capital expenditures when private investments are sharply reduced increases the economic difficulties of the country. To improve the situation, the Government is trying to develop an investment program to be financed through foreign grants or long-term foreign credit. Due to the present financial situation, and taking into account the efforts made to improve it, any financial assistance must be in the form of soft-term money. Liberia appears to be a blend country.

September 14, 1965

LIBYA

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BRIEFING PAPERS - 1965

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WBG ARCHIVES

LIBYA

I. MEETING WITH DELEGATION

No meeting planned

II. MEMBERS OF DELEGATION

Shamsiddin MOHSEN

Faraj BUGRARA

Financial Secretary, Ministry
of Finance

Khalil BENNANI

Governor, Bank of Libya

K.M. Sherlala

Acting Director, Research Department,
Bank of Libya

III. BANK/IDA PROSPECTIVE OPERATIONS

None

IV. TOPICS FOR DISCUSSION TO BE RAISED BY BANK AT STAFF LEVEL

Release of 90% of Libya's IDA subscription discussed by Mr. El Emary during his visit in June. Libyan representatives agreed that release could be afforded but expressed wish to become part I country for prestige because it is unlikely that Libya will ask for IDA assistance. In a letter to Dr. Attiga of August 30, 1965, Mr. El Emary suggested that the 90% release and transfer to Part I be treated separately and the matter be discussed further during the Annual Meeting. He proposed that the 90% release be made in one lump sum.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965 - Nil

(b) IDA Credits as of July 31, 1965 - Nil

(c) Technical Assistance Activities

Since November, 1963, Mr. Subhas Dhar has been Principal Adviser to the Ministry of Planning and Development. His services are well utilized, especially in organizational matters, and this assignment is working out satisfactorily. The Bank has agreed to extend his assignment for two years.

(d) Access to Private Capital Markets - Not applicable

- (e) Bank 9% Capital Subscription - \$ 1.8 million; two installments of \$ 600,000 paid and lent in dollars; last installment due December 1, 1965.
- (f) IDA Subscription - \$ 0.9 million as 90% subscription; release requested and to be discussed (see IV above).
- (g) Holdings of World Bank Bonds - US\$ 1.0 million as of June 30, 1965; has expressed interest and been allotted subscription of US\$ 2.0 million to latest issue.
- (h) I.F.C. - Nil

VI. POLITICAL SITUATION

Parliament was dissolved in February 1965, The new one elected in May is in general likely to support the Cabinet under Prime Minister Mazik who succeeded Muntasser in March. The latter's rather conservative policies are likely to be continued by Mazik who was Minister of Foreign Affairs in the previous cabinet.

There is some dissatisfaction, especially among the young people, with the Government and some rioting took place in the past year. The grip that King and Cabinet hold on internal security proved, however, firm enough to prevent serious distortions.

VII. ECONOMIC SITUATION

Population:	1.6 million
GNP per head	\$ 370
Foreign Exchange Reserves:	\$ 270 million as of June 30, 1965

The economic situation is largely dominated by the rapid growth of oil exports which in the short period 1960-1964 rose from nothing to 40 million tons, with a value of \$ 260 million. It is expected that they may reach \$ 900 million in 1965. Gold and foreign exchange reserves doubled in the past three years despite the fact that imports also doubled. At the end of June, 1965, reserves stood at \$ 270 million equivalent.

The sudden wealth created its problems too, such as sharp inequalities in income, migration from rural areas to the cities where the new wealth is concentrated, and inflationary pressures. The cost of living is rising rapidly and the volume of money increased by more than 100% in the past three years. Though the import sluices have now been opened as widely as possible this cannot solve the inflationary problems completely.

The Five-Year Plan (1963-1968) is gathering some momentum although actual investment still remains far below available financial resources and the economic needs of the country. In agriculture, industry, and health, for instance, performance was very poor but reasonable in transport, communications and public works.

MALAGASY

CONFIDENTIAL

September 9, 1965

BRIEFING PAPER - 1965

MALAGASY REPUBLIC

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

I. MEETING WITH DELEGATION

Department scheduled for September 22.

II. MEMBERS OF DELEGATION

Victor Miadana	Minister of Finance; President of the Board, Institut d'Emission Malgache.
Rakotovao Ralison	Controller General, Institut d'Emission Malgache.
Raymond Rabenoro	Director General of Finance, Ministry of Finance.

III. BANK/IDA PROSPECTIVE OPERATIONS

Madagascar has submitted to the Bank or IDA a road project, an education project and irrigation projects.

The road project consists of the reconstruction and paving of the central section of the Majunga-Tananarive road. It was appraised in February. We are awaiting the results of a final engineering study which the Public Works Department is undertaking before finalizing the appraisal report. The cost of the project is estimated at \$12.5 million and the amount of loan or credit at \$10 million. Negotiations could be held in November/December 1965.

The education project consists of the relocation and construction of school buildings for five technical training and teacher training institutions in Tananarive at Lac Anosy. The project was appraised in May and the Appraisal Report, recommending an IDA credit, should be finalized early October. Negotiations could also take place in November/December. The cost of the project is \$6.07 million and the proposed credit is \$4.2 million.

In February 1965 a FAO reconnaissance mission went to Madagascar (under the Bank/FAO Cooperative Program) to help in the preparation of two irrigation projects. One is located in the Lac Alaotra area north-east of Tananarive and the other at Morondava on the west coast. Both involve the continuation of existing projects which were undertaken with French bilateral aid some ten years ago. We have just received, and will have to review, the report of the mission before deciding on further steps to be taken but preliminary indications are that both projects may be worth further consideration.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

None.

- (b) To be raised by Bank at meeting with President or Vice-President:

None.

- (c) Likely to be raised by delegation:

The delegation is likely to ask about the timing of negotiations for the education and road projects and the results of the FAO reconnaissance mission. We should say negotiations for the education and road projects could take place in November/December, depending for the road project on the completion of the final engineering study. They are also likely to ask whether the projects will be financed by a Bank loan or an IDA credit and the amounts which have been decided. We should say that while the economic report proposes that Madagascar be considered for both IDA credits and Bank lending, the financing of specific projects or the exact share of Bank or IDA money with total cost of the project has not yet been decided. With respect to the FAO report, we should say that it is being reviewed by our Projects Department and we will be in touch with them later about the results and future steps to be taken.

V. BACKGROUND INFORMATION

- (a) Bank Loans as of July 31, 1965

None.

- (b) IDA Credits as of July 31, 1965

None.

- (c) Technical Assistance Activities

None.

- (d) Access to Private Capital Markets

None.

- (e) Bank 9% Capital Subscription

\$1.80 million. No release.

(f) IDA Subscription

\$0.909 Million No release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

Existing Investments

None.

Active Applications

None.

Future Prospects for IFC

None at present.

Subjects to be discussed at Meeting

VI. POLITICAL SITUATION

The Malagasy Republic became independent in June 1960 and Mr. Tsiranana, leader of the Socialist Democratic Party, was elected President. Although Madagascar maintains a multi-party system with a parliamentary opposition, the P.S.D. controls all the seats of the Legislative Assembly except for a few representatives from the Tananarive area. The President, with only one opponent, was re-elected this year with a very large majority and the P.S.D. won 104 seats out of 107 in the Assembly.

Madagascar, with its oriental antecedents, remains somewhat apart from Black Africa. Its people are highly mixed and possess a remarkably decentralized form of government and a considerable degree of political and social tolerance. There is some antipathy between the Merina tribe, the political leaders of the country before French colonization, and the Coastal tribes, which are now the most influential in politics and in the government services.

Important personalities, besides President Tsiranana, are:

Mr. Calvin Tsiebo, Vice President

Mr. André Resampa, Minister of Interior and General Secretary of the Party.

Mr. Jean Jacques Rabemananjara, Minister of Economic Affairs.

Mr. Victor Miadana, Minister of Finance.

Mr. Césaire Rabenoro, Commissioner General of the Plan.

VII. ECONOMIC SITUATION

Population 6 Million

GDP per Capita \$106

Agriculture is the mainstay of the economy of Madagascar. It is the source of livelihood for over 80% of the population, accounts for about 40% of GDP and almost 90% of export earnings. Approximately two-thirds of the area under cultivation is in subsistence farming, with paddy accounting for over 50%. Principal cash crops are coffee, vanilla, deluxe rice, sugarcane, cloves, tobacco, sisal, groundnuts and pepper. Livestock raising is also an important activity and exports of animals and animal products account for about 6% of export value. Small quantities of minerals are also mined, but represent less than 5% of total exports. Industrial activity is largely confined to the processing of agricultural products.

Madagascar has had substantial deficits on foreign trade for many years. Deficits in the current budget, financed by France, were also the rule before independence. However, since 1960 the government has applied stringent economy measures and has carried out several important fiscal reforms. As a result the current budget has been balanced and a small surplus has been available for financing capital expenditures. However, development expenditures have been largely financed by French grants and loans and more recently by the FED.

Production and income have been growing rather slowly in recent years. While weather conditions have had an unusually adverse effect on agricultural output, the rate of investment has been quite low, total gross capital expenditures being estimated at less than 10% of GDP. In view of the rapidly expanding population (over 3% per year), it is very important that increased efforts be made to expand the area under cultivation and to overcome transportation bottlenecks. The government is well aware of this and a Five-Year Development Plan has recently been adopted which calls for a substantial rise in investment in the agricultural and transport sectors.

Madagascar is a member of the franc area. It has its own central bank which issues the Malagasy franc (FMG = 0.02 French francs = 0.40 U. S. cents). Madagascar belongs to the group of African countries associated with the EEC.

In view of uncertain economic prospects, the Malagasy Republic should be considered as a soft blend country.

MALAWI

CONFIDENTIAL

September 15, 1965

BRIEFING PAPER - 1965

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

MALAWI

I. MEETING WITH DELEGATION

A courtesy call will be arranged to welcome Malawi as a new member.

II. MEMBERS OF DELEGATION

The Honorable J. Z. U. Tembo	Minister of Finance
Mr. R. J. C. Wait	Secretary to the Treasury
Mr. A. G. Perrin	Governor, Reserve Bank of Malawi

Adviser

Mr. F. H. Nyekanyeka	Ministry of Finance
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III. BANK/IDA PROSPECTIVE OPERATIONS

In July this year, Malawi became a member of the Bank, IDA and IFC.

- (1) Secondary Technical Education: The project provides for technical streams to be added to 12 existing secondary schools, one new technical school, and three primary school teacher-training colleges. The total cost is estimated at \$5.44 million equivalent and the Government (and the U.K.) expect that IDA will be able to finance virtually the whole amount. A UNESCO team is now helping to complete the project preparation. We may appraise the project in November.
- (2) Zomba-Zambia Border Road: The total cost of this trunk road project is roughly \$9 million equivalent, which the Government hopes that IDA will be able to provide. Preliminary engineering and supplementary economic studies are now under way and the project may be ready for appraisal late this year or early in 1966.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level: It is desirable to review the status of the foregoing two projects, and also to indicate to the Malawian representatives that:
 - i. our ability to continue to consider projects in Malawi would depend on the availability of further IDA funds;
 - ii. Malawi would have to make some contribution to the total costs of each project (see (c) 1 below).

(b) To be raised by Bank at meeting with President or Vice-President

Welcome of Malawi to membership.

(c) Likely to be raised by delegation:

- (1) The amount of local contribution for IDA Projects: In informal contacts with IDA staff, the Malawi officials have indicated willingness by Malawi to contribute up to 10% for the development projects considered for IDA finance. The U.K. Ministry of Overseas Development has recently suggested to Mr. Wilson that IDA should contribute all costs of projects in Malawi. Due to the unavoidable and only gradually surmountable budgetary problems of the Government, there is a case in Malawi for IDA financing projects up to, say, 85-95% of their total costs. Budgetary performance needs to be reviewed periodically for possible change in IDA policy.
- (2) New Projects: The Malawi delegation may propose for IDA finance some agricultural development projects and a land reclamation scheme in the Lower Shire Valley. These projects are in very early stages of preparation. We should indicate that, while we would be interested in considering new projects, our pace of lending would depend on the continuing availability of IDA funds.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None; Malawi has not taken any share of the former Federation's debt to the Bank.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$1,350,000; no release.

(f) IDA Subscription

\$684,000; no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

No active applications; scope of IFC activity seems limited.

VI. POLITICAL

Malawi (formerly Nyasaland) became independent in 1964 as a member of the Commonwealth under a ministerial form of government. Prime Minister, Dr. H. K. Banda, who led the country to independence, is also Life Chairman of the Malawi Congress Party, the sole political party in Malawi. Dr. Banda has survived a serious political crisis throughout the last quarter of 1964. It originated from young African cabinet Ministers' dissatisfaction over the pace of Africanization in government and soon developed into a competition for leadership of the country. The situation is now calm, but the exodus of promising African civil servants and most of the former Ministers has increased the country's heavy dependence on expatriates in executive positions. It has also slowed down the pace of Africanization, perhaps to a degree that cannot be maintained in the long run without a risk of new unrest.

Malawi pursues a "pragmatic" foreign policy: it maintains cordial relations with Rhodesia and the Portuguese in Mozambique, on which to a large extent the economy of Malawi depends. This policy has strained Malawi's relations with neighboring Zambia and Tanzania, which have been harboring Malawi's politically discontented exiles. Malawi has not established relations with Eastern bloc countries.

The main political tasks of the Government are to achieve adequate economic growth, and to knit together an effective administration from the confusion left by the dissolution of the Federation of Rhodesia and Nyasaland. Dr. Banda intends to achieve these ends by means of strong and pragmatic leadership from the top. Thanks to the presence of the expatriates, the efficiency of the government is relatively good.

VII. ECONOMIC SITUATION - (Population: 3.9 million)
(GNP per capita: \$37)
(Foreign exchange reserves: \$35 million)

The real output of Malawi, which grew at a rate of more than 4% over the period 1954-61, has stagnated (and in some years declined) since 1961. This has been due mainly to the political uncertainties attending the dissolution of the Federation and Malawi's accession to independence. Indications are that 1965 will prove to be an exceptionally good year, with public confidence being gradually restored in an atmosphere of relative political calm. Under favorable price conditions, an increase is expected in production of agricultural export products.

Malawi will have this year a current budget deficit of over £6 million, which the Government plans to reduce to perhaps £3 million over a five year period. The present development plan calls for public investment of £46 million over a five year period (1965-1969), but the actual expenditure has been lagging due to inadequate project identification and preparation. Both current budget deficits and development expenditures are financed entirely by external aid, mainly by the U.K. The U.K. now has a study underway, which may lead to decisions on aid policy. It appears that the U.K. will continue to provide substantial aid to Malawi in the foreseeable future, although it will endeavor to get other donors to participate in the aid effort.

The outlook for Malawi is one of modest growth, paced by an expansion of exports. The 1965 external debt service payments, including service on debts denominated in Malawi currency but owed to holders in Rhodesia and Zambia, amount to about 13% of the current receipts (not counting the U.K. grants for budget support), but will fall substantially over the next four years. Subject to periodical review of the Government's progress in solving its budgetary problem, Malawi can be considered eligible for access to IDA funds.

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BRIEFING PAPER - 1965

MALI

I. MEETING WITH DELEGATION

~~(Tentatively September 23)~~ *No meeting scheduled.*

II. MEMBERS OF DELEGATION

Jean-Marie KONE	Minister of State in Charge of The Plan and Coordination of Economic and Financial Affairs
Louis NEGRE	Governor, Banque de la Republique du Mali
Hamacire N'DOURE	Minister of Economic Cooperation and Technical Assistance
Tidiani TRAORE	Director of Mali State Railways

III. BANK/IDA PROSPECTIVE OPERATIONS

Mali became a member of the Bank and IDA in September 1963. We have had under consideration since the end of 1963 a request for IDA assistance for a much needed rehabilitation program for the country's only railroad, linking it to Senegal. The Bank is also considering assistance for the Senegalese portion of the railroad. The project was appraised in 1964 and found adequate for an IDA credit of about \$9.3 million. Various financial and technical measures were necessary to set the railway authority on a sound footing. Some have already been taken. It was agreed during a mission in June 1965 that others would be taken soon. However, lending has been delayed because of the general economic and financial performance of the country (see VII below).

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- (i) During the June mission it was agreed that Mali would take a number of steps to permit the restoration of a sound financial situation for the railroad authority. It was agreed that this would be done as soon as possible. Has this been done and to what extent?

- (ii) When does the Mali Government expect to make available to IDA the information still missing on their external debt (mostly with Eastern Bloc countries)?
- (b) To be raised by Bank at meeting with President or Vice-President:
 - (i) Have any modifications in general economic and financial policy been decided since IDA's last mission to Mali and has the situation changed since then, notably with regard to rescheduling foreign debt?
 - (ii) In this respect, what is the status of the financial negotiations with France?
- (c) Likely to be raised by delegation:

V. B. CKGROUND INFORMATION

- (a) Bank Loans as of July 31, 1965

None. (Part of the Bank's 1954 loan to the Office Central des Chemins de Fer de la France d'Outre-Mer was used to improve railways in what is now Mali).
- (b) IDA Credits as of July 31, 1965

None
- (c) Technical Assistance Activities

None
- (d) Access to Private Capital Markets

None
- (e) Bank 9% Capital Subscription

\$1.55 million. Mali is too poor to make release at the present time.
- (f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Not a member

VI. POLITICAL SITUATION

The Soudan was ruled by the French until 1958 when it became of its own will a member of the French Community. In 1960 it formed the Federation of Mali with neighboring and richer Senegal. In September, 1960 the Federation broke apart. Relations between the two countries became tense and traffic on the railroad link was stopped. Since then relations have become normal again. In 1962 President Modibo Keita, the strong leader of the Union Soudanaise, the country's sole party, decided to withdraw from the French Community to develop an independent neutralist foreign policy and to pursue a socialist economic course. In July 1962 Mali withdrew from the French-backed West African Monetary Union and established its own currency. Since then it has received substantial help from the Sino-Soviet countries in addition to some Western assistance.

VII. ECONOMIC SITUATION

- (a) Total population 4.5 million
GNP per capita about \$70 equivalent
Foreign exchange reserves (average 1962-64): \$4.5 million
(or 1 month's imports)
- (b) Mali is one of the poorest countries in Africa. Fundamentally it suffers from a lack of known exploitable natural resources and the fact that it is landlocked. In 1961 it launched a Five Year Development Plan which proved too ambitious. Deficit financing was largely resorted to. Mali incurred heavy external debts, many of them repayable in kind with its few exportable products. Marketed production of groundnuts, the country's chief export, has fallen in 1964-65 due in part to unwise pricing and collection policies. The cotton crop, on the other hand, has been good. In July, 1964 Mali obtained a standby credit of \$9.9 million from the IMF and undertook a stabilization program. After an encouraging start, Mali was unable to meet most of its commitments to the IMF. The credit ceiling was exceeded, the budgetary deficit was much larger than permitted, little was done to reduce the deficit of the main public enterprises. In June, 1965

during the review of the standby, Mali decided not to request a further credit tranche from the IMF since it had been, and would probably continue to be for some time, unable to meet the Fund's requirements. The Fund has, however, stated to us that it would be quite prepared to consider further assistance to Mali if Mali requested it. Mali has been enjoying a de facto moratorium on a good part of its foreign debt. In February, 1965 negotiations to reschedule debt began with its largest creditor: France. The French, at the highest level, told the Malians that they were prepared to consider formal consolidation and rescheduling of the debt, and further technical and financial assistance to Mali, but that as a precondition Mali had to rejoin the West African Monetary Union. Until now Mali has found this condition unacceptable and negotiations were interrupted in May. Both parties, however, insist that negotiations are not broken but only "suspended". If an agreement with the French is reached, it is likely to be subordinated to financial and economic measures which would satisfy the Bank's performance requirements.

Conclusion

Because of its poverty and uncertain long term export prospects, quite apart from some mismanagement in recent years, Mali's capacity to service conventional debt is nonexistent. Subject to further assessment of the efficiency and continuity of the stabilization program, Mali should be regarded as eligible for IDA assistance.

Criteria for IDA Eligibility

Poverty: eligible

Performance: eligible, subject to confirmation of progress

Creditworthiness (lack of): eligible (wholly IDA)

CONFIDENTIAL

September 7, 1965

BRIEFING PAPER - 1965

MAURITANIA

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APR 25 2012

WBG ARCHIVES

I. MEETING WITH DELEGATION

No meeting scheduled

II. MEMBERS OF DELEGATION

Elimane KANE

Minister of Development

Moktar Ould HAIBA

Economic and Financial Adviser
to the President of the Republic

Pierre BRAEMER

Director, Banque Centrale des
Etats de l'Afrique de l'Ouest,
Nouakchott

III. BANK/IDA PROSPECTIVE OPERATIONS

Water supply for the SOCUMA copper mining operation

If, as has been discussed, the exploitation of the Mauritanian copper deposits is undertaken by U.S. and Canadian companies, a supply of 6,000 m³ of water per day is required by the Akjoujt mine. This is to be pumped from a place 120 km distant (BENI-CHAB) with a difference of altitude level of about 100 m. The cost of this project is estimated at US\$ 5 million and the Bank will probably be approached for a loan. There has been some delay on the part of the firms concerned to decide whether they will go ahead with the mining and the Bank has not been contacted for the last few months.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level: none
- (b) To be raised by Bank at meeting with President or Vice-President: none
- (c) Likely to be raised by delegation:

If SOCUMA's mining projects are sufficiently advanced, it is likely that the Mauritanian delegation will ask whether and under what forms the Bank/IDA group might be prepared to participate in the

financing of that project. Our position is likely to be that since the water supply infrastructure is directly linked to the mining operations it should be considered as an integral part of it and thus be appraised and financed accordingly. In view of this, a Bank loan rather than an IDA credit would seem appropriate.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

(US \$ Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1960	Miferma <u>1/</u>	Iron ore mining	<u>66.0</u>	<u>0.0</u>
	Total		<u>66.0</u>	<u>0.0</u>
		of which has been repaid	<u>0.0</u>	
		Total outstanding	66.0	
		Amount sold	50.0	
		of which has been repaid	<u>50.0</u>	
		Net amount held by Bank	<u>16.0</u>	

(b) IDA Credits as of July 31, 1965

(US \$ Millions)				
Date			Amount less cancellations	Undisbursed Balance
Dec. 28/64	Road project		<u>6.7</u>	<u>6.7</u>
		Total	<u>6.7</u>	<u>6.7</u>

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

None

1/ Guaranteed by France and Mauritania

(e) Bank 9% Capital Subscription

\$0.90 million. Release would be difficult at this stage.

(f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

Nothing reported

VI. POLITICAL SITUATION

The election last May for the renewal of Mauritania's National Assembly confirmed the leading position in the country of President Moktar Ould Daddah. Following the election a few changes were brought in the composition of the Government giving more important responsibilities to younger elements. In the spring Mauritania left OCAM (Organisation Commune Africaine et Malgache) more because of personal friction between Mr. Moktar Ould Daddah, at that time President of OCAM, and Mr. Houphouët-Boigny, President of Ivory Coast and the driving force behind OCAM, than because of political divergences about the orientation to be given to OCAM's activities. Mauritania finds it difficult to maintain a balance between its Arab brethren and its neighbors of Black Africa. It seems that relations between Morocco and Mauritania have improved somewhat recently, the most recent indication being the participation of a Mauritanian Delegation to the International Conference held in Tangiers.

VII. ECONOMIC SITUATION

(a) Population (as of end of 1962): 880,000 (est.)

GNP per capita as of 1962: US\$110 (est.)

Foreign exchange reserves: CFAF 2,6 billion (Nov. 1964)

(b) Mauritania's economy suffers from physical and human handicaps. Its prospects would have been for very gradual long term development, but for the transformations which can be brought about by some enclave projects, i.e.:

(i) The Miferma operation, which is a main economic and financial asset of Mauritania, which continues at a faster pace than anticipated. It is hoped that the mining and the export of iron ore will reach the 6 million ton mark in 1965. Miferma is from time to time facing social unrest among the Mauritanian workers mainly due to the difficulty in their adaptation to modern working conditions.

(ii) A decision to develop the copper deposits at Akjoujt which will have to be taken by the Canadian-American group before the end of this year.

(iii) The development of the fishing port at Port Etienne which is well under way.

Military expenses take a high proportion of the resources and are difficult to reduce as long as the present situation with Morocco continues. Other expenses for education and social services are due to increase and new receipts to meet this increase are difficult to create.

The Government is a co-guarantor with France of the \$66 million Bank loan to Miferma, which is in effect also underwritten by the principal shareholders. If the liability for this loan is not taken into account, the foreign debt service ratio is still low. Development opportunities appear to be restricted to mining, ocean fishing and some agricultural schemes in the Senegal River Basin.

CONCLUSIONS

Given the situation of the public finances, and except where special supplementary guarantees can be arranged, all aid to Mauritania should be on soft terms.

Criteria for IDA eligibility:

Poverty: eligible

Performance: eligible

Creditworthiness (lack of): eligible (wholly IDA)

MOROCCO

CONFIDENTIAL

September 15, 1965

BRIEFING PAPER - 1965

MOROCCO

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APR 25 2012

WBG ARCHIVES

I. MEETING WITH DELEGATION

September 29, 9:30 - 10:00 (Mr. Knapp)

October 4 4:00 - 4:30 (Mr. Woods)

II. MEMBERS OF DELEGATION

Mamoun TAHIRI
Minister of Finance
Governor, IBRD

Driss SLAOUTI
Governor, Banque du Maroc
Governor, IMF

M'Hamed BARGACH
Vice Governor, Banque du Maroc
Alternate Governor, IMF

Mohamed BENKIRANE
General Manager, Banque Nationale
pour le Developpement Economique
Alternate Governor, IBRD

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Negotiations with a Moroccan delegation were concluded regarding:

- 1) A Bank loan of \$10 million for an agricultural credit project;
- 2) An IDA credit of \$11 million for the construction and equipment of 21 secondary schools.

Negotiations on the education project were completed on August 27 and it is expected that the loan will be ready to be submitted to the Board for decision soon. Negotiations on the agricultural project were completed on September 10. The loan will be presented to the Board as soon as possible after receiving the report of a mission which has just returned from Morocco and has obtained supplementary information regarding one of the sub-projects included in the project.

(b) The General Survey Mission which returned in June 1964, has elaborated the Draft Final Report which has been submitted to the Moroccan Government.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

Possible loan operations during the next twelve months:

- second agricultural project;
- a second loan to Banque Nationale de Développement Economique;
- DERRO and SEBOU projects;
- investment program of Office Chérifien des Phosphates;
- possible extension of TADLA irrigation area.

(b) To be raised by Bank at meeting with President or Vice-President:

- (1) Explication of the aims and functioning of Consultative Group suggested to Moroccan Government.
- (2) Reactions of Moroccan Government upon Draft Final Report delivered by General Survey Mission.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

(US \$ Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1962	Kingdom of Morocco	Industry (Banque Nationale de Développement Economique)	15.0	9.6
1964	Kingdom of Morocco	Agriculture	17.5	15.0
	Total		32.5	24.6
		of which has been repaid	0.5	
		Total outstanding	32.0	
	Amount sold	0.1		
	of which has been repaid	-	0.1	
	Net amount held by Bank		31.9	

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

CF Chapter III, par. (b)

(d) Access to Private Capital Market

None, except for possible borrowing by OCP.

(e) Bank 9% Capital Subscription

\$6.3 million. Release not yet requested. Morocco's financial position would not permit release.

(f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

In 1963, IFC invested \$1.5 million equivalent in the share capital of Banque Nationale pour le Développement Economique (BNDE). On August 3, 1965, BNDE's Board appointed an Acting General Manager, Mr. Mohamed Benkirane, after the previous incumbent, Mr. M. A. Bengeloun, had been requisitioned by the Government for an apparently less important post. A mission is scheduled to reappraise BNDE in October in connection with its request for a second Bank loan.

Existing Investments

None

Active Applications

Compania Agricola del Lukus: Processing and canning of tomatoes and paprika--proposed IFC investment of \$1.2 million. This project has been held up for several months pending (a) the verification of the company's accounts for the year ended May 31, 1965, and (b) the working out of the timing and formalities of the split. In the meanwhile, additional considerations have arisen because of (a) the company's disappointing operating results and (b) the nationalization of foreign trade.

Future Prospects for IFC Activity

- A. Alpha Pulp (BEPI): 30,000 ton per year pulp factory. Mr. Oberdorfer made some suggestions to BEPI in March 1965; no reaction yet.
- B. Cellulosic Textile Fibre Project. BNDE has sent us a copy of a protocol of cooperation that it has signed with the Compagnie Industrielle de Textiles Artificiels et Synthétiques for the study and ultimate implementation of a cellulosic textile fiber project.

Subjects to be discussed at Meeting

In addition to the matter relating to Lukus the delegation may bring up the application to IBRD for a loan to OCP.

VI. POLITICAL SITUATION

Morocco became independent from the French and, for a smaller portion of its territory, from the Spaniards, in 1956. King Mohammed V ruled until his death in 1961. His son, King Hassan II, then took over. Morocco adopted its first written constitution in 1963, which established a parliamentary regime. The great variety and inexperience of political groups, however, made the adoption of a common program difficult and hindered the functioning of the new institutions. This political problem reflects social and economic difficulties caused largely by the decolonization process. Unable to rely on political formations, King Hassan II on June 8, 1965, decided to concentrate power in his own hands as permitted by Article 35 of the Constitution. He dismissed Parliament and took the lead of his new government. Since then, one nationalization has occurred - that of the export trade of citrus and other commodities. This action, motivated by the desire to close one of the doors through which capital flows out of the country, has created some concern in the foreign and business communities.

VII. ECONOMIC SITUATION

- (a) Total population: 13 million

Per capita GNP (as of 1961): at present exchange rate \$157

Foreign exchange reserves (as of 1964): \$104 million = 3 months imports

- (b) With an average per capita income as mentioned above, Morocco is better off than many of its African neighbors. However, the country is experiencing a difficult period economically and socially. The number of Europeans who held key positions in government, business and agriculture has gradually declined from over half a million in 1956 to less than 200,000 today. Population is rising by at least 3% annually, and now stands at 13 million. Output growth has averaged only about 2% annually since 1955, so that average per capita income has declined.

The slow growth of output as a whole since independence has been due mainly to stagnation in agriculture for domestic consumption. Production for export (phosphates, citrus and wine) has, however, shown a healthy growth. The Government has made an effort to speed up the growth rate through an expanded public sector development program, which helped to increase investment from a low of 7% of GNP in 1957 to an average of 12% in the past several years. But increasing resort to inflationary financing in 1961-64,

declining foreign government expenditures together with accelerated private capital outflow led to the virtual exhaustion of exchange reserves by late 1964. Since then, the Government has taken important steps toward stabilizing the financial situation. Taxes have been raised, expenditures and imports curbed. The situation, however, remains fragile. Up to now foreign assistance to Morocco financed a good deal of the foreign and local resources needed for development. The nature of bilateral aid is now changing and its terms are somewhat hardening. The combination of these factors makes Morocco's economy very vulnerable, in particular to a drop in its foreign exchange earnings or a massive outflow of entrepreneurs and capital.

CONCLUSION

Subject to further assessment of the effectiveness of the stabilization program, Morocco can be considered as creditworthy for some conventional loans subject to an appropriate grace period, but should also be regarded as eligible for aid on non-conventional terms.

Criteria for IDA eligibility:

Poverty: eligible

Performance: eligible (subject to review of effectiveness of stabilization measures).

Creditworthiness (lack of): eligible (hard blend)

NIGER

BRIEFING PAPER - 1965

NIGER

I. MEETING WITH DELEGATION

Meeting with staff to be arranged.

II. MEMBERS OF DELEGATION

Courmo Barcourgne (B)	Minister of Finance and Economic Affairs
Amadou Alkaly (F)	Director of Financing Services, Ministry of Finance and Economic Affairs
Lucien Bayle (B)	Commissioner General for Planning
Charles Godefroy (F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Niamey

III. BANK/IDA PROSPECTIVE OPERATIONS

In 1964, IDA made a credit of \$1.5 million to finance a small road project. In addition, the Bank agreed to pay the foreign cost, estimated at \$84,000, of a road maintenance organization study as technical assistance.

The Government mentioned various projects.

- (a) a livestock development project now under study with U.N. Special Fund financing.
- (b) the improvement of the road Niamey-Zinder (900 kilometers) already partly financed by the European Economic Community.

So far we have received no information about these projects.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

A review of possible new operations.

- (b) To be raised by Bank at meeting with President or Vice President:

No meeting.

(c) Likely to be raised by delegation:

The financing of possible new-projects and more especially the improvement of the road Niamey-Zinder and perhaps the development of a plain near Maradi: the "Goulbi de Maradi", part of this project should be financed by the EEC and the French Fonds d'Aide et de Coopération.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

		(US \$ Millions)	
date		Amount	Undisbursed
		less cancellation	Balance
June 1964	Roads	1.5	1.5

(c) Technical Assistance Activities

Technical assistance for a road maintenance organization study. Cost of the study \$100,000. Foreign cost financed by Bank \$84,000.

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$0.9 million. No release.

(f) IDA Subscription

Part II member - \$0.450 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Not a member.

VI. POLITICAL SITUATION

Despite the absence of politically organized opposition inside the country, President Diori is facing some unorganized opposition. Recently an unsuccessful attempt was made by opponent outside the country to stir up some population near the Nigerian border, to assassinate the President and take over the Government. A dispute with Dahomey took place in 1964 after the Dahoman upheaval which forced President Maga, who had close relations with President Hamani Diori, to step down from the Presidency. Niger expelled all Dahomans who were working mainly in the Niger administration. The dispute has been recently settled.

VII. ECONOMIC SITUATION (Population 3 million; Per Capita GDP \$70; Foreign reserves as of May 1965 \$6.4 million)

Niger is among the poorest countries in Africa formerly associated with France. Most of the country is desert. The prospects for economic development are limited. The main resources are groundnuts, the production of which has more than doubled over the last 10 years, exports reaching about 114,000 tons in 1964/65, cotton and livestock. Financially, the Government has made commendable efforts to reduce the needs for external budget support and, since 1964, the budget does not count on a direct subsidy from France. External debt remains small and annual service payments take up less than 2 percent of export earnings. Yet, because of its financial and economic weakness, it is eligible for IDA but not creditworthy for Bank loans. Most of the Government investments are financed by the French Government and by E.E.C.

September 14, 1965

NIGERIA

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BRIEFING PAPER - 1965

NIGERIA

I. MEETING WITH DELEGATION

Meeting with Messrs. Woods, Knapp and Chief Festus Sam Okotie-Eboh is set for Sunday, September 26 at 4:30 p.m.

II. MEMBERS OF DELEGATION

Chief Festus Sam Okotie-Eboh, C.M.G. (B-F)	- Federal Minister of Finance
Chief S. O. Adebo, C.M.G. (Temp.) (B)	Permanent Representative of Nigeria at the United Nations, and Commis- sioner-General for Economic Affairs
E. O. Ogbu (B)	Permanent Secretary, Federal Ministry of Finance
A.N. Abai (Temp.) (F)	Deputy Governor, Central Bank of of Nigeria
J. A. Adeyeye	Adviser, Senior Assistant Secretary, Federal Ministry of Finance
A. E. Bassey	Adviser, Deputy Director of Research, Central Bank of Nigeria
James Raj	Adviser, General Manager, Nigerian Industrial Development Bank
O. Akinrele	Adviser, Assistant General Manager, Nigerian Industrial Development Bank
O. B. Essien	Adviser, Second Secretary, Embassy of Nigeria
Mrs. C. O. Grant	Adviser, Private Secretary to Federal Minister of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

- (a) Negotiations for the Apapa Road Project in Lagos (\$17.5 million) and the Western Road Project (\$14.5 million) have been completed. Both loans will be considered by the Executive Directors before the Annual Meeting.

- (b) Projects now under consideration include smallholder tree-crop development schemes in the three southern Regions: the complex cocoa project (\$6.4 million), with unusual repayment features, will be submitted to the Loan Committee shortly after the Annual Meeting; the oil-palm project is not yet ready for appraisal, and there is doubt as to the viability of the rubber project in its present form. A proposal for a Bank loan (of up to \$6 million) to the Nigerian Industrial Development Bank is being reviewed by IFC and should be ready for presentation to the Executive Directors before the end of 1965. The Electricity Corporation of Nigeria has requested a second loan (\$11.5 million) to finance transmission and distribution facilities: this project will be appraised in November. An application (\$14 million) covering water supply development in Eastern Nigeria has just been received: further information and, possibly, a pre-appraisal mission will be needed before we can decide to proceed further. We expect the Nigerian Ports Authority to apply for a loan for extensions at Port Harcourt, Apapa and, perhaps, Koko: a project supervision mission, scheduled to visit Nigeria in October in connection with the Apapa Wharves project, will examine the status of the proposal; one of our main concerns is to ensure that adequate traffic forecasts are prepared.
- (c) Highway studies for which Bank or Special Fund assistance has been, or is about to be provided should ensure a pipeline of road projects over the next few years. Tentative inquiries have also been made in respect of Federal (Idah-Koko) and Mid-Western (Benin-Sapele) roads. Other tentative enquiries include agriculture (livestock development, irrigation and cash crops), agricultural credit, forestry, a fisheries terminal in Lagos, water supplies (West and Mid-West), industry, and education.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
- (1) Detailed discussion of recent Bank economic report.
 - (2) Short-term technical assistance offered to Nigerian Railway Corporation.
 - (3) Preparation of application for a second loan to Nigerian Ports Authority.
- (b) To be raised by Bank at meeting with President or Vice President:
- (1) Economic Report - The draft report of the recent Bank mission will have been studied by the delegation. We should state the conclusions of the mission and their implications for Government and Bank policies (see Minutes of Economic Committee Sub-committee Meeting attached). The Government is likely to agree on the

need to effect improvements in its policies, but is unlikely to adhere strictly to improved policies except under pressure.

- (2) Consultative Group - It was agreed during Mr. Woods' visit that the delegation would present Nigeria's views on the past operations of the group and suggestions for its improvement. On our side we should be ready to discuss our general proposals for strengthening consultative group activities, and specific proposals for Nigeria.
- (3) Development Plan - We should seek details of the recent decision of the National Economic Council to review the Plan, pointing out that adherence to a feasible program will be essential to continued Bank and consultative group support.

(c) Likely to be raised by delegation:

- (1) Resident Representative - Mr. Woods has suggested that the possibility of appointing a new Resident Representative in Nigeria could be discussed at this time.
- (2) Petroleum Revenues - The Federal Ministry of Finance may renew his request for Bank assistance in recruiting an expert to advise on increasing petroleum revenues. We should warn against pressing too hard before the oil companies are sufficiently established and, especially, against higher indirect taxes.
- (3) Planning Assistance - Tentative enquiries for technical assistance in planning have been made in the past and may be pursued. We should offer to go to the consultative group with any firm requests.
- (4) Agricultural Credit - A request for Bank cooperation with the Government and FAO in setting up agricultural credit facilities may be renewed. We should repeat our willingness to assist when Government proposals for an institution have been outlined.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1965

(US \$ Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1958	Federation of Nigeria	Railway	28.0	
1962	Nigerian Ports Authority	Port Extension and Improve- ment	13.5	6.1
1964	Electricity Corpora- tion of Nigeria	Transmission Lines	30.0	21.3
1964	Niger Dams Authority	Kainji Project	82.0	75.8
Total			153.5	103.2
of which has been repaid			3.6	
Total outstanding			149.9	
Amount sold or agreed to be sold		12.5		
of which has been repaid		<u>3.6</u>	<u>8.9</u>	
Net Amount held by Bank			<u>141.0</u>	

(b) IDA Credits as of July 31, 1965

(US \$ Millions)			
Date		Amount less cancellations	Undisbursed Balance
March 1, 1965	Education Project <u>1/</u>	20.0	
March 1, 1965	Northern Road Project	15.5	

1/ Not yet effective

(c) Technical Assistance Activities

The Plan of Operations of the Western Nigeria Highway Development Study, for which the Bank is Executing Agency, is in the process of being signed. The Bank has approved a technical assistance grant for \$375,000 for the Eastern Nigerian Road Study, which will start soon.

The UNSF is expected to approve at its meeting in January a new study of Northern regional roads and that the Bank will be asked to be the Executing Agency.

Sir Penderel Moon completed his assignment as Economic and Financial Adviser to the Federal Ministry of Finance in October 1964.

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$6.0 million. No release. The Minister of Finance said at the 1961 Annual Meeting that he would recommend to Cabinet a convertible release over five years. We should press for release.

(f) IDA Subscription

Member since 1961. \$3.024 million. No release. Has not been approached regarding release of 90% local currency subscription.

(g) Holdings of Bank Bonds

U.S. \$5.0 million.

(h) I. F. C.

In 1964 IFC invested \$1.4 million equivalent in the share capital of the Nigerian Industrial Development Bank (NIDB). A mission visited NIDB in July in connection with a request for a Bank loan. The mission's recommendations will be reviewed by the IFC Staff Investment Committee before the Annual Meeting.

VI. POLITICAL SITUATION

Federal general elections held at the end of 1964 resulted in a victory for the principal incumbent party. The elections were partly boycotted, however, and supplementary elections were held in the spring of 1965, to fill the vacant seats of constituencies where no

voting had taken place. Opposition parties were overwhelmingly successful, but remained in the minority. Following the supplementary elections, the Prime Minister formed a broadly-based national government including representatives of each Region but excluding one of the major opposition parties (the Action Group). To widen his political support he enlarged the cabinet and appointed a large number of additional ministers of non-cabinet rank.

Relative calm has since prevailed and the Prime Minister has succeeded in holding his unweildy, heterogenous Government together. Political attention is now focussed on Western Nigeria, where elections must be held before the end of 1965. An acrimonious debate is in progress between the ruling party, an ally of the Northern and Federal majority party, and the Action Group opposition. The outcome of the election is in doubt, although there is a widespread suspicion that the party in office will continue there - one way or another. Should the Action Group win, the Southern "opposition" parties would control the Federal Senate and the balance of forces in the Federal cabinet could be upset.

General dissatisfaction in the southern Regions with the constitutional arrangements which seem to prevent them from exercising Federal power, led to a promise by the Prime Minister of a review of the constitution. This review is expected to be held very soon. It cannot be supposed that the North will agree to any change which seriously encroaches on its present powerful position, nor that the South will happily settle for anything else. A typical Nigerian compromise seems likely, and this may include some increase in the powers of the President.

- VII. ECONOMIC SITUATION (Population, 1963 census - 56 million
GNP per capita, 1964 - about \$80
Foreign exchange reserves, June 1965 - \$220 million)

The report of the Bank economic mission which made a study in depth of the Nigerian economy in May-June 1965 is now available in draft form (AF-34a)

Although progress with the National Development Plan, 1962-68, has so far been slow, economic progress has been good. The annual growth of gross national product in the last three years has averaged 5 percent, higher than in the past and higher than envisaged in the Plan. The rate of total investment, and also of private investment, has risen and exports have been increasing faster than imports. The rapid expansion of petroleum production and of manufacturing industry have been major factors in these developments.

With the slow start to the Plan, Government capital expenditures in 1962-65 were, at £235 million, little more than a third of the six-year target. Initial delays in project preparation, shortages of

executive capacity and, latterly, shortages of financial resources have been mainly responsible for the disappointing rate of progress. They also offer a partial explanation of the significant departure from the planned priorities in the last three years. Lags in project preparation, together with the time taken in loan negotiations, have been the principal cause in the slow pace of public capital inflows: external assistance has financed only 17 percent of capital expenditures rather than 51 percent as forecast in the Plan. Consequently, Nigeria has relied on its own resources much more heavily, both absolutely and relatively, than had been planned: its external reserves have now been drawn down to the safe minimum level. Partly to fill the gap and avoid delays in securing external finance, Nigeria has indulged in considerable short and medium-term borrowing. Servicing this debt presses heavily on the Government budgets.

The external financial outlook for the remaining three years of the Plan is much brighter: disbursements from existing loans, grants and loans likely to be negotiated could well amount to almost £200 million. To carry out a program of £400 million in 1965-68, which is about the feasible maximum, Nigeria would have to raise £200 million internally. If petroleum production rises in accordance with the more optimistic expectations of the mission and if the Government takes severe measures to curb recurrent spending and increase tax revenues, this could be achieved. It would be a noteworthy performance.

The long-run growth prospects of the Nigerian economy are very favorable. Its large internal market provides a basis for continuing industrial growth. Its wide range of natural resources allows industrialization to proceed with a relatively low dependence on imports and ensures that exports are well diversified and thus less subject to fluctuations. Nigeria is attractive for foreign investment, which is expected to continue to increase. Finally, there is oil. Exports of oil in 1965 will be double the \$90 million reached last year. While the forecast rise in petroleum production will not lead to an automatic solution to all Nigeria's economic problems, lack of foreign exchange is not likely to hamper growth seriously.

Substantially more than one-half of Nigeria's external debt is undisbursed: at the end of March, 1965, only £91 million (\$255 million) out of the total of £225 million (\$630 million) had been disbursed. Over the next three years there will be a rapid draw-down of existing loans, while borrowing is expected to be some £75-80 million (about \$215 million). Total annual service payments would rise from an estimated £18 million in 1965/6 to £25 million in 1970/1: over the five years, these payments would be equivalent to 8-9 percent of projected export earnings (net of investment income payments on petroleum account), compared to about 7 percent at present. It is believed that this burden, which includes service on new loans required for the balance of the Plan, is one that Nigeria will be well able to sustain.

The mission further concludes that Nigeria's low income level, and hence its very limited capacity to save without great hardship, would undoubtedly qualify it for considerable external assistance on generous terms. However, given that the volume of funds available to IDA is far too small, the present evidence suggests that Nigeria would not qualify for IDA resources in competition with the many less favorably placed nations.

On the other hand, the internal public finance situation is precarious and will remain so for the next three years. Even if the Governments adopt all the rather severe recommendations of the mission for increasing public savings, financial resources may fall short of the required level, given the uncertainties surrounding the revenue position so heavily dependent on the vicissitudes of foreign markets. Nigeria may not be able to sustain public investment at the possible and desirable level if external assistance is limited to the foreign exchange cost of the projects it finances.

September 17, 1965

ECONOMIC COMMITTEE

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September 17, 1965

MEMORANDUM TO FILES

Sub-Committee Meeting on Nigeria Draft Economic Report

1. A meeting of a sub-committee^{1/} of the Economic Committee took place on Monday, September 13, 1965, at 2:30 p.m. to discuss the draft report, "The Nigerian Economic Growth: Problems and Prospects" (Report AF-34), dated September 1, 1965, which had been distributed to the Economic Committee on September 8.

2. Agreement was reached in the sub-committee on the following:

Content of the Report

(a) It should be made more explicit that high priority projects of the Federal Government might not be successfully implemented if the Federal Government does not obtain an adequate share of total government revenues.

1/ Members of the sub-committee were:

Economics Department - Messrs. Kamarck, Leon, A.C.Huang, Nespoulous-Neuville

Africa Department - Mr. Edelman

Europe and Middle

East Department - Mr. Thompson

Western Hemisphere

Department - Mr. Lerda

Nigerian Mission - Messrs. Avramovic, Decaux, Hogg, Horgley, von Oppenfeld, Miss Villafuerte, Miss White.

Secretary, Economic Committee - C. F. Owen

Mr. El Emary attended the meeting

Distribution:

Economic Advisors, Area, Economics and Projects Departments
Members of the sub-committee.

(b) Greater emphasis should be made on the possibility of inflation, and the need for a definite limit to be set on the creation of credit.

3. Procedure

(a) Further Bank action will have to wait upon the response of the Nigerian Government to the mission's proposals on the size and composition of Nigeria's public investment program for the next three years. Another meeting of the sub-committee will probably be necessary to consider the reactions of the Nigerian Government.

(b) Assuming agreement between the Bank and the Nigerian Government on the public investment program, a memorandum, dealing with the policy questions raised by possible further Bank operations in Nigeria, should be prepared for discussion at the Annual Meetings or at a meeting of the consultative group. The memorandum should bring out, inter alia,

(i) That the Bank supports the recommendation that the member countries of the consultative group should provide aid for local currency expenditures, and a moderate amount of program financing. This would be subject to the qualification that the recommendation would not apply if oil revenue increased more than expected. The alternative might well be that the Nigerian Government would attempt to meet the financial requirements of the investment program for 1965-1968 by resorting to still more use of suppliers credit, deficit financing, and applying pressure to the oil companies for more revenue, but that such policies would be highly dangerous, particularly if economic conditions changed adversely.

(ii) The need for agreement on a policy package to be implemented by the Nigerian Government and which would include further tax measures, restraint in current government expenditures, and a ceiling on the amount of credit creation.

4. The sub-committee agreed with the conclusions of the report that

(a) Nigeria should be considered creditworthy for financial assistance on Bank, rather than IDA terms, but with extended grace periods.

(b) The Bank should be prepared to finance part of the local currency costs of projects.

C. F. Owen
Secretary
Economic Committee

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September 15, 1965

BRIEFING PAPER - 1965

RHODESIA

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I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Probably not even an observer.

III. BANK/IDA PROSPECTIVE OPERATIONS

- (1) Power: The Central African Power Corporation has engaged consultants to report on the next stage of the Kariba power development, which may involve the construction of a new power house on the northern bank of the Zambezi River. Depending on continuing reasonably good working relations between Rhodesia and Zambia, the Bank may be approached later this year for possible lending for this stage of the Kariba development.
- (2) Rhodesia Projects: We do not expect any lending operations in Rhodesia in the immediate future. There are a few Rhodesian projects which may come up after the settlement of the present political issue, such as the construction of a transmission line from Kariba to Umtabi by the Rhodesia Electricity Supply Commission, the Sabi Valley irrigation and power development, African agriculture and roads. Rhodesia needs the U.K.'s support and willingness to guarantee any Bank lending, which may not be forthcoming until a settlement is reached between the two countries on the political issues.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level (if an observer from Rhodesia attends the meeting):

An exchange of views on the functioning of the agreements with Zambia in respect of Kariba and, in particular, the Rhodesian Railways would be useful. There has recently been some difficulty and friction between the Zambian and Rhodesian authorities over the Railways' staff transfers to Zambia.

- (b) To be raised by Bank at meeting with President or Vice-President:

None.

- (c) Likely to be raised by delegation:

None.

V. BACKGROUND INFORMATION

Before the Federation of Rhodesia and Nyasaland was dissolved at the end of 1963, we conducted negotiations with representatives of (Southern) Rhodesia, Northern Rhodesia, (Zambia) the United Kingdom, the Federal Power Board (Central African Power Corporation) and the Rhodesian Railways to adapt the Bank's loan documents to the new political situation. The Loan Assumption Agreements were signed in Salisbury on December 30, 1963. The Bank's position and powers under the new arrangements remain substantially as they were under the original loan documents. As of January 1, 1964, Rhodesia has assumed direct and full responsibility for payments to the Bank with regard to the 1952 power loan (Loan 58 SR) and the 1960 African agriculture loan (Loan 253 RN). It has assumed one half of the Federation's obligations under the 1958 railways loan (Loan 197 RN), and guarantee of one half of the Kariba loan (Loan 145 RN). We lent to the Central African Power Corporation \$7.7 million in last October for financing a second transmission line between Kariba and the Copperbelt. Rhodesia and Zambia have each guaranteed one half of this loan.

(a) Bank Loans as of July 31, 1965^{1/}

(US \$ Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1952	Rhodesia	Electric power	28.0	-
1956	Central African Power Corporation	Electric power	40.0 ^{2/}	-
1958	Rhodesia	Railways	9.5 ^{3/}	-
1960	Rhodesia	Agriculture	5.6	-
1964	Central African Power Corporation	Electric power	3.85 ^{4/}	3.48
Total			86.9	
of which has been repaid			19.2	
Total now outstanding			67.7	
Amount sold			49.2	
of which has been repaid			18.6	
Net amount now held by Bank			37.1	

- ^{1/} Obligations under these loan agreements, except the one in 1964, have been assumed by Rhodesia or Zambia under Loan Assumption Agreements, dated December 30, 1963.
- ^{2/} Rhodesia guarantees one half of the original \$80 million Bank loan to the Federal Power Board.
- ^{3/} Rhodesia has assumed one half of the Federation's obligations under the original \$19 million Bank loan made to the Federation.
- ^{4/} Rhodesia guarantees one half of the \$7.7 million Bank loan to the Central African Power Corporation.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Rhodesia, like most Commonwealth countries, would normally have access to the United Kingdom capital market, subject to the approval of the United Kingdom Government. Under present conditions, however, it is unlikely that the Rhodesian Government could succeed in raising a loan on reasonable market terms.

The Federation of Rhodesia and Nyasaland enjoyed a fairly well developed capital market on which the Government was able to raise some £45 million per year in various maturities. With the exception of the two large copper mining groups, most of the financial institutions, with associations in the United Kingdom or South Africa, remain active in Rhodesia following the dissolution of the Federation and it is probable that the Rhodesia Government will be able to raise about £15/20 million per year in short-term funds, plus an occasional long or medium term loan. Private issues are not likely to be very successful for some time.

(e) Bank 9% Capital Subscription

Not a member.

(f) IDA Subscription

Not a member.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

No active projects under consideration.

VI. POLITICAL SITUATION

After the dissolution of the Federation by British Parliament in December 1963, Nyasaland (Malawi) and Northern Rhodesia (Zambia) became independent in 1964, both under African majority rule. A similar bid for independence by (Southern) Rhodesia has been denied by the United Kingdom, primarily on the grounds of inadequate African representation in the Government. Rhodesia still remains a "self-governing Colony" of the U.K., with practically full autonomy on all internal and some external matters.

In the course of the last year, negotiations were conducted on the independence issue between the U.K. and the European right-wing Government of the Rhodesia Front Party, led by the new Premier Mr. Ian Smith. Being unable to obtain satisfactory assurances from the U.K., Mr. Smith has threatened a unilateral declaration of independence, although he has so far refrained from carrying out this threat. At a general election held in May, 1965, the Rhodesia Front Party has won all 50 Parliament seats it had contested, with the backing of the white electorate who, under the existing election system, have the decisive vote. The defeated white opposition, Sir Roy Welensky's Rhodesia National Party, had proposed a more conciliatory line on the independence issue. Its representation at the Rhodesian Parliament is now limited to 15 African deputies.

The African nationalist opposition is divided into two competing groups: the People's Caretaker Council (PCC), led by Joshua Nkomo, and a dissident group, the Zimbabwe African National Union led by the Rev. N. Sithole. Essentially, both groups seek an African majority Government based on "one man one vote". Some of the African leaders are now under restrictive detention or in exile abroad. Mr. Smith's Government has been promoting African tribal leadership, broadly on the South African model, in order to control the African masses.

The indications are that both the Europeans' and the Africans' positions have hardened over the last year and a workable compromise between them now appears even more difficult to attain than it was a year ago. This position also affects the relations between Rhodesia and its northern neighbors, Zambia in particular.

VII. ECONOMIC SITUATION - (Population: 4.1 million)
(GNP per capita: about \$200)
(Foreign exchange reserves: approximately \$86 million)

Rhodesia has a dual economy, with large farms and medium- or large manufacturing and mining enterprises controlled by a quarter of a million Europeans on one side, and predominantly subsistence agriculture - conducted by over 3.5 million Africans - on the other. Africans provide unskilled labor for European enterprises. As a whole, the Rhodesian economy is in many ways one of the most balanced and diversified in Africa, well endowed in agricultural and mineral resources. There is no shortage of managerial skills. The main areas which are seriously under-developed are African education and African agriculture.

From the dissolution of the Federation, Rhodesia has emerged with a fairly heavy debt burden. Many of the important advantages of the Federation, its assured creditworthiness, attraction for a steady inflow of investment funds and immigrants, and a wide domestic market for manufactured goods, have now been lost for Rhodesia. The exceptional rate of economic growth of over 7% per year, which was attained in Rhodesia during the Federation, has virtually come to a halt. The main problem now is to renew confidence in the future of the country.

Rhodesia's external debt service payments are equivalent to about 10% of the export earnings, with a peak in the maturities in 1970. This is rather high for an under-developed country in the process of transition, although in the past Rhodesia has achieved high standards of debt management.

Under normal conditions, Rhodesia would be a "blend" country, eligible for both conventional loans and soft money. At present, the difficulties in finding a durable solution for cooperation

between the races overshadow the economic prospects and, until the political future is settled, the Bank and IDA are unlikely to have any lending activities in Rhodesia, except probably possible lending under U.K. sponsorship and guarantee for projects clearly of direct benefit to the African population.

RWANDA

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BRIEFING PAPER - 1965

September 9, 1965

RWANDA

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I. MEETING WITH DELEGATION

No meeting scheduled.

- II. MEMBERS OF DELEGATION: Gaspard Cyimana, Minister of Finance & Foreign Trade.
Léon Mbarushimana, Ministry of Finance & Foreign Trade.
Masaya Hattori, Governor, Banque Nationale du Rwanda.
Jean Baptiste Habyarimana, Vice Governor, Banque Nationale du Rwanda.
Pierre Coenraets (Temp.), Managing Director, Banque Nationale du Rwanda.

III. BANK/IDA PROSPECTIVE OPERATIONS

We have been requested to finance improvement of the Kigali-Kagitumba Road. We are awaiting additional information on the cost and justification of the road. A reconnaissance study of the road has been made by BCEOM but has not yet been sent to us.

It is also to be noted that we do not undertake financing any major project in the country before the government undertakes a stabilization programme (in cooperation with the IMF) including drastic reform of its budgetary policy and devaluation of the currency.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

We should inquire about the government's intentions concerning the undertaking of a stabilization programme.

- (b) To be raised at meeting with President or Vice President:

None.

- (c) Likely to be raised by delegation:

Financing of the Kigali-Kagitumba Road. We should answer that we are still awaiting the BCEOM study.

We have also been approached by the Government for the financing of extensions in the power sector. Mr. Woods, in a letter dated August 11, suggested that first the property status of the power installations in Rwanda, now belonging to a Congolese company, les Forces de l'Est, be more clearly defined. A second suggestion made was that the Government would consult with the Federal Republic of Germany on the possibility of working out a solution to Rwanda's power problems, as a substantial proportion of the reserve capacity formerly available is being absorbed by a German broadcasting station. As soon as the Government is able to make substantial progress in both directions, we can discuss with them the utility of sending one of our power experts to Rwanda to help in arriving at a concrete and satisfactory solution.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

In 1957 the Bank made a \$4.8 million loan to the Rwanda-Urundi Trust Territory administered by Belgium (which is also a guarantor for the loan). On the grounds that the project itself was made in Burundi, Rwanda considers itself discharged of its obligations.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$1,350,000 No release.

(f) IDA Subscription

\$684,000 No release.

(g) Holding of Bank Bonds

None.

(h) I. F. C.

VI. POLITICAL SITUATION

Rwanda, formerly administered together with neighboring Burundi as a Belgian Trust Territory, became an independent republic on July 7, 1962. Already before independence, members of the ruling Batusi minority had emigrated to surrounding territories fearing an outbreak of violence by the country's Bahutu majority. The invasion of Rwanda by the Bahutus who had emigrated to Burundi in late 1963 and early 1964 set off mass killings of the Batusis who had remained in Rwanda. This

was not a result of government policy but was a panic reaction of the local population, together with defense actions undertaken by local officials. As a result of the role which Rwanda accused Burundi of playing in the tragedy, the former now turns more and more towards Uganda for its transit traffic, and all common institutions with Burundi have broken up.

Presidential and legislative elections will be held in September 1965. Although there are three parties in Rwanda, the President in charge has no opponent and is likely to be re-elected almost unanimously.

Important political personalities are:

Grégoire Kayibanda, President
Barthazar Bicomumpaka, Minister of Labor & Foreign Affairs.
Gaspard Cyimana, Minister of Finance & Foreign Trade.

VII. ECONOMIC SITUATION

Population: 2.8 Million

GDP per Capita: \$40

Together with Burundi, Rwanda is one of the most populated countries in sub-Saharan Africa. In view of the scarcity of land, the general poverty of the soil, the limited resources of the country and the absence of industrialization and the high population growth, the country is clearly overpopulated.

The main cash crop is coffee of an excellent quality and which accounts for close to 60% of foreign exchange earnings. Minerals (cassiterite and ores of metals associated with tin) account for almost all of the rest of export earnings.

Coffee production has decreased rapidly since independence due to the lack of interest of the farmers and to the lack of experienced personnel in agricultural extension services. Although it is now increasing again, it is likely to be seriously affected by present price trends of world market.

As most of the commercial and such manufacturing activities as exist are concentrated in Bujumbura (in Burundi), the former capital of the Trust Territory, Rwanda finds itself almost stripped of any modern infrastructure in the field of commerce or industry. New establishments are therefore being set up in all fields, mostly generated by foreign aid. Public construction adds to the present economic activity, but increased output is not evident.

The already existing balance of payments problem became more pressing when the common central bank with Burundi disappeared in May 1964.

The foreign exchange and monetary situation are critical. Drastic reforms, probably based on a devaluation, are urgently needed. An IMF mission visited the country in early 1965. Another mission is tentatively planned for the end of the current year, provided the government appears to be more agreeable to undertaking major reforms likely to be recommended.

The country is an associated member of the E.E.C. and of OCAM, an economic cooperation organization of 13 French speaking African countries. Belgium, the U. S., Germany and France are providing technical assistance and economic aid.

Because of the overpopulation and poverty of the country it is clearly suitable only for IDA assistance, subject to the government's undertaking of a drastic stabilization programme.

SENEGAL

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September 15, 1965

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BRIEFING PAPER - 1965

SENEGAL

I. MEETING WITH DELEGATION

September 29 at 9:00 a.m. with Mr. Knapp

II. MEMBERS OF DELEGATION

Jean COLLIN

Minister of Finance: Governor of IMF

Habib THIAM

Minister of Planning and Development: Governor of IBRD

Ibrahim TAL

Director General, Banque Nationale de Developpement du
Senegal: Alternate Governor, IBRD

Louis-Jean EUDE

Director, Banque Centrale des Etats de l'Afrique de l'Ouest,
Dakar: Alternate Governor, IMF

III. BANK/IDA PROSPECTIVE OPERATIONS

- (a) The Bank/IDA has been asked by the Senegal Government to lend \$7.0 million equivalent for the implementation of the four-year investment plan (1964/65 - 1967/68) of the Senegal railways. A pre-negotiation mission was in the field in June 1965, as a result of which a number of questions were brought to the attention of the Senegal authorities. These questions concern the railway investment plan in general, the financial situation of the Regie des Chemins de Fer, the coordination of the various means of transportation as well as the policy of rates. No answers have as yet been given to these questions.

The Senegal Government has urged the Bank to make the railway operation an IDA credit rather than a Bank loan, and consider the proposed port operation (see (b) below) as a Bank project. They argue that Senegal's economic position justifies a soft rather than a hard blend classification. The Bank will inform the Senegal delegation at the Annual Meeting of its agreement to lend IDA funds for this project, subject to successful negotiations.

- (b) With regard to the up-grading and extension of the facilities of the Port of Dakar, estimated at about US\$7.75 million (of which about US\$5.5 million would be foreign exchange), a Bank loan is being considered, subject to the results of the project appraisal.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

(See III above.)

- (b) To be raised by Bank at meeting with President or Vice President:

None

- (c) Likely to be raised by delegation:

(See Note under III.)

V. BACKGROUND INFORMATION

- (a) Bank Loans as of July 31, 1965

Part of the Bank's Loan of 1954 to the Office Central des Chemins de Fer de la France d'Outre-Mer was used to improve railways in Senegal.

- (b) IDA Credits as of July 31, 1965

None

- (c) Technical Assistance Activities

None

- (d) Access to Private Capital Markets

Doubtful except with foreign guarantee, e.g. the French Government.

- (e) Bank 9% Capital Subscription

\$3.0 million. Release not requested as of June 30, 1965 but to be considered in the not too distant future.

- (f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965, but request might be considered in one or two years.

- (g) Holdings of Bank Bonds

None

(h) I. F. C.

Existing Investments

None

Active Applications

Senegal Fertilizers (SIES): Production of phosphatic fertilizers - proposed IFC investment of \$2.5 million. In July 1965, IFC and the other financial institutions made suggestions to sponsors re capital structure, organization, marketing, and government relations. Awaiting sponsors' reactions.

Future Prospects for IFC Activity

None at present.

Subjects to be discussed at Meeting

The Senegalese delegation may want to discuss the fertilizer project.

VI. POLITICAL SITUATION

President Senghor has been able to maintain his leadership of the country and of the ruling party, the Union Progressiste Senegalaise; however, the position of President Senghor is not easy since the party is divided into political factions and not all of the opposition is open. In the left wing of the party there are still partisans of Mr. Dia, a former Prime Minister imprisoned in 1962 for attempting a coup d'etat. The striking contrast between the living conditions of the urban and the rural population, the slow rate of growth, and the measures taken for containing budget expenditure are other possible sources of popular discontent.

President Senghor's formula of "African socialism" is not a radical one: all foreign aid to Senegal is given by Western countries, and relations with France have always been excellent. President Senghor at the same time supports African independence, boycotts South Africa and helps the rebels in Portuguese Guinea. Relations with all other African countries are good. Senegal is assuming an important position within the recently created Organisation Commune Africaine et Malgache (OCAM). Talks are being held for an association with Gambia as soon as it becomes independent. Senegal is a member of the West African Customs and Monetary Union and is associated with the European Common Market.

VII. THE ECONOMIC SITUATION

(a) Population: 3.3 million (1964 estimate)

GDP per capita: US\$190 (1964)

Foreign exchange reserves: \$32 million (or 4-5 months' imports)

(b) The economy of Senegal is based on an agricultural sector with some long-term potential for diversification, at present producing primarily for subsistence with one important export crop - groundnuts. There are also some limited mineral resources. Considerable industrial and urban development has taken place in the past, centered on Thies and Dakar, the latter being a modern, well-equipped, fairly industrialized world port, built up as the capital and industrial center of former French West Africa.

The economy of Senegal was developed with the aim of servicing the former French West African region, comprising 20 million inhabitants. Thus it attracted a large and influential non-African population, and due to the strategic position of Dakar, the capital of Senegal and formerly the capital of A.O.F. (French West Africa), Senegal became the center of French Government civil and military activities in West Africa. These factors contributed towards the establishment in Senegal of a sophisticated, somewhat complicated economy, quite out of scale with the needs of Senegal alone, whose economy was unprepared for and not easily adaptable to drastic adjustments which became necessary on independence. The first stage of adjustment took place while Senegal still enjoyed the benefits associated with a high level of local French military and civil expenditures in Senegal, assured markets and guaranteed prices for its principal export product, groundnuts. This had a serious impact on various sectors of the economy and, in particular, on industry, services, the port and the Government's financial resources, resulting in a lowering of the general level of living standards and a slowing down in the rate of growth. The rate of net growth in the past has probably averaged about 4% per annum, being determined in the main by the expanding output of groundnuts. The economy remains heavily dependent on groundnuts, which provide 42% of the industrial turnover and account for some 70% of the country's exports. During the last three years the rate of growth has fallen, however, to some 2.5% per annum, resulting in no real per capita growth.

The difficulties arising from the loss of larger regional markets, following the breakup of the French West African Federation in April 1960, and subsequently of the smaller federation of Mali in August 1960, and the resulting need to adjust to the requirements of a more limited and primarily

domestic market gave rise to a period of virtual stagnation in industrial production and to some extent commercial activity, including services. These difficulties have not yet been overcome, although private investment continues in selected industries, mainly on a small scale. At the same time entrepot trade has fallen and port activity has been similarly affected.

Senegal has now to make a further adjustment resulting from the planned withdrawal of French military forces and the resulting loss of French expenditure in Senegal and the elimination during the next 3-5 years of the French guaranteed prices for groundnut products. It is doubtful whether for the next five years, or possibly longer, Senegal can grow, in real terms, at a rate which will offset the adverse effects of the above factors on real income and foreign exchange earnings.

Conclusion

In order to achieve a minimum rate of growth of 2-3% per year over the next five years, after taking account of all the adverse factors facing the economy, Senegal is expected to need an average of at least 20-25 billion CFA francs per year for its investment program. Because of the difficult financial position, and even if there is no further outflow of capital, domestic savings are unlikely to increase at a rate consistent with past experience or sufficient to finance more than a small fraction of the country's development requirements. Senegal will therefore have to rely on a mixture of soft money and further conventional borrowing from abroad. While Senegal may count on the continuance of foreign aid on soft terms of about 7 billion CFA francs per year, it will have to rely on further conventional borrowing to fill the gap if it is to achieve any overall growth at all.

The foreign debt is not high and since the greatest part of it has been on soft terms, annual service payments should not represent more than 2% of exports. Given this low debt service burden, there is some margin for further conventional borrowing. However, in view of the large volume of external aid required, the low per capita income of approximately \$190 and the fact that Senegal's economic performance has been satisfactory since independence, it can be considered eligible for IDA credits.

Criteria for IDA eligibility:

Poverty: eligible

Performance: eligible

Creditworthiness (lack of): eligible (soft blend)

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BRIEFING PAPER - 1965

SIERRA LEONE

I. MEETING WITH DELEGATION

Meeting with staff tentatively set for Friday, September 24 or Monday, October 4.

II. MEMBERS OF DELEGATION

R. G. O. King (B-F)	Minister of Finance
G. E. Hall (F)	Governor, Bank of Sierra Leone
E. L. Coker (B)	Acting Financial Secretary, Ministry of Finance
S. B. Nicol-Cole	Adviser Deputy Governor, Bank of Sierra Leone

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank made a loan of \$3.8 million in 1964 for the construction of a thermal plant in Freetown. The main projects now under consideration are as follows:

(a) Transportation studies - In accordance with the recommendations made by an IDA mission which visited the country in February, the Government made a request to the U. N. Special Fund for financing a series of studies on transportation including the following studies:

- a study of the railway situation which should enable the Government to make a decision on the future of the railway.
- the formulation of a highway investment program for a period of 10-15 years.
- feasibility studies and preliminary engineering of selected high priority roads.

The Fund is considering the request. We would be ready to act as executing agency.

- (b) Road project - We are also ready to consider in the near future financing engineering studies and later on construction of two roads of high priority: Port Loko-Kambia-Pamelap and Freetown-Waterloo. USAID is financing economic feasibility reports on both roads.
- (c) Agriculture - An FAO mission under the Joint Bank/FAO Cooperative Program visited Sierra Leone early this year. Its report points to a possible palm oil project. We are discussing with FAO the steps to be taken in order to carry out this project. We then hope to be able to send a project preparation mission to Sierra Leone.
- (d) Education - A UNESCO mission under the Bank/UNESCO Cooperative Program, also visited Sierra Leone in connection with a school building project. With the help of UNESCO, the Government is now preparing a request for Bank/IDA financing.
- (e) Development bank - Two IFC members visited Sierra Leone in April to study the prospects of a development finance institution. The mission's report was transmitted to the Government in August this year.
- (f) Small industries bank - We are looking for an expert who could go to Sierra Leone to formulate a well integrated program for the development of small industry.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

A general review of the projects now under way.

- (b) To be raised by Bank at meeting with President or Vice President:

No meeting.

- (c) Likely to be raised by delegation:

The same problems and especially the stage of their request to U.N. Special Fund for financing a transportation study and the problem of the Development Bank. The Government probably will also raise the question of a consultative group. We said that at this stage we do not consider the possibility of setting up such a group. We indicated that we would be ready to consider some simpler arrangements along the lines of the periodical DAC meetings for example.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellation	Undisbursed Balance
1964	Sierra Leone Electricity Corpo- ration	Electric power	3.8	1.3
	of which has been repaid		-	
	Total outstanding		3.8	
	Amount sold	0.3		
	of which has been repaid	-	0.3	
	Net Amount held by Bank		3.5	

(b) IDA credits as of July 31, 1965

None

(c) Technical Assistance Activities

- (i) An FAO mission under the Joint Bank/FAO Cooperative Program visited Sierra Leone. We are now considering with FAO the steps to be taken in order to carry out a palm oil project mentioned by the report. We hope to be able to send a project preparation mission to Sierra Leone shortly.
- (ii) A UNESCO mission under the Bank/UNESCO Cooperative Program is helping the Government in preparing a school building project for Bank/IDA financing.
- (iii) In the transportation sector, we have given aid to the Government in the preparation of a request to the U.N. Special Fund for financing a transportation study.

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$1.350. No release.

(f) IDA Subscription

Part II member - \$0.684 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Member. In March/April, 1965, IFC sent a mission at the request of the Government to study the need and prospects for a development finance institution. The mission's report was transmitted to the Government in August. The report concluded that it would not be feasible to set up in Sierra Leone the kind of development finance company with which the IFC or the Bank could extend financial assistance, and suggested that the Government explore setting up a Government-owned institution or one in which it would be in partnership with investors whose interest was broader than the direct return on their investment.

VI. POLITICAL SITUATION

Sierra Leone has a stable government, democratically elected. The 1962 election which followed the independence returned to power the party that has ruled the country since 1951, the Sierra Leone People's Party under Sir Milton Margai. This one died in 1964 and was succeeded on a constitutional way by his younger brother, the former Minister of Finance, Albert Margai. Mr. R. G. O. King, who was Minister of Development, became Minister of Finance. The political party now in power has the strong support of the up-country people who are representatives of different native tribes and are the majority. Therefore, the political atmosphere has so far been relatively peaceful. There is an active parliamentary opposition led by a former trade union leader and member of the Cabinet Mr. Siarko Stevens. The Government still retains several expatriates and has even hired new ones to be in charge of the new Central Bank. Sierra Leone maintains good relations with the United Kingdom and with its neighbors.

VII. ECONOMIC SITUATION - (Population - 2.2 million. Per capita income is about \$100.)

The economy of Sierra Leone is primarily agricultural. It is estimated that 80% of the population derives its living from the land mostly on a subsistence basis. Production in the agricultural sector has not been sufficient to cover domestic demand and net imports of foodstuffs have been increasing. A number of commercial crops are grown and constitute the third largest contributor to the country's export earnings. Diamonds and mineral ores currently account for more than 80% per cent of total exports; however, their contribution to the economic development is not proportional to their output value and their long-term yield is subject to some uncertainties. Economic growth is likely to continue at a slow rate. Total exports are likely to be stabilized between £20 and £25 million. Agricultural exports might in the long run improve the situation.

Budget receipts amount to £13 million a year. The public sector is undertaking a development effort amounting to about £4 to £5 million a year financed mainly by foreign aid and suppliers' credits. The former 10-year "plan" is now to be revised with the assistance of an economist requested from the U.N. OPEX. Present external debt and debt service are not yet unduly high (6% of exports in 1964, 9% in 1965), in spite of the signing of some large supplier financed contracts. There is thus room for some further borrowing on conventional terms. Limited growth prospects for export earnings mean, however, that room for such borrowing is limited. Sierra Leone is, therefore, likely to need, and be eligible for, IDA finance. However, there may be doubts as to IDA eligibility on the grounds of performance because of the recent excessive indulgence in short-term contractors' credits when long-term finance would have been available.

September 14, 1965

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SEP 15 1965

BRIEFING PAPERS - 1965

SOMALIA

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I. MEETING WITH DELEGATION

No meeting planned

II. MEMBERS OF DELEGATION

Awil Hagi ABDULLAHI
Minister of Finance

Scek Abdi Hagi ABICAR
President, Banca Nazionale Somala

Abdullahi Ahmed ADDOU
Director General, Ministry of Finance

Francesco PALAMENGHI-CRISPI
Managing Director, Banca Nazionale Somala

Leone FICI, Secretary of the Delegation
Acting Deputy Department Head
Secretariat, Banca Nazionale Somala

III. BANK/IDA PROSPECTIVE OPERATIONS

None

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

(i) Steps required to make the \$6.2 million
IDA Credit of March 1965 effective.

(ii) Request for adviser on mobilizing loan
capital

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

Nil; this is an IDA-only country

(b) IDA Credits as of July 31, 1965

In March 1965, joint financing arrangements were concluded for the construction of a 200 km. road, Afgoi-Baidoa, maintenance equipment and technical assistance. Total costs are estimated at \$14.2 million, of which \$6.2 million will be financed by IDA, \$4.85 million by FED, \$2.15 million by UNSF and \$0.7 million by the Somali Government. The technical assistance part of the project financed by UNSF for which IBRD acts as Executing Agency consists of building up an efficient departmental organization and the carrying out of a transportation investment study and feasibility studies of improving 300 km. of roads connecting the port of Berbera with its hinterland. All contractual arrangements between the Government, the lending agencies and the consultants have been signed.

(c) Technical Assistance Activities

(i) Port of Mogadiscio: A Bank mission early in 1964 concluded that although the project has high economic priority and would be financially viable, detailed hydraulic studies were necessary to select the best site and layout of the port. Under an agreement between the Bank and Government of November 1964, such studies are now being carried out by Sogreah. The Bank's contribution is \$375,000. Progress is in general satisfactory and proceeding according to schedule. Difficulties were encountered only in the case of off-shore boring because of exceptional wave conditions. An interim report will be ready by October 1965.

(ii) In June 1965, a request for assistance was received from the Minister of State for Planning for an adviser on mobilizing domestic funds - e.g., via a special credit institution - for economic development.

(d) Access to Private Capital Markets: Not applicable.

(e) Bank 9% Capital Subscription: \$1.3 million; no release made or requested.

(f) IDA Subscription: \$0.68 million as 90%; no release made or requested.

(g) Holdings of World Bank Bonds: None

(h) IFC: None

VI. POLITICAL SITUATION

The national elections of April 1964, provided the Government Party (Somali Youth League) with a comfortable majority in Parliament. Despite this, the first Government under Abdirizah Hagi Hussen, which had pledged itself to concentrate on economic development, to improve relations with its neighbours and to improve the administration, fell in July of that year. In September a new cabinet was formed under leadership of the same Prime Minister with a less outspoken program, but pledged to more or less the same goals. Since then there seems to prevail political stability. The new Government has taken a number of steps to improve the administration and is dedicated to increase efforts towards economic development.

Relations with Ethiopia and Kenya remain strained but there were no serious outbursts of violence in the border area in the past year.

VII. ECONOMIC SITUATION

Population:	2.4 million
GNP per capita:	about \$40
Foreign Exchange Reserves:	\$19 million

Somalia is a very poor arid country. Most of the people are subsistence farmers or nomads living off camels, sheep and goats. Industry is negligible. No mineral resources of economic importance have been found yet, but recently there were encouraging reports on the presence of large iron ore deposits.

The country cannot finance a reasonable minimum of government services without foreign help. Foreign grants cover about a quarter of current public expenditure and all public capital investment. In the three years since independence an effort has been made to contain the inevitable rise of government spending and to increase government revenues through better tax collection and increasing tax rates. Although balancing the budget without foreign grants-in-aid is still not possible, at least a widening of the gap has been prevented so far. U.K. grant-in-aid and investment aid were discontinued in 1963 following the breaking of diplomatic relations over the Somalis in Kenya. A draft development program of investment of \$40 million a year during 1963-67 expects foreign aid to finance the whole of it. This is about three times the size of the 1962 program.

Somalia cannot service any conventional loans from its own resources. Debt service in 1964 was already 9-10% of exports and service on the commitments Somalia has already undertaken could conceivably amount to as much as 25% of current export earnings. Somalia is trying to renegotiate its large debt to the U.S.S.R.

In view of its difficult development problems, lack of creditworthiness and reasonable efforts to manage its affairs, Somalia can only be regarded as eligible for IDA credits. This judgement is subject to some review of existing debt obligations.

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September 14, 1965

BRIEFING PAPERS - 1965

SUDAN

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I. Meeting with Delegation:

10:30 - Saturday, October 2 - Mr. J. Burke Knapp

II. Members of Delegation:

Hussain El-Shareef Yousef el Hindi
Minister of Finance, Ministry of Finance and Economics

Abdel Rahim Mirghani
Under Secretary, Ministry of Planning and Development

III. Bank/IDA Prospective Operations

(a) Consultative Group:

The Ten Year Plan, which has hitherto been the basis for Consultative Group consideration, is now under revision for the second half (1966/67 - 1970/71) of the plan period. In principle the revision is due to be completed in October, but may well be delayed. Earlier assumptions about the Government's capacity to generate local savings will have to be revised, possibly substantially, in the light of expenditures arising from the problems of the South. Although the plan revision may not lead to many changes in the larger projects included in the Plan, it would be difficult to convene an effective Group meeting until we have more firm indications about the Plan and the present trend of the economy. A new "depth mission" will be required whenever the situation permits; in any case we shall have to review the economic position and prospects at the latest by March, 1966. The severance of diplomatic relations with West Germany over the latter's establishment of diplomatic ties with Israel has resulted in the suspension of German credits of US\$ 28 million equivalent for power.

(b) Roseires Irrigation Project:

The construction of the dam will be completed in 1966/67, one year ahead of schedule. On the other hand progress with the preparation for the use of the water has been rather slow. Soil surveys have been carried out but we await reports indicating whether sufficient suitable land to make full use of the Roseires waters and identifying the areas will be available. Preliminary indications are, however, encouraging.

In 1962 when the loan for dam construction was made the Bank promised to help Sudan in obtaining assistance in the financing of the foreign exchange cost of the irrigation aspects of the project. Such assistance will be asked for in the next year.

(c) Railways:

Negotiations on a second Bank loan of \$ 31 million to Sudan Railways were completed in the fall of 1964. Submission of the proposals to the Executive Directors was deferred until political and constitutional position had been cleared up. Financial information now being updated for early submission of loan proposals.

(d) Land Clearance:

This project for the preparation of land in the Gedaref and Nuba Mountains for cultivation of cotton and grains was submitted to the Bank on the basis of the findings of a Bank/FAO project preparation mission. The application is for US\$ 27.3 million representing all foreign exchange cost and 75% of local currency cost; total cost is estimated at US\$ 31 million. The Bank is now discussing the technical justification of growing cotton in the areas; subject to the outcome of these discussions, an appraisal mission will visit the country in October/November 1965.

(e) Education:

The Government is anxious to seek Bank/IDA financing for construction of secondary schools and has asked for help in preparing a project suitable for submission. Exploratory discussions were held in Khartoum by an expert of the Bank in May last; the Bank has expressed its willingness to send a project identification mission in cooperation with UNESCO.

IV Topics for Discussion

(a) To be raised by Bank at staff level:

- (i) Finalization of documents for proposed Railway loan
(see III (c))
- (ii) Utilization of unallocated funds in Roseires Loan
(284/SU and Credit 2/SU)
- (iii) Preparation of appraisal mission for Land Clearance
Project (see III (d))

- (b) To be raised by Bank at meeting with Vice President
 (i) Consultative Group: We should enquire when the Government expects to complete its revision of the 10-year Plan, enquire about the kind of changes being made and discuss appropriate timing for an economic mission to report to the Group.
- (c) To be raised by Delegation
 (i) Railway Financing: We should confirm that we are prepared to submit proposals for approval by Executive Directors once we have completed the updating and revision of the reports and documents.
- (ii) Roseires Irrigation Financing: We have to receive consultants' reports on areas to be irrigated before determining whether recommended areas, cropping patterns and proposed organization of projects are suitable for Bank/IDA financing. Appraisal mission will then be required.

V Background Information

(a) Bank Loans as of July 31, 1965

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>	<u>Undisbursed Balance</u>
1958	Republic of Sudan	Railways and water transport	39.0	0.0
1960	" " "	Managil Irrigation Project	15.5	0.0
1961	" " "	Roseires Irrigation Project	19.5	9.5
		Total (net of cancellations and refundings)	74.0	9.5
		of which has been repaid	4.3	
		Total now outstanding	69.7	
		Amount sold 4.1		
		of which has been repaid 3.0	1.1	
		Net amount now held by Bank	68.6	

(b) IDA Credits as of July 31, 1964

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>	<u>Undisbursed Balance</u>
1961	Republic of Sudan	Roseires Irrigation Project	13.0	5.3

(c) Technical Assistance Activities

(i) Gezira Mission: The mission started work in August and will complete its work in August/September 1966. The costs for the Bank are estimated at about \$ 400,000.

(ii) In October 1964, Mr. Richardson started work as project preparation adviser in the Ministry of Finance and Economics.

(iii) In March 1965, Mr. Myhrer took up the post of economic adviser in the same Ministry.

(d) Access to Private Capital Markets: Not applicable

(e) 9% Capital Subscription: \$ 5.4 million (after increase to \$ 60 million of subscription in Bank's capital) \$ 1.8 million of original 9% portion fully released in convertible currencies.

(f) IDA Subscription: \$ 0.9 million as 90% subscription not released yet; no request made or to be made.

(g) IFC - Investment outstanding: Khartoum Spinning and Weaving Cy.Ltd.; investment \$ 690,000.

VI Political Situation

Important changes took place in the past year. The revolution in October 1964 overthrew the six-year-old military regime of General Abboud. Widespread discontent over the - be it relatively mild - dictatorial methods of this regime and its handling of the Southern question were at the root of this revolution. Occasional outbursts of violence occurred thereafter, one of them between Arabs and Southerners in Khartoum. Several transitional Governments were in power until the present Government was formed after the elections in May 1965. The right-of-centre Umma party emerged as the strongest party while the extreme leftists got only few votes, mainly in urban centres. The new Premier is Sayed Mohamed Ahmed Mahgoub (Umma). There are five other Umma ministers in the cabinet and six, reportedly of the more conservative wing, of the centre-left-of-centre National Union Party. Three seats went to Southerners though elections could not yet be held in the South. Recently violence flared up again in the South where more extreme leaders insist on separation from the North while others would be satisfied with a form of federation and some even with a certain provincial autonomy. Fundamental in these tensions are ethnical differences. The Government is now taking drastic security measures.

VII Economic Situation

Population:	13 million
GNP per capita:	\$ 100
Foreign Exchange Reserves:	\$ 74 million as of June 30, 1965, representing 3 1/2 months of 1964 imports.

The Sudan is a very large poor country varying from desert in the north to typical African bush in the south. Its main asset is the Nile. Known mineral resources are poor, but the country is practically unexplored. About one-fourth of the population lives in a modern economy in the region between the White and the Blue Niles with an average per capita income equivalent to about \$ 185, the rest of the people are at the usual African subsistence level.

The modern part of the economy, which provides about half of the nation's total income, has been growing at a rate of over 7% a year as compared with 3% for the rest of the economy (or barely more than the 2.8% growth rate of the population). Most of the rapidly rising development expenditures have until very recently been financed out of budgetary surpluses. The present Ten-Year Development Plan (1961/62 - 1970/71) entered its fourth year last July. The objectives of the Plan were realistic, the priorities established in the Plan proper and the magnitude of investment proposed within the financial capabilities of the country. The Plan called for gross investment of £ S. 565 million; total external financial assistance required by public sector being about £ S. 170 million, half of which is to be covered. In the first three years of the Plan, achievement was better than the Plan projections.

At the beginning of the Plan, foreign debt was £ S. 26 million, service requiring about 4% of the annual export earnings. If all the remaining £ S. 85 million of the foreign financing now forecast by the Plan were obtained on conventional terms, the outstanding foreign debt would reach the level of £ S. 120 million, with annual debt service equivalent to about 12% to 14% of forecast export earnings in the last year of the Plan. Because of the large increase in debt service charges if all external aid were on conventional terms, and taking into account Sudan's low per capita income, good performance hitherto, and excellent if short debt record, it would seem appropriate that some part of the foreign financing should be made on soft terms.

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TANZANIA

I. MEETING WITH DELEGATION

Meeting will be scheduled for preliminary discussions on the East African Consultative Group proposal.

II. MEMBERS OF DELEGATION

The Honorable P. Bomani	Minister for Finance
Mr. S. Rashid	Parliamentary Secretary to the Treasury
Mr. E. I. M. Mtei	Principal Secretary to the Treasury
<u>Advisers</u>	
Mr. A. Z. N. Swai	Minister of State
Mr. J. G. Scott	Chief Economist, The Treasury
Mr. G. M. S. Mawalla	Principal Assistant Secretary, The Treasury

III. BANK/IDA PROSPECTIVE OPERATIONS

- (1) Agricultural Credit: The Government's 5-year \$13.2 million agricultural credit program has been under consideration for some time. An appraisal mission in June recommended a substantially reduced project, involving an IDA credit of about \$5.0 million equivalent. When the remaining portions of the program are in shape for IDA financing, we may consider a second credit. It is planned that the credit negotiations would take place immediately before the Annual Meeting.
- (2) Feeder Roads: Project consists of 7 roads in different parts of the country, including two in Kilombero Valley, which would feed the present rail head at Kidatu - but one would parallel the proposed rail link with Zambia. Preliminary engineering and feasibility studies for the proposed roads will begin soon. Total project cost roughly \$14 million.
- (3) Secondary Education: This project, involving a total expenditure of roughly \$6 million, would be the second IDA credit for secondary education in Tanzania. The Government seeks a 85% financing by IDA. We may be able to appraise the project in January, 1966.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- (1) Adequate staffing for the execution of Bank/IDA projects: We are seriously concerned about the deterioration of the staffing situation at the Ministry of Works (loss of expatriate engineers), which affects adversely the execution of IDA roads project and will raise doubts as to the proposed feeder roads project. We have written to the Treasury on this matter and should follow it up during the Annual Meeting.
- (2) Mr. John Scott: The candidacy of Mr. Scott as an IBRD development adviser for the Tanzanian Treasury, which was favorably considered by the Bank, has recently been deferred since Mr. Scott now has a longer term UN OPEX contract for his work in Dar es Salaam. It would be advisable to explain to Mr. Bomani the present position and to repeat our willingness to help if there is need for it.
- (3) Economic and External debt data on Zanzibar: We might express at least mild concern that we receive no data on Zanzibar, constitutionally a part of the Republic of Tanzania.

(b) To be raised by Bank at meeting with President or Vice-President:

- (1) Proposal for a Consultative Group for East Africa: (see separate briefing paper on East Africa).
- (2) East African Cooperation: As a matter of both general and operational interest, we should ask the Tanzanian delegation about the prospects for continued East African economic cooperation (for background information see East Africa briefing paper).
- (3) Agricultural Development Service: It may be advisable to inform the Tanzania delegation of the Agricultural Development Service and to find out to what extent Tanzania wishes to avail itself of it.

(c) Likely to be raised by delegation:

The delegation may support the Government's recent requests for IDA credits for secondary education and a feeder road projects (see part III). It may also make inquiries about new projects, such as the Village Settlement Scheme. The latter, a favorite of President Nyerere, involves settlement

on undeveloped land by group farmers, with individual plots and cultivation regimes laid out for efficient use of farm machinery. This project may be eligible for help by the Agricultural Development Service Staff.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

The 1955 loan of \$24.0 million for East African Railways and Harbours is jointly and severally guaranteed by the U.K., Kenya, Tanzania and Uganda. The three Governments have approved a new loan of \$38 million, again guaranteed jointly and severally, which could hopefully be signed during the Annual Meeting.

(b) IDA Credits as of July 31, 1965

		(US \$ million)	
Date		Amount	Undisbursed
		less cancellations	Balance
December 19, 1963	Secondary Education	4.6	2.7
February 5, 1964	Highway project	<u>14.0</u>	<u>13.4</u>
	Total	18.6	16.1

(c) Technical Assistance Activities

(See Part IV, (a) (3)).

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$3.00 million; no release.

(f) IDA Subscription

\$1.512 million; no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Existing investment: \$4.7 million for Kilombero Sugar Co.

Active application: Mwanza Textiles Ltd.

During the last Annual Meeting, Mr. Rosen was approached by Mr. Bomani about an IFC investment in the Tanganyika Development Corporation. Mr. Rosen promised consideration for such a proposal when presented in detail. No detailed proposal has been received.

VI. POLITICAL SITUATION

Tanzania (then Tanganyika) became independent in December 1961 under President (then Prime Minister) Nyerere. It became a Republic within the Commonwealth a year later. Independence was achieved peacefully, without any particular problem of racial or tribal strife. A series of events in early 1964, beginning with a leftist revolution on Zanzibar and ending with the hasty "union" of Tanganyika and Zanzibar to form the United Republic of Tanzania, led to some internal problems, not without racial and ideological overtones, which have not yet been fully resolved. An effective union has not yet been achieved, although many of the related political and administrative uncertainties appear to be clearing slowly. Promulgation of a new Constitution, which would bring the two parts of the republic closer to each other, has been deferred until 1966.

Tanzania pursues a non-aligned foreign policy and has established trade and aid contacts with Eastern as well as Western countries. Mainland China is active with development projects for textiles production, farm improvement and, more recently, a survey of the Tanzania part of the proposed Tanzania-Zambia railway project. Relations with Germany were strained over Zanzibar's close ties with the East Germans, but the Federal Republic has recently decided to resume its aid programs. Some recent friction with the U.S. also seems to have been overcome.

Tanzania, the primary advocate of an East African Federation, has recently taken some steps to establish a separate Tanzanian currency and central bank and has imposed some restrictions on Kenya exports. Because of this, the relations of the three East African countries are somewhat strained. Dar es Salaam has become the headquarters of African Nationalist movements; as a result, Tanzania's relations with Malawi, the Portuguese and the Congo are strained. The government is determined to construct a rail link with Zambia with which it has increasingly close relations.

VII. ECONOMIC SITUATION (Tanganyika only) - (Population: 10 million)
(GNP per capita: \$72)
(Foreign exchange reserves:
\$67.2 million)

Tanzania's GDP rose by about 5% in both 1963 and 1964, thanks to increased production of export commodities. Export prices were also high. Tanzania's efforts to attract and protect industries, which prompted the present strained relations with Kenya, are meeting with some success. Expenditures under the current Development Plan, which calls for annual investment averaging £50 million, as opposed to an average of £25 million over the last few years, have been increasing. The Government's budgetary position appears fairly strong.

In 1963 and 1964, Tanzania had a surplus in its balance of payments on current account, compared with deficits in most years prior to 1963. To achieve its development targets, Tanzania will have to reverse a net outflow of private capital and to mobilize it for investment, and attract about three times as much capital from abroad as it does now. Tanzania's debt service burden, including that on her notional one-third of EACSO's debt, should amount to about 6% of the current receipts over the period 1965-71. While Tanzania has some capacity for carrying additional conventional debt, much of this will be required in support of conventional borrowings for East African infrastructure investments. The capital requirements of Tanzania should be provided substantially on soft terms and the Government's performance justifies IDA lending..

TOGO

BRIEFING PAPER - 1965

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TOGO

I. MEETING WITH DELEGATION

Meeting with staff to be arranged.

II. MEMBERS OF DELEGATION

Antoine Meatchi (F)	Vice-President of the Republic; Minister of Finance
Boukari Djobo (B)	Senior Officer, Office of Planning
Paulin Eklou (F)	Senior Officer, Office of Planning
Jean B. Tevi (B)	Chief, Customs Service

III. BANK/IDA PROSPECTIVE OPERATIONS

Despite of all we did, Togo never applied for Bank/IDA financing or for technical assistance. At various times, Vice-President Meatchi complained that Togo never received any financial or technical assistance from the Bank. At the last annual meeting, we pointed out that Togo never applied for a project financing. Then Mr. Meatchi indicated that a transport survey has been recently completed. We told him that if he wanted Bank/IDA participating in the financing of one of the projects mentioned in this study, the Government should put forward a specific request attaching the study for our information. This he promised to do. We never received such a request. We wrote to him on February 5, to remind him of our proposal; without success. For the time being, there is no project. However, in the long run, the Government mentioned the following projects:

- (a) The development of the Mono River Valley and the setting up of a joint Togo-Dahoman power supply system (see Briefing Paper on Dahomey). The Government asked our office in Abidjan to look into the Mono River study and insure that upon completion, it will provide all the information needed for an appraisal.
- (b) The development of the Oti Valley in the north. The Government would like to have a study carried out similar to that for the Mono River. Our office in Abidjan was asked to pursue this matter.
- (c) The financing of a road program.

The Government also mentioned industrial projects: a salt extraction plant, a superphosphate factory.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

The action to be taken in view to strengthening the Bank financial relations with Togo. This could be done in connection with a review of the new 5-year plan.

(b) To be raised by Bank at meeting with President or Vice President:

No meeting.

(c) Likely to be raised by delegation:

The apparent reluctance of the Bank/IDA to finance investment project in Togo (see Paragraph III) and the possibilities of financing some of the above-mentioned projects.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

None .

(e) Bank 9% Capital Subscription

\$1.35 million. No release.

(f) IDA Subscription

Part II member - \$0.684 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Member. No prospects.

VI. POLITICAL SITUATION

Togo, which was a U.N. Trusteeship Territory under French administration, became independent in 1960 under President S. Olympio who was a moderate nationalist but strongly independent. In January 1963 a military upheaval took power, and the President was assassinated. Then Mr. Grunitzki, who was defeated in the 1958 elections by President Olympio, was recalled by the army, and formed a provisional government. In May 1963 he was elected President with Mr. Meatchi as Vice President. Since then Mr. Grunitzki seems to have strengthened his political position although some divergencies begin to appear between Mr. Grunitzki and Mr. Meatchi.

VII. ECONOMIC SITUATION - (Population - approximately 1.2 million; Per capita GDP - about \$70. Foreign reserves as of May 1965 - \$14.7 million)

The economy is predominantly agricultural. There is almost no industry. High grade phosphate deposits are now mined by a foreign company with French and American shareholders. Phosphate represents now almost 1/4 of total exports. Plans are under study to expand the output capacity of the mine. In 1963, total exports amounted to \$29 million equivalent. Imports reached \$40 million equivalent. Togo's balance of trade normally has shown a deficit except for certain years when large amounts of cocoa crossed the border from Ghana and nominally added to Togo's export receipts. Since independence Togo has made a deliberate effort to balance its ordinary budget. External public debt remains low and takes up less than 4% of export earnings. Foreign aid is available in substantial amounts, mainly from France, Germany, U.S. and Yugoslavia. Togo appears to be an IDA country.

September 14, 1965

TUNISIA

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September 3, 1965

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BRIEFING PAPER - 1965

TUNISIA

I. MEETING WITH DELEGATION

October 4 at 3:00 p.m. with Mr. Knapp

II. MEMBERS OF DELEGATION

Ahmed BEN SALAH
Secretary of State for Planning
and National Economy
Hedi NOUIRA
Governor, Banque Centrale de
Tunisie
Sadok BAHROUN
Deputy Director, Secretariat of
State for Planning and National
Economy
Hedi ENNIFER
Chief, Research Department,
Banque Centrale de Tunisie

III. BANK/IDA PROSPECTIVE OPERATIONS

Second education credit (\$ 10 - 15 million)

Preliminary appraisal mission probable October.

Agricultural credit (\$ 10 million)

Appraisal mission planned for October.

Industrial credit (\$5 million)

Line of credit to Société Nationale d'Investissement dependent
on outcome of proposal to reorganize company and IFC participation.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- Discussion of main findings of last Bank Economic Mission
- Problems in connection with proposed new education project
- Possible technical assistance for project and sector studies
- Discussion on possible Bank/IFC financing of a fertilizer project

(b) To be raised by Bank at meeting with President and Vice-President:

Agenda to be discussed for next meeting of Consultative Group on October 5. This meeting could include comments by the Bank on the basis of the recent Bank Economic Mission, which is preparing a summary of findings for possible discussion at the meeting. The Tunisians may want to submit a list of projects to be financed and requests for technical assistance. The Bank cannot make substantial comments on those requests before the recent economic mission has submitted its full report at the end of October.

Compensation procedure regarding nationalized power properties. It is unlikely that Tunisia and French companies will have arrived at a bilateral agreement before September 15, 1965, at which date the Bank conciliation procedure already agreed among the parties would come into effect. As a first step a consulting firm chosen by the Bank would make an evaluation of the power properties taken over.

(c) Topics likely to be raised by the delegation:

Request for the Bank's report to contain a list of projects and technical assistance measures for consideration by the members of the Consultative Group, including the Bank. Such a list will be annexed to the Bank Economic Report under preparation but it should be made clear to the Tunisian delegation that the Bank has not made an appraisal of the projects listed and is only presenting projects or technical assistance suggestions which prima facie seem to have some economic priority and merit examination or preparation.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

(US \$ Millions)				
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1964	Tunisia	Port	<u>7.0</u>	<u>6.97</u>
	Total		<u>7.0</u>	<u>6.97</u>
		of which has been repaid	<u>0.0</u>	
		Total outstanding	7.0	
	Amount sold	0.4		
	of which has been repaid	0.0	<u>0.4</u>	
	Net Amount held by Bank		<u>6.6</u>	

(b) IDA Credits as of July 31, 1965

(US \$ Millions)				
Date			Amount less cancellations	Undisbursed Balance
Sept. 17/62	Education project		<u>5.0</u>	<u>2.1</u>
		Total	<u>5.0</u>	<u>2.1</u>

(c) Technical Assistance Activities

A study concerning the planning of school buildings /see IV (b) supra/ approved in April 1963 for an amount of \$375,000. The final report has been received.

(d) Access to Private Capital Markets

(e) Bank 9% Capital Subscription

\$2.7 million. Release not yet requested; would be difficult at this stage.

(f) IDA Subscription

No release of 90% local currency subscription as of June 30, 1965.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

IFC has advised the Tunisian Government on the reorganization of the Société Nationale d'Investissement (SNI) and is actively negotiating an IFC participation. Principal problems have been management and demarcation of functions between SNI and the Société Tunisienne de Banque. Mr. Rosen plans to meet Minister Ben Salah during the Annual Meetings to discuss outstanding questions. Completion of the reorganization before the end of 1965 is possible.

<u>Existing Investments</u>	<u>Project</u>	<u>Amount</u>
NPK-Engrais	TSP plant	\$3.5 million

Active Applications

None

Future Prospects for IFC Activity

Industrie Chimique Maghebaine: To produce 200,000 tons per year of DAP and 80,000 tons per year of ammonium nitrate. STB has requested IFC to consider participation in financing and to help in finding a technical partner.

Subjects to be discussed at Meeting

The justification of ammonia production by ICM is open to question and if the delegation discusses the project we should explore under what circumstances they would be prepared to drop this part of the project.

VI. POLITICAL SITUATION

The internal political situation dominated by President Bourguiba and the Neo-Destour Party has been remarkably stable. In spite of the one-party system and the limited significance of the parliamentary institution, the Government has been able to keep contact with the people and enjoys wide popular support. President Bourguiba has succeeded in maintaining good relations with most of the African countries and many Western countries as well. Having a well-established reputation as a "moderate" in the West, the President has in recent months refused to follow Nasser's leadership in the Arab World, especially regarding Israel. Relations with France, which deteriorated sharply in May 1964 as a result of the sudden nationalization of all foreign-owned land in Tunisia, have not improved in 1965. Since the immediate nationalization of all foreign held land violated the agreements of March 1963 with France on the progressive take over of land, the latter has suspended all financial aid to Tunisia. The compensation issue with regard to land nationalisation is not clear. The Tunisian Government has stated that it cannot afford to pay compensation for land, but would compensate for equipment and improvements made by the departing farmers. In recent months, Tunisia has made some efforts to resume its special relationship with France but the reaction from Paris has not been favorable so far. The power property compensation issue is the subject of Bank conciliation procedures provided for in a compromis signed in Tunis, Paris and Washington.

VII. ECONOMIC SITUATION

(a) Population = 4.5 million; GDP per capita US\$190 (1964);

Foreign Exchange reserves = \$32 million (April 1965)

(b) Tunisia has been able to achieve a growth rate of about 6% annually in 1960-64 compared with rates barely above population increase of 2.5% per year during most of the fifties. Considerable results were achieved under the 1962-64 Three Year Plan; however, excessive reliance on bank credit in face of difficulties in mobilizing foreign aid endangered financial stability and steps had to be taken in late 1964 to curb inflationary pressures and halt the rapid shrinking of foreign exchange reserves. The Dinar was devalued by 25% and an IMF stand-by of \$14.25 million equivalent was arranged. Devaluation has been accompanied by restrictive measures on bank credit, in particular on advances to the Government. The external deficit on current account amounted to \$135 million in 1964 (at the exchange rate of US\$1 = 0.42 Dinars) and Central Bank's foreign exchange holdings were reduced in April 1965 to \$32 million (less than 2 months' imports). 1965 has been a difficult year, especially since French government financial aid has not been resumed. In 1965, most of the balance of payments deficit will be covered by U.S. financial assistance. The failure of the balance of

payments to improve could, on the one hand, be ascribed to the continued high level of imports, and on the other hand to lagging exports of wine, Tunisia being blocked from the French market.

The foreign debt service ratio is 9%. Tunisia has still some margin for borrowing on conventional terms. However, a soft blend of loans and credits is justified.

Criteria for IDA eligibility:

Poverty: eligible

Performance: eligible

Creditworthiness (lack of): eligible (soft blend)

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UGANDA

I. MEETING WITH DELEGATION

Meeting will be scheduled for preliminary discussions on the East African Consultative Group proposal.

Mr. A. G. El Emary and/or Mr. J.H. Williams will discuss pending operations with the Finance Minister on Thursday, October 7, 1965.

II. MEMBERS OF DELEGATION

The Honorable L. Kalule-Settala
Mr. A.J.P.M. Ssentongo

Minister of Finance
Secretary to the Treasury

Advisers

Mr. S. Nyanzi

Chairman, Uganda Development Corporation

Mr. J. M. Mubiru

General Manager, Uganda Credit & Savings Bank

Dr. S. B. Asea

Ambassador of Uganda to the United States.

Prince Stephen Karamagi

Second Secretary, Embassy of Uganda

III. BANK/IDA PROSPECTIVE OPERATIONS

It has proved difficult and time-consuming to get Uganda projects off the ground. This is mainly due to a shortage of experienced staff and, more important, to poor coordination in the Government, which causes difficulty and delays in taking decisions on projects. We now expect to proceed with negotiations on two IDA projects during the next few months and one or possibly two more are expected to reach the negotiations stage before the end of the current financial year.

- (1) Smallholder Tea Development: This project, similar to the Kenya smallholder tea scheme, involves the development of small African tea holdings over a total area of 9,700 acres. We expect to negotiate a credit of \$2.5 million early in October. The proposed credit would help finance the field sector of development, while CDC would provide finance mainly for tea factories. Simultaneous negotiations with CDC are planned.

(2) Roads:

- (a) A road project has been under consideration for some time. A mission visited Uganda in April this year to appraise a number of trunk and feeder roads. Subject to completion of some remaining preliminary engineering studies now underway, we expect to negotiate a credit of \$7-9 million by the end of 1965 or early in 1966. It is now agreed with the Government and CDC that a number of feeder roads required for the smallholder tea program (the tea roads), which were considered by our appraisal mission, should be included in this project.
- (b) To follow the present road project, the Government intends to prepare a second road project of a similar nature, including both trunk and feeder roads and some "tea roads", required for the tea development program. The amount of lending involved would be comparable with the present road project amount.

(3) Secondary Education: We have been assisting the Government in the preparation of a project for providing technical "streams" for 21 newly-established secondary schools. The project, which may be ready for appraisal towards the end of this year, involves possible lending of \$8-10 million.

(4) Agricultural Credit: This project, which involves farm and livestock development, is in the early stage of preparation. The report of an FAO mission, which visited Uganda in November 1964 for guidance in the preparation of this project, has not been to the point. In agreement with FAO, we decided not to send the report to the Uganda Government. We are now assisting the Government through our Permanent Mission for Eastern Africa.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

- (1) A full review of the status of various Bank/IDA projects will be made with the Finance Minister on October 7.
- (2) Development Finance Expert: The Uganda Government has approached us informally early this year for provision of (or assistance in finding) a suitable candidate to work within the Ministry of Finance on a coordination of the Government's efforts in project preparation and obtaining development finance (both local and foreign). Our definitive response to the request has been delayed, pending the formulation of the Government's thinking as to the specific functions to be filled by,

and the qualifications required from the proposed candidate. The delegation will probably raise this request again. We should be forthcoming, since Uganda clearly requires expert advice in this field.

(b) To be raised by Bank at meeting with President or Vice-President:

- (1) Proposal for a Bank-sponsored Consultative Group for East Africa: (see East Africa briefing paper).
- (2) East African Economic Cooperation: As a matter of both general and operational interest, we should ask the Uganda delegation about the prospects of continuing economic cooperation among the three East African Governments (see East Africa briefing paper).
- (3) Agricultural Development Service: We should inform the Finance Minister of the availability of this service and encourage him to use it for preparation of high-priority agricultural development projects in Uganda.

(c) Likely to be raised by delegation:

- (1) Bank/IDA Operations: The Uganda delegation may express concern that progress with Bank/IDA lending has so far been slow (see Part III above), while a large part of the Government's current development plan remains yet to be implemented. We should stress the need for adequate project preparation, and indicate willingness to continue to assist in this respect.
- (2) Selection of Nairobi for the Permanent Mission's Headquarters: The Uganda Government would have preferred to see Kampala as the Mission's headquarters. We should emphasize Nairobi's easier access to the various capitals in Eastern Africa and assure the Finance Minister that the selection of Nairobi would not diminish Uganda's chances for assistance by the Mission.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965 (Guaranteed by the U.K.)

(US \$ Millions)				
Date	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1961	Uganda	Electric power	<u>8.4</u>	-
	Total		8.4	
	of which has been repaid		<u>.4</u>	
	Total outstanding		8.0	
	Amount sold	8.3		
	of which has been repaid	.4	<u>7.9</u>	
	Net amount held by Bank		0.1	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

General economic survey mission, 1962; see also Part IV, (a) 2.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

\$3.00 million; no release.

(f) IDA Subscription

1.512 million; no release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

Existing investment: \$3.5 million for Mulco Textiles Ltd. for an integrated textile mill.

Subject for discussion: Last fall, the Government wanted IFC to look into its plans for fertilizer production, but the request has not since been pursued.

Prospective investment: Under preliminary consideration is possible IFC participation in tea factories which would be related to IDA smallholder tea development scheme (see Part III - 1). Last year, the Government inquired about possible IFC interest in fertilizer production in Uganda but the request has not been followed up.

VI. POLITICAL SITUATION

Uganda became independent in October 1962, with the serious constitutional problem of accommodating within the new state the four hereditary Bantu Kingdoms of the south. The Constitution provides that the Head of State will be elected by the Parliament from among the four kings. The present office holder, the Kabaka, is the King of Buganda, the largest and the most powerful of the four kingdoms. There is a ministerial form of government, led by Prime Minister Obote who is the leader of the Uganda People's Congress Party. The Government has made progress toward solving the constitutional problem, and has achieved a measure of national unity, virtually non-existent prior to independence. The Democratic Party, the main opposition group, has been seriously weakened by desertions, and the Kabaka's supporters, represented by the small Kabaka Yekka Party fill the opposition benches in Parliament. The Obote Government now appears to have substantial popular support in most areas of the country. Uganda has no white-settler problem, but there is a substantial Asian minority; some racial tension, which was prevalent over the last two years, has now eased noticeably.

Uganda pursues a non-aligned foreign policy, and has established diplomatic and trade relations with eastern as well as western countries. Uganda's relationships with its neighbors, Sudan, Congo and Rwanda, are complicated and occasionally strained by the influx of political refugees from these countries, who are both a burden on the economy and a source of border incidents. The relations with Kenya and Tanzania are at present strained somewhat, because of a dispute over sharing of industrial development in East Africa.

VII. ECONOMIC SITUATION - (Population: 7.4 million)
(GNP per capita: \$76)
(Foreign exchange reserves: \$84 million).

Uganda's real income increased by about 10% in 1963 and a further 4% in 1964, after eight years of virtual stagnation. This growth has been due mainly to an expansion of agricultural production for export. Uganda's economic performance has been adequate, considering the inevitable precedence of domestic political issues over financial and economic matters.

Expenditure on the 1961/62 -65/66 development plan, which follows broadly the recommendations of the Bank survey mission, is now gaining momentum. But much of the plan will have to be carried over into a second development plan which is now being

prepared. It will provide a total public and private investment of £230 million over a 5-year period. The Government's budgetary position appears fairly strong, with some current surpluses being achieved regularly. However, a good part of the expenditure is being financed by drawing down the reserves of the Cotton and Coffee Marketing Boards. The Government has set the Coffee Marketing Board's purchase price for coffee at an unrealistically high level, with an undue encouragement for coffee production while production already greatly exceeds Uganda's quota under the International Coffee Agreement. Continued producer subsidies could also seriously undermine the Government's budgetary position.

The Uganda Government aims at achieving a steady 4% growth rate in real output through 1970; this is probably fairly realistic. However, a substantially greater inflow of capital than has taken place in the past will be required to achieve this rate of growth. Uganda's debt service payments, including a notional third of EACSO debt, will average about 8% of projected current receipts over the next 6 years, with a sharp peak in maturing term debt in 1969. Taking into account the cloudy export prospects (coffee), Uganda's ability to borrow on conventional terms is strictly limited and any margin of creditworthiness is likely to be absorbed for contemplated Bank lendings for East African projects. On the basis of its performance and poverty, Uganda is eligible for access to IDA funds.

BRIEFING PAPER - 1965UPPER VOLTAI. MEETING WITH DELEGATION

Meeting with staff to be arranged.

II. MEMBERS OF DELEGATION

Charles Kabore (F)	Minister of Finance
Edouard Yameogo	Minister of Economic Affairs
Raphael Medah	Minister of Commerce
Robert Pebayle (F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Ouagadougou

III. BANK/IDA PROSPECTIVE OPERATIONS

- (a) Mining project - Tambao deposit - Japanese firms have shown interest in mining a manganese deposit at Tambao near the Niger border. The Government asked us whether the Bank would finance the construction of the infrastructure required to transport the ore from the mine to Ouagadougou terminal at the railroad to Abidjan.

The Government also requested the U.N. Special Fund to finance the feasibility study of the whole project (mine and transportation). The U.N. Special Fund asked us whether we could undertake the preparatory mission which would help the Government in preparing the request to the U.N. Special Fund for this study.

- (b) Agricultural development project - At various times, Upper Volta mentioned a project of regional development, but we never received information about it.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:

The Tambao project and a review of possible other projects.

- (b) To be raised by Bank at meeting with President or Vice President:

No meeting.

- (c) Likely to be raised by delegation:

The financing of the Tambao project.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

\$0.9 million. No release.

(f) IDA Subscription

Part II member - \$0.45 million - No release.

(g) Holdings of Bank Bonds

None

(h) I. F. C.

Not a member.

VI. POLITICAL SITUATION

Upper Volta became independent in 1960. Through the one recognized party which he leads as General Secretary and through the Government he heads, President Yameogo plays the leading role in the country's political life. So far, the country is one of the most stable countries in Africa.

VII. ECONOMIC SITUATION - (Population - 4.4 million. GDP per capita \$40. Foreign reserves as of May 1965 - \$15 million)

Upper Volta is a very poor country, the development of which is severely limited by natural factors. However, population is hard-working and relatively well organized, and this is probably the

most valuable factor of development. Cash crops production (cotton, groundnuts) is increasing, and prospects are relatively good mainly for cotton. Livestock is of importance in foreign trade and offers possibilities for long-run development.

Government efforts are concentrated on agriculture. In this field, the Government endeavours to develop the role of extension services, the results of which appear already rather promising. At the present stage, there is no development program or plan. A 5-year plan prepared in 1962 was never put into effect and the Government intends to prepare a new plan.

The current budget is now financed without foreign aid. The estimated government revenues increased from \$26.7 million in 1964 to \$34.6 million in 1965. The estimated expenditures for 1965 amount to \$34.5 million. The annual debt service is about 10% of exports. Total exports in 1963 were about \$8 million mainly towards Ghana. Total imports amounted to \$36 million the same year. When suitable projects are prepared, Upper Volta would be eligible for IDA but not for Bank loans.

September 14, 1965

CONFIDENTIAL

September 15, 1965

BRIEFING PAPER - 1965

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ZAMBIA

I. MEETING WITH DELEGATION

Mr. A. G. El Emary and/or Mr. J. H. Williams, Mr. O. H. Calika
Wednesday, October 6, 1965

II. MEMBERS OF DELEGATION (Observers)

Mr. A. Wina	Minister of Finance
Mr. R. C. Hallett	Governor, Bank of Zambia

III. BANK/IDA PROSPECTIVE OPERATIONS

It is expected that Zambia would become a member in the Bank, IDA and IFC by the Annual Meeting.

The following projects are at varying stages of preparation:

- (1) Trunk Roads: The Government has recently completed the preparation of a trunk roads project, which may involve a Bank lending of around \$20 million. It consists of: (a) Kapari-Mposhi-Abercorn road (copper-belt to Lake Tanganyika) and (b) most of the Great Eastern Road (Lusaka-Malawi border). The road under (a) is not exactly the Great North Road which the Sadove mission has suggested as a possible alternative to the proposed Tanzania railway and it would not provide a through route to Dar es Salaam or any other place on the coast.* Depending on the quality of the project document, we expect to appraise the road project towards the end of this year.
- (2) Secondary Education: The Government has an ambitious 5-year program for construction of secondary schools, involving a total expenditure of over \$40 million equivalent. Mr. Ballantine had preliminary discussions in Lusaka last

*/ The U.S. Government has a standing offer to Zambia and Tanzania for conducting a feasibility study of a through road connection between the two countries, as a possible alternative to the proposed railway. The U.S. would be willing to help finance the Tanzanian part of such road connection, on the assumption that the Bank would be lending for the construction works on the Zambian side.

April on possible Bank participation in it. There are issues regarding the secondary education policy (technical streams, adequacy of teacher supply, etc.) and the pace of construction, on which our views differ from the Government's approach. We have agreed with the Ministry of Education that points such as these would be reviewed when the results of a manpower survey, currently underway, are known. The Government, in the meantime, proceeds with its program; it has sufficient funds to do so.

- (4) Agricultural Development: Investment in agriculture, one of the least developed sectors of the Zambian economy, has been lagging, mainly because of serious lack of suitable public and private projects. The report of a FAO/Bank project identification mission earlier this year, after having been reviewed within the Bank, will be forwarded to Zambia for use in the preparation of the Government's next 4-year development program. The mission is likely to single out a forestry project, a fisheries project, and a drainage project in Barotseland for possible financial assistance by the Bank. The latter two projects are fairly small; the forestry scheme may be ready for appraisal.
- (5) Power: The Central African Power Corporation has engaged consultants to report on the next stage of the Kariba development. Depending on reasonably good working relations between Zambia and Rhodesia, the Bank may be approached, probably later this year, for possible lending for the second stage of the Kariba development, involving a power plant on the northern bank of the Zambezi river. The Zambian Government has in mind, to supplement the Kariba development or possibly to be an alternative to it, a power project on Zambezi at Victoria Falls. There is as yet no specific data on this scheme.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
 - (1) A review of the status of various Bank projects in Zambia and tentative plans of action for the future.
 - (2) We should encourage the Zambian Government for utilizing the services of the Agricultural Development Service.
 - (3) We should ask a graduated release of Zambia's 9% capital contribution to the Bank.
- (b) To be raised by Bank at meeting with President or Vice President:
 - To welcome Zambia as a new member of the Bank Group.

(c) Likely to be raised by delegation:

- (1) The Zambian delegation may wish to discuss the existing project proposals, including information about the recent FAO/IBRD agricultural mission. On the latter, we should be willing to provide any supplementary assistance as may be necessary.
- (2) The delegation may wish to discuss the recent developments regarding the Zambia-Tanzania railway proposal, with a view to interest the Bank in possible technical or financial assistance, or to get the Bank to intervene in the case of a dispute between Zambia and Rhodesia on the implementation of the Rhodesia Railways Agreement between the two countries. Two separate feasibility surveys on the proposed railway are now under way by British (Max Stamp) and (Red) Chinese teams and it is inadvisable for the Bank to make any commitments for financial or technical assistance on this matter. (The agreement between Zambia and Rhodesia provides that if the Higher Authority for Railways or the two Governments are unable to agree on the choice of an arbitrator, they shall ask the President of the Bank to nominate an arbitrator, such nomination to be binding on the Higher Authority or the Governments. If the President is unable to make such a nomination, the Higher Authority would have to find another person to nominate arbitrators).

V. BACKGROUND INFORMATION

Before the Federation of Rhodesia and Nyasaland was dissolved at the end of 1963, we conducted negotiations with representatives of Northern Rhodesia (Zambia), (Southern) Rhodesia, the United Kingdom, the Federal Power Board (Central African Power Corporation) and the Rhodesia Railways to adapt the Bank's loan documents to the new political situation. Under the Loan Assumption Agreements which were signed in Salisbury on December 30, 1963, the Bank's position and powers remain substantially as they were under the original loan agreements. As from January 1, 1964, Zambia has assumed direct responsibility for payments to the Bank with regard to the 1953 railways loan (Loan 74 NR), and to one half of the Federation's obligations under the 1958 railways loan (Loan 197 RN). It also guarantees one half of the payments under the Kariba loan (Loan 145 RN). We lent to the Central African Power Corporation \$7.7 million last October for financing a second transmission line between Kariba and the Copperbelt. Zambia and Rhodesia have each guaranteed one-half of this loan; the U.K. has guaranteed the full amount.

(a) Bank Loans as of July 31, 1965^{1/}

			(US \$ Millions)	
Year	Borrower	Purpose	Amount less cancellations	Undisbursed Balance
1953	Zambia	Railways	14.0	-
1956	Central African Power Corporation	Electric power	40.0 ^{2/}	-
1958	Zambia	Railways	9.3 ^{3/}	-
1964	Central African Power Corporation	Electric power	3.85 ^{4/}	3.48
Total (net of cancellations and refundings)			67.3	3.48
of which has been repaid			11.9	
Total outstanding			55.4	
Amount sold			39.4	
of which has been repaid			11.6	
Net amount now held by Bank			27.6	

- ^{1/} Obligations under these loan agreements, except for the latest loan of 1964, were assumed by the listed borrowers by Loan Assumption Agreements dated December 30, 1963.
- ^{2/} Zambia guarantees one half of the original \$80 million Bank loan to the Federal Power Board.
- ^{3/} Zambia assumes one half of the Federation's obligations under the \$19 million Bank loan made to the Federation.
- ^{4/} Zambia guarantees one half of the \$7.7 million Bank loan to the Central African Power Corporation.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance activities

- (1) At the request of the Governments of Zambia and the U.K., a Bank mission, headed by Mr. Sadove, visited Central and East Africa in December 1963 for advice on the proposed railway project between Zambia (Copperbelt) and Tanganyika. The mission concluded that an economic case cannot be made at this time for this rail link. However, it recommended that a study be made of the relative priorities both of the internal transport requirements of Zambia and of its links with East Africa. Despite his disappointment at the mission's negative conclusions about the rail link, Dr. Kaunda accepted the recommendation on the general transport study and officially requested it.

- (2) The Bank made arrangements with the Dutch firm NEDECO to carry out a general study of transport priorities in Zambia, and the study was conducted by the firm in 1964. The NEDECO report recommended a five-year (1965-70) investment program for the transportation sector, which involved a total expenditure of some £21 million, largely for roads. The mission's report was well received in Zambia and its recommendations were taken into account in the preparation of the Government's Interim Development Plan (1964-65). As to the Zambia-Tanzania rail link proposal, the NEDECO team concluded that increasing the capacity of the Lobito Railway or improving the road connections with Tanzania would provide Zambia with an additional outlet to the sea at a much lower cost than the proposed rail link. This conclusion has not apparently been accepted by the Zambian Government. Zambia and Tanzania leaders remain publicly committed to the railway project and are conducting feasibility studies of doubtful value to prove the project's value. Several Governments (China, the U.K., Canada, Japan and Germany) have expressed varying degrees of interest in the scheme - probably mainly to secure some contracts for the construction work (see also Part III, (1)).
- (3) Sir Penderel Moon was stationed by the Bank in Lusaka for a period of six months (February-August, 1965), as Adviser to the Economic Planning Unit of the President's office. His main task was to assist the Government in matters of economic planning and policy.
- (4) At the request of the Zambian Government, a FAO/IBRD project identification mission visited Zambia in last May to recommend on priorities for agricultural investment during the next five year period, high-priority projects, and any need for further technical assistance (see Part III 4 above).

(d) Access to Private Capital Markets

Zambia, like most Commonwealth countries, has access to the United Kingdom capital market, subject to the approval of the United Kingdom Government. Under present conditions, however, it is unlikely that the Zambian Government could succeed in raising a loan on reasonable market terms.

There is no domestic capital market.

(e) Bank 9% Capital Subscription

\$4.797 million; no release.

(f) I.D.A. Subscription - (90%)

\$2.421 million; no release.

(g) Holdings of World Bank Bonds

None.

(h) I.F.C.

No active projects under consideration.

VI. POLITICAL SITUATION

Zambia became independent in October 1964 as a Republic within the Commonwealth. Dr. Kenneth D. Kaunda, its first President, is also the leader of the "United National Independence Party" which holds 55 of the 75 seats in Parliament. The remainder of the seats are equally shared by the opposition "African National Congress Party" and the Europeans (there are about 76,000 Europeans in Zambia).

Although there is internal pressure in favor of speedy Africanization of jobs and a radical policy towards Rhodesia, the Zambian Government has been following a policy of multiracialism internally, and of technical cooperation with Rhodesia for joint services regarding electric power, airways and railways. Zambia has to rely on foreign skilled workers, coming mainly from South Africa and Rhodesia, and has extensive trade relations with its southern neighbors. Zambia, on the other hand, is a supporter of the Pan African movement and Dr. Kaunda has a high standing in its councils.

VII. ECONOMIC SITUATION - (Population 3.5 million)
(GNP per capita: about \$150)
(Foreign exchange reserves: about \$192 million)

Zambia has a well-developed mining sector, producing about 700,000 tons of copper a year and over 50,000 tons of lead and zinc. Subsistence agriculture accounts for the rest of the economy, aside from a small number of industrial plants. The large landlocked nature of the country and its poor communications leave Zambia with a serious obstacle to growth.

About 95% of Zambia's export earnings are contributed by the mining sector which also generates to a great extent the Government's revenues. In 1964, the British South Africa Company agreed to turn over to the Government its mineral rights in return for a payment of \$11.2 million (\$5.6 million from the Zambian Government and \$5.6 million by the U.K.). The country is pursuing a sound budgetary policy, providing for current surpluses to finance capital expenditure. Zambia has entered independence with a strong fiscal position; revenues from copper industry, which used to finance development in the former Federation of Rhodesia and

Nyasaland, will now be available exclusively for development in Zambia. Zambia should be able to provide from its own resources, most of the funds necessary to finance a development program appropriate in size to the country's absorptive capacity and the Government's capacity to execute. Favorable world market conditions for copper assure the Government of a substantially favorable balance of trade and balance of payments at this time. However, one of the limiting factors to growth prospects is an acute shortage of skills in both government and private enterprises.

The indications are that Zambia's GDP increased at a rate over 10% in 1964. The Government has been making satisfactory progress with the implementation of a 18-month (1965-66) Transitional Development Plan, providing for a target spending of £35 million. This plan, which will soon be replaced by a 4-year development plan, has put emphasis on construction of schools, government buildings, etc., to develop construction capacity and to absorb unemployed.

On January 1, 1964, Zambia's external debt totalled £60 million, with external debt service charges of about 5% of the total exports earnings. Zambia has a fair margin for incurring conventional debt. The country is, however, at an early stage of development; investment opportunities are limited outside the mining sector and there is a serious shortage of trained manpower. In view of these difficulties, external assistance on soft terms may come to be required in the future. For the time being, our lending in Zambia is expected on Bank terms.