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President G. D. Woods Briefs - 22nd Annual Meeting 1967
Africa

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

G. D. Woods's Meetings

Africa Department

Country	Date	Time
Zambia	Sept. 23	3:30-4:00

BOTSWANA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

BOTSWANA
(Not yet a member)

I. MEETING WITH DELEGATION

Not scheduled.

II. MEMBERS OF DELEGATION : (Observers)

Q.K.J. MASIRE, M.P.
Vice President and Minister of Finance

A.J. BEEBY
Financial Secretary

III. BANK/IDA PROSPECTIVE OPERATIONS

Shashi River Project: This project would provide the infrastructure (water supply, power, transportation) required for the development of approximately 35 million tons of copper and nickel ore located in two sites near Francistown. These facilities would be designed so as to also serve other consumers in the area, including possibly a small irrigation scheme. Infrastructure cost is currently estimated to be $ 30 million, and the cost of mine development (to be provided by Roan Selection Trust Limited) would be about $ 70 million. Further changes (possibly a reduction) in the present estimate of infrastructure cost may result from the recent announcement by the Anglo-American Group (De Beers) of diamond discoveries about 120 miles west of Francistown. If the latter prove exploitable, Anglo-American might develop private power facilities which could serve also the Shashi project, thus reducing Government expenditures in this field. The Bank is Executing Agency for a UNDP project which provides financing of comprehensive feasibility studies. Total cost of the UNDP project is estimated at $ 372,000 of which $ 125,000 was approved in June 1967, with the remainder expected to be approved by the Governing Council in January 1968. This study is expected to be completed by mid-1968.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level (if a meeting is held):

(i) Shashi River Project: Any Government action required to expedite completion of arrangements for consultants' study.

(ii) Bank/IDA Membership: Any further steps required with regard to Bank/IDA membership; the application was received on July 24, 1967.

(iii) Road Project (Credit 63/BEC): The findings of the supervision mission, scheduled for August 1967.

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

None.

(c) Likely to be raised by Delegation:

The delegation may propose projects for agricultural development (possibly drilling tube wells for cattle raising). Due to the scarcity of IDA funds and Botswana's ineligibility for Bank finance, consideration of these projects should await the outcome of the Shashi River studies.

V. BACKGROUND INFORMATION

(a) IDA Credits as of July 31, 1967:

Credit Number	Year	Borrower	Purpose	(US$ million) Amount	Undisbursed Balance
63/BEC	1964	Botswana	Roads	3.6	0.7

(b) Technical Assistance:

See Paragraph III.

(c) Consultative Group:

None

(d) Access to Capital Markets:

None.

(e) Bank 9% Capital Subscription:

Not a member.

(f) IDA Subscription:

Not a Member.

(g) Holding of Bank Bonds:

None.

(h) I.F.C.

Although not yet an IFC member, a preliminary project is under study concerning copper deposits to be developed by Roan Selection Trust.

(i) Settlement of Investment Disputes:

Not signed.

VI. POLITICAL SITUATION

The former British High Commission Territory of Bechuanaland became independent as the Republic of Botswana on September 30, 1966. The constitution provides for a President with full executive powers, elected by a unicameral National Assembly every five years. The current National Assembly, elected in 1965, will end its term in March 1970. There is a separate House of Chiefs confined to consideration of certain chieftaincy matters.

There appear to be no major political problems on the horizon. President Seretse Khama is a member of the ruling family of the country's biggest tribe. His Botswana Democratic Party holds 28 of the 31 seats in the National Assembly, and in local elections held in June 1966 won 136 seats out of 165. The chiefs, who had been dissatisfied with their small role under the new constitution, appear to have been pacified by the decision to give the eight principal chiefs the chairmanship of the new local councils. Relations between the Government and expatriates in the administration and in private enterprise have remained good.

The Government has stated that it welcomes investment from all countries, including South Africa and Rhodesia. The Government has adopted a pragmatic policy of "neutrality" toward South Africa, recognizing Botswana's economic dependence on South Africa. Botswana supports the banning of shipments of arms, ammunition, and oil to Rhodesia.

VII. ECONOMIC SITUATION

Population:	600,000
GNP per capita:	$ 60 (tentative Government estimate)
Foreign Exchange Reserves:	n.a. (part of South African monetary area)

Botswana covers a large but sparsely populated, semi-desert area. The main economic activities are agriculture and cattle-raising for export, chiefly to South Africa. Beef and other animal products amount to 95% of total exports and more than 90% of the country's working population is engaged in agriculture. There is some mining of asbestos and manganese; good prospects exist for the mining of copper and nickel but it is unlikely that mining operations could begin before 1972. Following several years of drought, country wide near famine conditions have existed since 1965. At least one quarter of the national cattle herd has been lost, and lack of rain has turned much of the country's available land into a gigantic dust bowl. By July 1966, one-fifth of the total population were being fed by the government, with assistance from the US, UK, and the UN. With good rains falling in late 1966 for the first time in six years, it should at least be possible to take the country off international famine relief rations as soon as the crop is harvested. However, the rains may not greatly affect the pace at which the national cattle herd can be rebuilt.

Botswana will continue to depend on grants from the U.K. to cover a large part of the Government's current expenditures. There is no prospect that this dependence can be quickly reduced. The British have agreed to provide £ 13 million in financial assistance over a three-year period beginning April 1967, but this will do little more than balance the recurrent budget. Botswana will have to depend entirely on foreign aid for development expenditures. In the financial year, starting April 1967, Government development spending is expected to reach £ 1-1/2 to 2 million, compared with an average of only £ 500,000 for the five years prior to independence. The transitional development plan covering the first two years of independence appears to be sensible and well-conceived.

Botswana is eligible only for IDA credit.

BURUNDI

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

REPUBLIC OF BURUNDI

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

Governors

Eric Manirakiza (B)	- Président, Banque de la République du Burundi
Donatien Bihute (F)	- Minister of Finance

Alternates

François Kesteman (B)	- Adviser, Ministry of Finance and Economy
Ferdinand Bitariho (F)	- Vice-Président, Banque de la République du Burundi

III. BANK/IDA PROSPECTIVE OPERATIONS

The Government has submitted a road project consisting of the reconstruction of a road between Bujumbura and the southern region of the country (Nyanzalac) to Kigoma in Tanzania. The UNDP in June 1967 approved financing of a feasibility study for the road. Terms of reference have been prepared and will be cleared shortly with the Governments of Burundi and Tanzania.

In April 1966 an FAO mission visited Burundi to identify agricultural projects. It selected a coffee rehabilitation program and an irrigation project in the Mosso region, and recommended a preparation mission. An FAO mission visited the country in July 1967 to help the Government prepare the coffee rehabilitation scheme (estimated cost of $5-6 million) and to discuss the organization and timing of a preparation mission for the Mosso project.

IV. TOPICS FOR DISCUSSION

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

Status of projects under consideration; execution of the Bujumbura water supply project financed by $1.1 million IDA credit in March 1966.

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

None.

(c) Likely to be raised by delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount US $ million) Bank	IDA	Undisbursed
BE-165	1957	Rwanda-Urundi	Road & Port	4.8		--
BU-85	1966	Burundi	Bujumbura water supply		1.1	1.0
Total (less cancellations)				4.8		
of which has been repaid				1.5		
Total now outstanding				3.3		
Amount sold			3.0			
of which has been repaid			1.5	1.5		
Total now held by Bank and IDA				1.8	1.1	
Total undisbursed						1.0

(b) Technical Assistance

Bank is the executing agency for UNDP roads study (see part III).

(c) Consultative Groups

None.

(d) Access to 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.

Not a member.

(i) Settlement of Investment Disputes

Burundi signed the Convention on February 17, 1967, not yet ratified.

VI. POLITICAL SITUATION

Burundi, formerly administered together with neighboring Rwanda as a Belgian Trust Territory, became an independent kingdom in July 1962. Its main problem since then has been the relationship between the aristocratic ruling Watusi minority and the upcoming Bahutu majority. Over the years, although no fighting and killings between the two groups comparable to those in Rwanda occurred, there were several political upheavals which had their cause in the enmity between the two groups.

Lately, in October 1965, certain police and army groups attempted to stage a coup d'état but were promptly mastered by troops loyal to the King, Mwambuka IV. Military rule was imposed. The Bahutu were generally held responsible for the attempt to remove the Watusi king, and a great number of their leaders were subsequently executed.

In July 1966, Crown Prince Charles Ndinzeye deposed his absent father as King, and named a 26-year old army captain, Michel Micombero, as new Prime Minister. In November 1966, captain Michel Micombero proclaimed Burundi a Republic and named himself President. He appears to be in full control of the situation.

Burundi's relations with bordering Rwanda are bad as a result of the 1963/64 Watusi invasion into Rwanda territory; all common institutions have disappeared and the two economies have drifted apart. However, with Congo-K President Mobutu's mediation, they are trying to negotiate a settlement of their disputes.

VII. ECONOMIC SITUATION

(a) Population: 3.2 million
GDP per capita: US $53 in 1964
Foreign exchange reserves: B Fr. 572 million ($6.5 million, equivalent to four months imports)

(b) Burundi is a small landlocked country with a population density of 300 inhabitants per square mile, one of the highest in Africa. Burundi is predominantly an agricultural country with little industry and limited mineral resources. Agriculture, livestock and fishing account for 65% of GDP and 90% of total exports (subsistence agriculture alone accounts for over 50% of GDP and coffee exports for 80% of total exports). About 95% of the economically active population is engaged in agriculture and 25% of the total land area is under cultivation. Subsistence agriculture has been the most dynamic sector of the economy showing an annual rate of increase in physical production of about 4% over the 1963-1965 period. Cash crops, however, have been subject to wide fluctuations both in price and volume, particularly in the case of coffee.

Estimates of GDP are only available for 1959 and 1964. Between these two dates GDP increased at an average annual rate of 7% in current prices. There is no reliable general price index available other than a recent, limited index for Bujumbura but estimates of the annual rate of price increases for the monetary sector alone place it between 4 to 5%. All considered it would seem that real GDP has increased at an annual rate of 3 to 4% which leaves per capita income at an almost stationary level, both in the monetary and subsistence sectors.

Since 1962 there has been a persistent and steadily increasing Treasury deficit which has been the result of continuously increasing current expenditures, usually beyond original appropriations. The bulk of the deficit has been financed by borrowing from the central bank and autonomous public agencies and by drawings on Treasury balances. The Burundi Government in consultations with the IMF has promised to take steps to bring deficit spending under control. In this connection a new law in 1966 prohibits overspending of the budget without Ministry of Finance agreement. Development expenditures were about 12% of current expenditures in 1965. Revised estimates for 1966 indicate development expenditures in the budget will fall by 40%.

Independent trade statistics for Burundi were not available until 1964, when the monetary and economic union with Rwanda was dissolved. Because of its considerable dependence on coffee exports as a main source of export earnings, Burundi's balance of payments is subject to wide seasonal fluctuations. Standby arrangements with the International Monetary Fund in 1965 and 1966 have helped to cushion the impact of the seasonal deficits. There is however an overall deficit of FBu 112 million for 1965 and FBu 314 million for 1966, as reflected in the movement of the net foreign exchange reserves of the banking system. Both seasonal and cyclical deficits are expected to continue as long as coffee remains the base of foreign exchange earnings.

Burundi's external debt consists of a balance of US$3.6 million on an IBRD loan contracted in 1957 and US $1.1 million on an IDA loan; no repayments are yet due on the latter. The debt service ratio in 1965 was only 3.2% of the value of total commodity exports. However, because of its poor balance of payments, budgetary and economic prospects generally, Burundi is eligible for IDA only.

CAMEROON

CONFIDENTIAL

September 14, 1967

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BRIEFING PAPER - 1967

CAMEROON

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Laurent Ntamag (B)	- Managing Director, Banque Camerounaise de Développement
Simon N'ko Etoungou (F)	- Minister of Finance

Alternates

Alfred Ekoko MPondo (B)	- Director, Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun, Yaounde
M. Mbog (F)	- Director of Foreign Economic Relations, Ministry of Commerce and Industry

III. BANK/IDA PROSPECTIVE OPERATIONS

The feasibility study of the N'Gaoundere-Garoua road, financed by a Bank Technical Assistance grant, was completed in 1965. A $0.45 million engineering credit for that road and for the Tiko-Victoria road in West Cameroon is likely to be negotiated in October, 1967. This may lead to a future construction loan or credit of $7-13 million, depending on whether the consultant for the final engineering of the N'Gaoundere-Garoua road recommends a gravel or an asphalt surface.

In April 1967, a Bank mission reviewed in the field a water supply project for Yaounde, for which a Bank loan of $5.7 million is contemplated. The project was found promising and may be ready for appraisal early in 1968.

Also under consideration are a number of agricultural projects (oil palm, tea, and rice projects). The oil palm project may be appraised early in 1968, provided the Government finalizes organizational arrangements for the project within the next few months. Feasibility studies for the tea and rice projects are being financed by FAC. The size of possible loans or credits will depend greatly on how much FAC and FED are prepared to put into these projects.

IV. TOPICS FOR DISCUSSION

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

N'Gaoundere-Garoua road: A mission is expected to visit Yaounde in September, 1967 to review with the Government its draft contract with the consultants and to discuss the need for a regional study of the north Cameroon and southwest Chad traffic.

Water supply project in Yaounde and Douala: Organization of water supply authority, financial arrangements, final engineering study.

Oil Palm project: Organizational arrangements. Timing of appraisal mission.

Other Agricultural projects: Status of feasibility studies.

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

None.

(c) Likely to be raised by delegation:

The same as under (a) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	IDA	Undisbursed
490-CM	1967	Cameroons Development Corporation	Plantation project in West Cameroon	7.0		7.0
100-CM	1967	Federal Republic of Cameroon	Plantation project in West Cameroon		11.0	11.0
Total now held by Bank and IDA				7.0	11.0	
Total undisbursed						18.0

V. BACKGROUND INFORMATION (Continued)

(b) Technical Assistance

In July 1964, the Bank approved the financing of the foreign exchange cost of two studies: a) a cocoa rehabilitation study in the southern part of the country; and b) a feasibility study of the N'Gaoundere-Garoua road (see above under III). No action on the cocoa project was envisaged because of a drop in cocoa export prices.

The Bank is the Executing Agency of a UNDP transport survey of the southern regions of Cameroon and C.A.R. (UNDP allocation $2.1 million). Field work on the first stage of the study started in May, 1967. The Plan of Operation was signed in July 1967.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

1.80 million. No release.

(f) IDA Subscription

Part II member. $0.909 million. No release

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes

The Convention was signed on September 23, 1965 and ratified on January 3, 1967.

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). Mr. 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 percent majority.

Since its independence, Cameroon was faced with a number of unusually difficult problems, including serious civil disturbances which have now been fully overcome.

Cameroon has pursued a policy of close cooperation with the four countries of the former French Equatorial Africa (Chad, C.A.R., Congo (B) and Gabon). Economic links have been recently reinforced. As the largest country with the largest population among the Equatorial African Economic Union territories, Cameroon exerts substantial influence over its neighboring countries.

VII. ECONOMIC SITUATION

(a)	Population:	5.3 million (1966)
	GDP per capita:	US $131
	Foreign exchange reserves:	Gross foreign exchange reserves imputed to Cameroon within the customs and banking union (UDEAC and BCEAEC) amount to CFAF 9.69 billion ($39.2 million, equivalent to four months imports)

(b) Cameroon has a free enterprise economy with an active public sector. Agriculture contributes about 38% of GDP and 75% of export revenue and provides employment to about 90% of the economically active population. Only about 4% of the total land area, however, is cultivated. The principal agricultural export products are coffee and cocoa.

The discontinuance of preferential market arrangements and sharply deteriorating raw material prices in recent years have adversely affected the value of agricultural production and reduced export revenue considerably (the decline of cocoa prices alone in 1964-65 is estimated to have caused a loss of 16 million dollars, 12% of the export revenue). These fluctuations have not been fully absorbed by the marketing boards due to insufficient reserves. The Government has pursued an active program of diversification of agricultural products to relieve the country from undue dependence on a few exports. Oil palm development has been one such program; others include cotton and timber extraction in new areas.

VII. ECONOMIC SITUATION (Continued)

Manufacturing has recorded significant gains in recent years and in 1966 accounted for about 12% of GDP. Most industrial activity is restricted to East Cameroon and is small scale. The only important large scale industrial activity is aluminum production.

GDP increased at a rate of 7% in the 1960-1966 period (in current prices) which combined with an increase in the general price index of 4.9 for the same period gives a real rate of increase in GDP of 2.1%. During the same period population increased annually by 2% so that real per capita income has remained almost stationary. Investment has grown at about 7.5% for the 1960-1966 period (in current prices), but still accounted for only 10% of GDP in 1966. The low investment ratio plus adverse export prices in recent years is mainly responsible for the poor performance of the economy.

Cameroon's budgetary position has significantly improved in recent years, mostly because of substantial increases in taxes (tax revenue rose from 7% of GDP in 1959 to 15% in 1965-66). The Bank mission estimates that public investment expenditures within the Development Plan for 1966/67-1970/71 could reach about 60 billion CFAF and that public savings would cover about 25% of public sector expenditures. The private investment target of 75 billion CFAF foreseen in the Plan is expected to be met, bringing total Plan expenditure to 135 billion CFAF.

The balance of payments has shown a disturbing deterioration since 1960 both on goods and services and on current account. The current account has gone from a 5.1 billion CFAF surplus in 1959 to a 5.7 billion CFAF deficit in 1965. This change has partly resulted from a deterioration in the terms of trade over the period (from an index of 111 in 1959 to 90 in 1964). Balance of payments projections for 1970 estimate of the current account deficit will increase to 14.3 billion CFAF to be covered by an estimated private capital inflow of about 3 billion CFAF and by public external assistance of 11 billion CFAF (5 billion CFAF in grants and 6 billion CFAF in loans).

The debt service ratio in 1966 was only 3% of total exports of goods and services because a large proportion of public capital imports were grants. The grants to loans ratio is expected to decline so that the debt service ratio could easily increase to 7% of exports by 1970 and to 10% by 1975.

Because of Cameroon's potential for continued economic growth the country should be eligible for some external aid on conventional terms but it would seem that the bulk of the aid provided should be on concessionary terms.

CENTRAL AFRICAN
REPUBLIC

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

CENTRAL AFRICAN REPUBLIC

I. MEETING WITH DELEGATION

No meeting is scheduled.

II MEMBERS OF DELEGATION

Governors

Bernard Ayandho (B)	- Planning Commissioner
Alexandre Banza (F)	- Minister of State in charge of Finance and National Economy

Alternates

André Zanife-Touambona (B)	- Director General, Banque Nationale de Développement
Albert Madiabola (F)	- Deputy Director, Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun, Bangui

III. BANK/IDA PROSPECTIVE OPERATIONS

Power Project. Appraisal report being prepared. Total cost of the project is estimated at $2.6 million. A $1.2 million IDA credit is envisaged.

Bangui-M'Baiki Road. Final engineering is financed by FED (SAUTI). The Bank is financing a study of economic justification out of the Project Department's regular budget. Consultant's (SAUTI) contract will be signed shortly.

Sibut-Bambari Road. Application has been submitted to UNDP for financing of feasibility study. Expected to be approved by UNDP Governing Council in January 1968. Terms of reference to be cleared with Government shortly.

Transport survey. The Bank is the Executing Agency of a UNDP transport survey of the southern regions of the C.A.R. and Cameroon. The Plan of Operation was signed on July 26, 1967. Field work on the first stage, consisting of an economic study of the traffic potentials of the region with a view to selecting the most economic mode of transportation, has started in May, 1967 (pending the signing of the Plan of Operation). The second stage will consist of the preliminary engineering of the mode of transportation selected under the first stage.

IV. TOPICS FOR DISCUSSION

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

Status of projects under consideration and particularly proposed reorganization of the power authority.

Steps to be taken for the effectiveness of the Plan of Operation for the transport survey of the southern regions of the C.A.R. and Cameroon (Payment by C.A.R. of $19,500; legal opinion).

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

None.

(c) Likely to be raised by delegation:

Same as under (a) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

The Bank is Executing Agency of a UNDP transport survey of the southern regions of C.A.R. and Cameroon (UNDP allocation $2.1 million). See part III.

(c) Consultative Groups

None.

(d) Access to 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.

Though CAR is not yet a member of IFC, the Comptoir National du Diamant approached us in early 1967 to ask for financing of a $250,000 project for the expansion of its diamond cutting plant in Bangui. The CAR Government, a shareholder in the Comptoir, has expressed its unwillingness to proceed with the transaction on the lines suggested by IFC.

(i) Settlement of Investment Disputes

C.A.R. signed the Convention on August 26, 1965, and ratified it on February 23, 1966.

VI. POLITICAL SITUATION

The Central African Republic became independent in August 1960. A presidential type of government was established with David Dacko the leader of the single party, MESAN, as President.

In January 1966 the government was overthrown by a military coup and David Dacko was replaced by his cousin Colonel Bokassa. Most of the Cabinet positions are now held by young Army officers, eager to give a new impetus to the stagnating economy. After 18 months in power, Colonel Bokassa is now firmly in control and enjoys widespread political support throughout the country.

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.

VII. ECONOMIC SITUATION

(a)	Population:	1.55 million (1967)
	GDP per capita:	$112
	Foreign exchange reserves:	Gross foreign exchange reserve imputed to the C.A.R. within the customs and banking unions (UDEAC) and (BCEAC) amounts to CFAF 1.47 billion ($6.0 million, equivalent to two months imports)

(b) The Central African Republic, landlocked more than 600 km. from the coast of West Africa, forms a transition area between the equatorial forest and the Sub-Saharan bush. The south and west parts of the country have one of the richest unexploited timber areas in Africa.

About 80% of the population are supported by agriculture, mainly of a primitive subsistence character. The subsistence crops of importance are manioc and plantains in the tropical areas and millet in the North where rainfall is less abundant.

Diets are very low on proteins and other protective foods. The major commercial crops for export are cotton and coffee. Timber extraction is of growing importance and, as transport facilities are improved, should become a significant export item. Most timber is now used internally or exported to Chad.

The development of manufacturing has been limited by a number of factors: the small market, the difficulty of access, an untrained population, and scarce resources. The industrial plant, which is of recent origin, now produces cotton textiles, beer, soft drinks, clothing, footwear, cycles (assembly). Sawmills, small oil and soap factories, furniture and utensil plants are also in production.

Alluvial diamonds are the major mineral resource, though promising uranium deposits have been found and are being explored.

The gross domestic product at 1961 market prices grew at about 2.4% annually from 1956 to 1961 but in the post independence period, 1961 to 1964, there was no real growth and GDP probably declined in 1965. There has been some recovery in 1966. Population has been growing at about 1.8% so that per capita GDP has undoubtedly decreased in recent years.

Recorded merchandise exports have grown at a rate of 14.4% per year while recorded imports have grown at a rate of 9.3%. As a result the deficit recorded on merchandise account has been cut by over 50% during the period. However, non-recorded imports of sugar, cigarettes, soap from Congo (B) and cattle from Chad far exceed non-recorded exports, so that the overall deficit on merchandise account is perhaps CFAF 2 billion. Most of the increase in exports is attributable to diamonds although coffee exports also grew. In 1966 diamonds accounted for 53% of recorded exports, coffee for 24 percent and cotton for 15%. Diamond exports are not expected to increase. Cotton exports made a rapid recovery in the 1966-67 crop year to reach 40,000 tons compared with 28,000 in the previous year.

The Central Government's current budget has been in surplus in four of the six years since independence. Revenues have grown at an impressive annual rate of 23%. Expenditures have risen somewhat more slowly. Tax revenues in 1966 were about 16% of GDP. Total domestic investment represented 17% of GDP at current prices. The major part of public investment was financed by FAC and FED. Private foreign investment was mainly centered on industry and diamond extraction while public investment has emphasized infrastructure and agriculture.

VII. ECONOMIC SITUATION (Continued)

In 1967 service on existing external debt will represent about 2% of 1966 recorded merchandise exports. This same low level will be maintained through 1981 on present debt. Nevertheless, the C.A.R. will remain largely dependent upon outside sources for investment at concessionary terms. Neither GDP nor public savings nor foreign reserves are likely to grow very rapidly in the future. On these grounds and that of its poverty, the C.A.R. should be classified as eligible for IDA only.

CHAD

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

CHAD

I. MEETING WITH DELEGATION

The delegation will visit the Bank after the Annual Meetings, the date to be determined in Rio de Janeiro.

II. MEMBERS OF DELEGATION

Governors

Georges Diguimbaye (B)	- Minister of Planning and Cooperation
Abakar Sanga Traore (F)	- Minister of Finance

Alternates

Jean Nendigui (B)	- Director of Foreign Exchange Office
René Roustan (F)	- Director, Banque Centrale des Etats de l'Afrique Equatoriale

III. BANK/IDA PROSPECTIVE OPERATIONS

In May 1966 an FAO mission visited Chad and identified a livestock project. In June 1967 a second FAO mission helped the Government complete the preparation of the project. The project would consist of the construction of water holes along existing cattle routes. Total cost of the project is estimated at $1.8 million. The FAO report is being reviewed by the Bank.

In March 1966 a Bank/Unesco mission identified an education project (two teacher training centers, an industrial technical school, and a commercial lycée). The Bank appraisal mission, which visited Chad thereafter, is preparing its report. Total cost of the project is estimated at $3.4 million. Negotiations are likely to take place before the end of 1967 for an IDA credit of $2.3 million.

In February 1967, a Bank mission identified a project, consisting of road maintenance equipment and the feasibility study of the Djermaya-Djimtilo road. The total cost of the project is estimated at $3.7 million, with a foreign exchange component of $3.5 million. A mission will visit Chad in October to complete the appraisal of the project, for which IDA may lend $3.5 million.

IV. TOPICS FOR DISCUSSION

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

Status of projects under consideration.

Chad cooperation on a possible transportation study common to Chad and Cameroon (see Cameroon brief - N'Gaoundere-Garoua road project).

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

None.

(c) Likely to be raised by delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

None.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 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.

(i) Settlement of Investment Disputes

Convention was signed on May 12 and ratified on August 29, 1966.

VI. POLITICAL SITUATION

Chad became independent in August 1960. Elections resulted in President Tombalabaye'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 new Constitution was adopted in April 1962, which provides for a semi-presidential regime with the President being responsible to the National Assembly.

VII. ECONOMIC SITUATION

(a) Population:	3.44 million (1967)
GDP per capita:	$71 (1965)
Foreign exchange reserves:	Gross foreign exchange reserves imputed to Chad within the customs and banking unions (UDEAC and BCEAEC) amount to CFAF .57 billion ($2.3 million, equivalent to one month imports)

(b) Chad is the largest and most inaccessible of the landlocked countries of Africa. It is a country of farmers and herdsmen in a harsh environment with limited physical resources. Cultivable land represents less than 20 percent of the total area and only about 10 percent of the cultivable area is cropped in any one year. Another 40 percent of the country is grazed. Agriculture, including livestock and fishing, provides a livelihood to between 80 and 90 percent of the population, mostly at a subsistence level. The main crops are millet, sorghum, groundnuts, manioc and vegetables. The only commercial crop of importance is cotton which provides about 75 percent of recorded exports. Small quantities of groundnuts are also exported. Livestock production provides 12 percent of GDP in subsistence food, meat, live animal exports and hides and skins for local needs and export. Fishing on Lake Chad and the Chari and Logona rivers ranks third in importance both as a source of food and for export to Nigeria and Cameroon. It accounts for about 8 percent of GDP. Manufacturing provides only about 6 percent of GDP mainly in the form of food processing or consumer goods industries. The most important activities are cotton ginning, sugar processing of imported raw sugar, flour milling, oil pressing, soap making, meat packing, and brick-making. A new textile plant opened this year and a tannery and shoe factory are under construction in Ft. Archambaut. Mineral resources are negligible, a small quantity of natron (crude sodium carbonate)is mined a part exported to Nigeria. Oil exploration has been abandoned.

Estimated on the basis of limited data, GDP at current prices has been growing at about 6 percent from 1956 to 1965. Estimated price increases have reduced the growth of real GDP to perhaps

2 percent. Population is thought to be growing at the relatively low rate of 1.4 percent, so that per capita income has grown only marginally, if at all.

The fiscal situation of Chad has deteriorated in the last two years. Although revenues have increased rapidly by over 17 percent in both 1965 and 1966 (equivalent to 14.4 percent of GDP in 1966), expenditures have grown even more rapidly due in large part to increased defense and security expenditures. After the last French army contingents were withdrawn in 1965, Chad took over the financing of defense and security expenditures which now absorb 20 percent of the current budget. There are no immediate prospects of any contribution from public savings to investment. In past years, development expenditures within the budget have been only 6-8 percent of current expenditures and have been mainly financed by French budget or investment support. The major part of public sector investment has been outside the budget on a project basis with support from FAC and FED, amounting to about CFAF 1.6 to 2 billion annually.

Chad's foreign accounts data include estimates of unrecorded exports and imports. A large share of livestock and fish exports are clandestine to Nigeria and the C.A.R. as well as imports of textiles and other consumer goods from Nigeria. Cotton has provided from 75 to 80 percent of recorded exports and about 55 percent of estimated total exports. The overall deficit on goods and services account has almost doubled between 1961 to 1966. Exports have grown at a rate of 2.1 percent compared with 5 percent for imports. France supplies about 50 percent of recorded imports and takes almost the same share of recorded exports.

The deficit on goods and services account has been covered in large part by assistance from FAC, FED and by private investment. Chad's imputed net foreign exchange reserves remained stable through 1964 and 1965 but 1966 has seen a decline from CFAF 2.58 billion to CFAF0.52 billion. Were not Chad a member of the Customs Union (UDEAC), the Central Bank for the region (BCEAEC) and of the franc zone, this level of reserves (about one month's recorded imports) would be dangerously low.

Debt service in 1967 on current contracted debt will amount to 12 percent of exports of goods and services. In the following year the ratio will fall to 6 percent, to 5 percent in 1970 and 2 percent by 1975.

The problems facing Chad are tremendous. Its limited resource base and untrained population (93 percent illiterate) are primary handicaps. Its location, 1,700 km from the nearest port, adds to the difficulties of establishing a market economy. Heavy rains, succeeding scorching heat, decimate internal transport for several months each year and erode the land. It is not surprising that Chad is having difficulties in establishing a viable economy. It is equally clear that she must depend mainly upon grants and soft loans for development purposes.

CONGO (BRAZZAVILLE)

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

CONGO (BRAZZAVILLE)

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Bernard Banza Bouiti (B) - Director General, Banque Nationale de Développement

Edouard Ebouka-Babackas (F) - Minister of Finance, the Budget, and Mines

Alternates

Jean Moumbouli (B) - First Counselor, Permanent Mission of Congo-Brazzaville to the United Nations

Corentin Kouangha (F) - Director of the Bureau of Foreign Financial Affairs

III. BANK/IDA PROSPECTIVE OPERATIONS

In November 1966, the Executive Directors approved a technical assistance grant of US$185,000 for the preliminary engineering study of the Sibiti-Komono-Zanaga road, which is intended to open up new areas to forest exploitation. Field work is under way, and the study is expected to be completed by mid-1968.

We have been approached by ATEC (an autonomous transport organization of Congo-B, Gabon, CAR and CHAD) for financial assistance for its Congo-Ocean Railway. The Abidjan Office is collecting information on the project, and a pre-appraisal mission may be scheduled for later this year.

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 Senior Officer:

None.

(c) Likely to be raised by delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $million) Bank	Undisbursed
COB-480	1967	Compagnie des Potasses du Congo	Potash Project	30.0	28.3
Total now held by Bank				30.0	
Total undisbursed					28.3

(b) Technical Assistance

$185,000 grant for a road feasibility study (see Part III).

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 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.

(i) Settlement of Investment Disputes

The Convention was signed on December 27, 1965 and ratified on June 23, 1966.

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, as Provisional Premier. In December 1963 a new Constitution was drawn up and a new assembly elected. Mr. Massamba-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 Révolution (M.N.R.) has been gradually set up and all of the unions have been integrated into the Confederation Syndicale Congolaise (CSC). In 1964 and 1965, several changes in the composition of the government strengthened the leftist and nationalist tendencies. In 1966 Mr. Ambroise Noumazalay, Secretary General of the Party was appointed Prime Minister. However, the President, who is considered to be more conservative, is clearly, but gradually, becoming the most influential person on the scene.

VII. ECONOMIC SITUATION

(a) Population (1967 estimate): 936,000
GDP per capita: $160.
Gross foreign exchange reserves imputed to Congo (B) within the customs and banking union (UDEAC) and (BCEAEC) amount to CFAF 260 million ($1.1 million, equivalent to two months imports).

(b) Agriculture, including livestock, forestry and fishing, occupies about 60% of the Congo population and provides about 25% of GDP. Most of the agricultural population subsist on manioc, bananas, plantains, maize and vegetables. Forestry is the most important commercial activity; other commercial crops include sugar cane, palm kernels, ground nuts, cocoa, coffee and citrus. Livestock are grown in regions in the north and west where trypanosomiasis is limited or where imported animals resistant to the disease are grown.

Manufacturing is concentrated in food processing and other consumer goods, all on a small scale except for sugar production. Mining and petroleum production are on the decline, except for investment in potash which will come on stream in 1969-70. Manufacturing is expanding and the Government continues to encourage foreign private capital investment. A new 100,000 ton sugar plant has recently been completed. Other plants underway include a cement plant, three plywood factories, a textile mill (financed by Mainland China) a fish canning plant and a lubricants plant (Shell). Much of the output of these plants will supply other UDEAC and African countries.

Real GDP has been growing at about 4% per year until 1965 when it entered a stagnant phase. Timber production and exports continued to increase at a rapid rate (8% in 1966). However, the transshipment of diamonds declined by 25%. Excluding the diamond trade, exports in 1966 increased by about 12%. Imports increased equally in money terms so that the net trade deficit remained the same as in 1965. Declining assistance from abroad resulted in a fall of about CFAF 2 billion in imputed net foreign exchange reserves from CFAF 1.2 billion to - 0.8 billion. (Imputed negative reserves for a member country are possible within the Equatorial customs and banking area and the franc zone under drawing arrangements with the French Treasury).

The Government achieved its first current surplus in 1965 by reducing expenditures 4% while increasing revenues by 11%. Tax revenues were equivalent to about 24% of estimated GDP, a high level among the UDEAC countries. Defense and security place a heavy burden on the budget amounting to 24% of current expenditures. Development expenditures via the budget were CFAF 3.1 billion (equivalent to about 33% of current expenditures in 1965) and were financed by public savings of CFAF 800 million, FAC and FED assistance of CFAF 1.3 billion and French treasury advances of CFAF 1.0 billion. The 1966 budget forecasts an increase in revenues of 10% while expenditures were to increase more rapidly; with a slight decline in public savings.

Debt service on outstanding loans was 12% in 1966 and is expected to rise to 13% by 1970. Congo (B) should not undertake more borrowing on conventional terms and should be considered an IDA country except for enclave projects such as potash.

CONGO (KINSHASA)

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

CONGO (KINSHASA)

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

Governors

J. J. Litho (B)	- Minister of Finance
Albert Ndele (F)	- Governor, Banque Nationale du Congo

Alternates

Paul Mushiete (B)	- Minister of Economy
Jean-Martin Mondjobe (F)	- Director of the Budget, Ministry of Finance

Advisers

Louis Lamonzie	- Adviser, Ministry of Finance
Domenico Paolillo	- Director General, Banque Nationale du Congo
Jacques de Groote	- Economic Adviser to the Governor, Banque Nationale du Congo
Edouard Mambu	- Research Department, Banque Nationale du Congo
Joseph Tshibwabwa Ngandu	- Banque Nationale du Congo

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank has suspended its operations in the Congo since its independence in June 1960, but we disbursed in 1965 some loans made in 1957 and 1960 with the guarantee of Belgium. An economic mission, tentatively scheduled for January/February 1968, will review the economic prospects and performance of the country. If we decide to resume our operations, projects in the transport and industrial sectors are likely to be submitted to Bank/IDA and IFC for financing.

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 Senior Officer:

None.

(c) Likely to be raised by delegation:

Bank/IFC financing for a Congolese Development Bank.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	Undisbursed
47 BE	1951	Congo	Equipment for Development	40.0	--
184 BE	1957	Congo	Roads	40.0 1/	--
250 BE	1960	Congo	Agriculture	0.3	--
251 BE	1960	Congo	Roads, Ports and Waterways	7.2 1/	--
252 BE	1960	Otraco	Transport Equipment	4.1 1/	--

Total (less cancellations)		91.6	
of which has been repaid		43.2	
Total now outstanding		48.4	
Amount sold	53.9		
of which has been repaid	40.6	13.3	
Total now held by Bank and IDA		35.1	
Total undisbursed			--

1/ $7.3 million of the Road loan of 1957, $3.4 million of the loan for Roads, Ports and Waterways of 1960, and $1.7 of the Otraco loan of 1960 were disbursed in March 1965 and are subject to special arrangements between the Congo and Belgium.

(b) Technical Assistance

None.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$5.40 million; No release.

(f) IDA Subscription

Part II member. $2.718 million; No release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C. (Not a member)

I.F.C. wrote on October 14, 1966 to Mr. Mushiete, President-Designate of the proposed BCEDI, that it could not consider an investment in it for the time being. If, following the planned Bank economic mission to Congo, the Bank decides that activities in Congo are now possible, discussions between I.F.C. and BCEDI may resume.

(i) Settlement of Investment Disputes

The Congo has not yet signed the Convention.

VI. POLITICAL SITUATION

Increasing competition between the then President Kasavubu and the then Prime Minister Tshombe in the second half of 1965 led to the military coup of November 1965, in which General Mobutu seized power and established himself as President. He appointed Major General Mulamba as Prime Minister, who formed a new government of representatives of the various provinces of the Congo. General Mobutu at first kept Parliament in power, but in March 1966 began to rule the country by decree.

In November 1966 the post of Prime Minister was abolished and the Central Parliament dissolved and all the powers concentrated in the hands of the President. The number of provinces has been reduced from 21 to 8 and the Ministries replaced by administrative governors appointed by the President. On January 1, 1967 the Congolese Government took over the assets in the Congo of the Union Minière du Haut Katanga, following Union Minière's refusal to transfer its corporate seat to the Congo. The Government set up a new company, the "Société Générale Congolaise des Minerais (GECOMIN) to operate these properties, retaining a 60% share in that company and leaving 40% to public subscription. (Tanganyika concessions 15% and open subscription 25%). On February 5 the Government signed an agreement with the Société Générale des Minerais (SGM) to operate GECOMIN properties and to market the production. In December 1966 President Mobutu outlawed the Trade Union and created a new Party "Mouvement Populaire de la Révolution" of which he was elected President on April 27, 1967.

A new constitution was drafted and adopted by referendum on June 4, 1967.

As a result of Mr. Tshombe's recent arrest in Algeria, mercenaries staged a rebellion in the Kivu province, but this does not seem to affect seriously President Mobutu's political influence.

VII. ECONOMIC SITUATION

(a) Population: 15.5 million
GNP per capita: $80
Foreign exchange reserves: $64 million (three months imports)

(b) Congo (K) is a country well endowed with resources, including enormous hydroelectric potential, and possessing a more diversified economy than most African countries.

Agriculture provides 25-30 percent of GDP and is divided into two distinct sectors - a modern export sector in which Europeans are dominant, including ownership of plantations and processing factories with well established marketing channels and a sector of African farms, largely subsistence oriented, on which traditional crops and methods predominate. The country's size, varied soils and climatic conditions assure a wide range of crops: palm oil, rubber, coffee, tea, cotton, pyrethrum, quinine, maize, manioc, bananas, plantains. Tropical woods, and cattle are also grown. The important commercial crops are cocoa, coffee, tea, rubber, palm oil and cotton.

Manufacturing, which provides about 18 percent of GDP, more than doubled its output during the ten years prior to independence. A wide range of food processing, chemical and consumer goods industries exist, centered in Kinshasa and Katanga. The Congo (K) is extremely rich in mineral reserves with 50 percent of world reserves of industrial diamonds, 50 percent of cobalt, 20 percent of copper, 10 percent of tin ore. It supplied 90 percent of the industrial diamonds sold in the world in 1960. It was first in world cobalt and uranium production, fifth in copper, fourth in tin and the only producer of radium. It also has deposits of gold, silver, lead, cadmium, germanium, tantalum, nobium, tungsten, berylleum, bismuth and vanadium. Mineral output amounts to about 7 percent of GDP.

Due to the continuing civil strife Congo (K) has been unable to capitalize on its tremendous potential for economic growth. The favorable investment climate was destroyed, the transport, communications and marketing systems dislocated, the public administration disorganized. GDP actually declined 6 percent between 1957 and 1964. Industry and mining continued to grow during this period while the agricultural sector was badly disrupted. Overall output remains at about the 1964 level.

Export earnings have also been adversely affected by the political and economic dislocation. The level of exports in 1965 was 32 percent below the pre-independence level in 1959. Only mining exports have been maintained at generally high levels and have provided an increasingly important share of the country's export earnings, rising from 60 percent in 1959 to 78 percent in 1965. Imports have declined moderately; 1965 imports were about 90 percent of the 1959 level.

Traditionally, the Congo has maintained a surplus on trading account though this has declined gradually since 1959. However, the overall current account was normally in deficit due to high services and transfer payments. The deficit was covered by long term capital inflow which was sufficient to provide an overall balance of payments surplus in 1963 and 1964. The year 1965 showed an overall balance of payments deficit arising from a reduced trading surplus, higher services and transfer payments and lower public assistance.

These developments in the balance of payments were reflected in the country's gross holding of gold and foreign exchange. Following the 1963 devaluation, gross holdings reached \$79 million in December 1964, declined to \$48 million in December 1965 and recovered to \$64 million in October 1966, following favorable world market conditions for copper.

Current budget receipts of the central government fell rapidly during the period 1960-1963 following the political instability and the establishment of separate governments in Katanga, Kisangani and Kasai. This trend has been reversed; government revenue has been tripled between 1963 and 1965. This has resulted from the increase in production in the mining sector (with its effect on export taxes and profit taxes); the imposition of new taxes; the increase in the rates of old ones; and the improvement in tax collection. In addition, the establishment of a dual foreign exchange rate structure following the November 1963 devaluation has contributed to exchange rate profits in 1965 equal to total budgetary receipts in 1963. Current expenditures expanded even more rapidly than revenues, more than doubling by 1965 with a 50 percent deficit. This growth of expenditures has been mainly a result of a lack of expenditure control by the administration, the growth of military expenditures and, in part, by salary increases to counter the inflationary rise in prices. About 70 percent of total government expenditures is on salaries. Only 10 percent of total current expenditure has been allotted to the maintenance of the Congo's extensive infrastructure; while investment expenditure via the budget has been insignificant. However, public works projects, as well as technical assistance personnel financed out of foreign aid are not included in the budget. No figures are available to indicate total public investment. The deficits of the current budget have been covered by borrowing from the banking system. This led to a rapid rise in prices, reducing the competitive advantage of the export industries in the Congo.

In June 1967 the Congolese Government requested a one-year stand-by arrangement with the IMF in an amount equivalent to $27 million. The IMF felt that there is a determination on the part of the Congolese Government "to arrest and reverse the present deterioration in the economy", and therefore granted the stand-by starting July 6, 1967. Under its stabilization program the Government introduced a new sharply devalued currency, the Zaire, at the end of June 1967, and abandoned the double rate structure. The new rate is 1 Zaire=US$2.00=1,000 old Congo francs. (Formerly $1=150-180CF.)

It is difficult to judge the creditworthiness of the Congo for the time being. In terms of resources, the country's potential for economic growth and viability is highly favorable. If political stability can be maintained Congo (K) should become an important client of both the Bank and IDA, with a substantial share of total lending in IDA credits during the initial recovery period. We plan to send an economic mission under John de Wilde, tentatively in January/February 1968, depending on conditions.

DAHOMEY

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

DAHOMEY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Bertin BORNA	(F)	Minister of Finance, Economic Affairs and Planning
Stanislas KPOGNON	(B)	Director General, Banque Dahoméenne de Développement

Alternate Governors

Gilles Florent YEHOUESSI	(B)	Technical Adviser, Ministry of Finance, Economic Affairs and Planning.
Jean CHARPENTIER	(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Cotonou

Adviser

Christian JOHNSON		Director, Foreign Exchange Office

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Oil Palm and Food Crop Development: The appraisal mission which visited Dahomey in July/August 1967 recommended IDA financing for this project. Joint IDA/FAC financing with IDA providing about $4.0 million is under active consideration. The main problems relate to the joint financing arrangements with FAC and the possibilities for a contribution by Dahomey.

(b) A project for a power link between Ghana-Togo-Dahomey which will utilize the Volta Dam power is promising. Other lenders, notably the African Development Bank and U.S. AID are also interested and the Bank/IDA will consider it for lending if alternative financing does not materialize.

(c) Several agricultural projects (coconut development, groundnut, cotton and food crop development), and a project for the construction of a second river bridge for Cotonou (Débouché lagunaire) are at a very preliminary stage.

IV. TOPICS FOR DISCUSSION

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

Review of projects under consideration. The appraisal report on the oil palm project will probably be completed around October 15.

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

None.

(c) Likely to be raised by delegation:

Findings of April-May Economic Mission. Report not yet finished; will probably be ready for discussion within the Bank by the middle of September.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

No formal technical assistance projects. The Permanent Mission in West Africa is providing assistance in the preparation of agriculture and transportation projects. The Government's application to UNDP for a land transport survey was approved by the Governing Council in June 1967. The Bank is the executing agency. Contract negotiations with the Consultants were completed in early August. Total cost: $717,410. UNDP contribution: $558,000.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 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.

(i) Settlement of Investment Disputes

Signed September 10, 1965; ratified September 6, 1966.

VI. POLITICAL SITUATION

Since Dahomey became independent in August 1960, the political situation has been unstable due to continued regional dissension, unemployment and lack of economic development, further aggravated by the return of a great number of Dahomans who served as civil servants or as workers in other French-speaking African countries. During 1963-1965 power was shared by President Apithy and Vice-President Ahomadegbe, but their antagonism finally led to a complete breakdown of the Government and, in November 1965, the army took over control under its Chief of Staff, Christophe Soglo. For some time thereafter the country appeared reasonably stable but the recent appearance of dissensions within the armed forces makes the political outlook again very uncertain. Dahomey is a member of the "Entente", a loose association between Togo, Dahomey, Ivory Coast, Niger and Upper Volta.

VII. ECONOMIC SITUATION

(a) Population: 2.4 million
GDP per capita: $70
Foreign exchange reserves imputed to Dahomey within the West African Monetary Union (gross): $12.3 million (April 1967).

(b) The economy of Dahomey is based on traditional agriculture. Palm oil and palm kernels are the main export products. The economy, particularly agricultural production, is stagnating and GDP per capita has probably declined over the last six years.

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 are regularly high with exports covering around 40% of imports only; the remainder is financed by the large volume of foreign aid. Exports, after a sharp decrease in 1961-72 have about regained the same level as in 1958. The financial performance of the Government is handicapped by the country's poverty. The Central Government's budget continues to show substantial current deficits despite foreign budget support, and despite efforts to improve the situation through drastic financial measures; the accumulated deficit has reached an amount roughly equal to one year current revenue; it is at present financed by short-term borrowing including a high amount of unpaid bills. Since the political instability makes any substantial reduction of current expenditures very difficult and risky, while the economic situation leaves little room for increasing revenues in the short run, no short term solution can be envisaged to balance the current budget. Increasing production and exports of palm oil, cotton and groundnut, as envisaged by the new 4-Year Plan would enlarge Dahomey's tax base and hopefully increase government revenues in the long run sufficiently to cover current expenditures. In the meantime, however, additional substantial foreign-financed aid at very concessional terms is necessary to cover current budget deficits. Investment in the public sector is financed by grant aid mainly from France and the EEC. Subject to review of Government performance, Dahomey would be eligible for IDA only.

EAST AFRICA GENERAL

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

EAST AFRICA (General) 1/

East Africa is the geographical term which covers the three independent states of Kenya, Tanzania and Uganda. Through long association under British rule these three countries developed close ties and common institutions including a common market, a number of common public services and, until mid-1966, a common currency. Although shortly after independence there was a move towards political unification in the form of an East African Federation, this was not realized primarily because of diverging national interests and policies, and the feeling on the part of Uganda and, particularly, Tanzania that the Common Market was operating in practice to their relative disadvantage especially in the location of new industrial enterprises.

In an attempt to compensate for this, the 1964 "Kampala Agreement" provided for the exclusive allocation of certain industries to Tanzania and Uganda, but it was never ratified. It also permitted these two countries to impose quantitative import restrictions on certain goods from Kenya.

In 1966 the three Heads of State, recognizing that it was necessary to reach some new agreement lest these diverging forces destroyed the existing degree of cooperation, set up a Commission for East African Co-operation. A Danish ex-Minister of Finance, Professor Kjeld Philip, was invited to be Chairman, under United Nations auspices, and three members of the Commission were nominated by each Government. The Commission, which was assisted by experts from the UN, the Bank and IMF, presented its report in May 1967, and the resulting "Treaty for East African Co-operation" was signed by the three Heads of State at Kampala, Uganda, on June 6, 1967. The Treaty includes substantially all the recommendations of the Commission.

I. THE EAST AFRICAN COMMUNITY

The Treaty for East African Co-operation establishes the East African Community which will take over the functions of the East African Common Services Organization. The Community will maintain the Common Market largely as it exists already. The allocation of industries by country under the existing industrial licensing system is to continue until 1972, but quantitative restrictions on imports will be replaced by selective tariffs known as "transfer taxes". Tanzania, and to a lesser extent Uganda, will be allowed to protect their domestic industries from competition

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

from Kenya by these transfer taxes. The degree of protection is relatively limited, in that Kenya products will still retain a preference as opposed to non-East African manufacturers. The Treaty also provides for the abolition of general restrictions on trade; a common agricultural policy, the establishment of an East African Development Bank (EADB); the retention of unrestricted current account payments between partner states; and freedom of capital account payments as necessary to further the aims of the Community (that is for investment in the Corporations, see Part II). Provision is also made for coordination of monetary policies among the partner states, including how to deal with balance of payments problems, the operation of public services common to the partner states, and the coordination of various aspects of economic policy.

The Community will be served by an East African Secretariat, to be at Arusha, Tanzania, and will consist of the following institutions: the East African Authority composed of the three Heads of State and the East African ministers appointed one each by each country; the East African Legislative Assembly composed of the East African ministers, their deputies, and nine members delegated by each country; the Common Market Council and the Common Market tribunal; the Communications Council, which will be responsible for the Corporations; and the Finance, Economic Consultative and Planning, and Research and Social Councils.

II. THE EAST AFRICAN CORPORATIONS

The Treaty for East African Co-operation provides for four corporations responsible for railways, harbors, posts and telecommunications, and airways. The East African Railways Corporation (EARC) and East African Harbors Corporation (EAHC) will succeed the East African Railways and Harbors Administration (EAR&H), one of the two self-contained services of the present East African Common Services Organization. The Railways Corporation will have its headquarters at Nairobi and will, operating on a financially self-sufficient basis, manage the East African railway system and lake and auxiliary road services. The East African Harbors Corporation will be separate from the Railways Corporation and will have its headquarters at Dar es Salaam. It will be responsible for the harbors at present administered by the EAR&H. Although these Corporations will be legally established by decree on December 1, the date the Treaty comes into effect, there will be a transitional period, determined by the Authority, during which the organizational rearrangements will be made. Technical assistance to implement these changes is in the hands of UNDP. The Bank has drafted Terms of Reference for Consultants to advise on setting up the East African Harbors Corporation, and the UNDP is mounting an Inter-Agency Preparatory Mission to examine a request from EAR&H to develop their administrative procedures, and training programs in the light of the new arrangements.

The East African Posts and Telecommunications Corporation (EAPTC) will take over the functions of the existing Posts and Telecommunications Administration and the headquarters will be transferred from Nairobi to Kampala. The new Corporations will also establish regional headquarters in each of the three countries.

A problem arises from the fact that the East African Common Services Authority is a substantial Bank borrower for the two EAR&H and the EAPT loans (see Part III A). The draft decrees establishing the Corporations provide for the assets of EAR&H to be divided between EARC and EAHC, as determined by the Authority. The national legislation implementing the Treaty will provide for the obligations of EACSA to be taken over by the East African Community. The Bank will presumably have to negotiate loan assumption agreements during the transitional period.

The East African Airways Corporation (EAAC) has had a corporate status since its foundation, and was never part of the East African Common Services. It has been decided to retain its corporate status, very much on existing lines, but to include the Corporation within the Community.

Each Corporation will have a Director General, appointed by the Authority, a Chairman of the Board of Directors and six Directors (eight in the case of EAAC). The Directors will be appointed as follows: three by the East African Authority and one each by the member states (in the case of EAAC there will be appointed two each by the three member states and two by the East African Authority). Above the Boards of Directors, the Communications Council, consisting of the East African Ministers and the Ministers of Transport (or corresponding responsibilities) of the member states, will be responsible for the overall direction of policy for the four corporations, and, above a certain level, investment decisions and changes in rates and wages. Matters which are unresolved in the Communications Council would be considered by the East African Authority, that is the three Heads of State.

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

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 East African Common Services Organization projects, leaving "national" projects for consideration for IDA lending. While we propose to continue this arrangement under the new setup for East Africa, the present shortage of IDA funds may require, temporarily, some hardening in the blend by Bank lending for some "national" projects. For example, we have recently negotiated a US $5.2 million Bank loan for the Tanganyika Electric Supply Company of Tanzania.

A. Bank Loans as of July 31, 1967 1/

Loan No.	Year	Borrower	Purpose		(Amount US $ million) Bank	Undisbursed
110-EA	1955	EACSA	Railways and Harbors		24.0	-
428-EA	1965	EACSA	Railways and Harbors		38.0	22.3
483-EA	1967	EACSA	Telecommunications		13.0	13.0
	Total (less cancellations)				75.0	
	of which has been repaid				11.7	
	Total now outstanding				63.3	
	Amount sold			23.8		
	of which has been repaid			11.6	12.2	
	Total now held by Bank				51.1	
	Total undisbursed					35.3

B. Prospective Operations

(1) Transport Study: The Bank is the executing agency for a UNDP study of surface transport in East Africa. The Plan of Operations and the draft Terms of Reference of the Transport Study have been agreed by the parties involved. The contract with the consultants was signed in August and we expect the Plan of Operations to be signed in September.

(2) EARC and EAHC Investment Programs, 1968-71: We expect to receive a request for approximately US $30 million towards the costs of the Railways' and Harbors' 1968-71 investment program, amounting to US $115 million in all. US $22 million will probably be available from United Kingdom, German and possibly United States sources and the balance would be financed from the Railways and Harbors Corporations' own resources. The distribution of the project between the EARC and the EAHC is yet to be determined. This may necessitate two loans, one for each Corporation.

C. Proposal for a Bank-Sponsored East African Consultative Group

The three countries were requested last year to give the Bank their views on the proposed East African Consultative Group. Although Kenya and Tanzania have indicated their interest, Uganda hesitated, probably due to the delicate situation which arose on all cooperative matters during the negotiations for the East African Treaty. We are informed by a Bank mission which visited East Africa in June 1967 that, now that the Treaty has been signed, the matter is to be reconsidered by the Uganda Cabinet and that a favorable decision is likely; but no reply has yet been forthcoming.

1/ Guaranteed jointly and severally by Kenya, Tanzania and Uganda and, in addition in the case of the 1955 loan, by the U.K. There have been no IDA credits to the East African Common Services Authority.

An informal meeting was held at the Bank in April 1967 between prospective donor countries, when agreement in principle was reached on the future establishment of an East African Consultative Group, providing that the three Governments indicated that such was their wish. It was understood that an eventual Consultative Group would consider the national aid requirements of each country separately.

ETHIOPIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

ETHIOPIA

I. MEETING WITH DELEGATION

Not scheduled

II. MEMBERS OF DELEGATION

Governor	Alternate	Adviser
Yilma DERESSA (B) Minister of Finance Menasse LEMMA (F) Governor, National Bank of Ethiopia	Yawand-Wossen MANGASHA (F) Vice Governor, National Bank of Ethiopia Asfaw DAMTE (Temp.)(B) Director-General, Finance, Credit and Investment, Ministry of Finance	Tedla TESHOME Adviser, Director-General of Budget, Ministry of Finance.

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Fourth Highway Project: In September 1965 the Ethiopian Government submitted a request for Bank/IDA finance for a fourth highway project, which at the time of appraisal in late 1966 was estimated to cost about US$ 107 million. The Bank appraisal mission recommended that a suitable project would consist of (a) construction of 441 kms. of primary roads; (b) bituminous surfacing of 169 kms. of primary roads; (c) feasibility studies of five obviously high priority secondary and feeder roads; and (d) advisory services by consultants for improving the administration and operational procedures of the Imperial Highway Authority. The total cost of the proposed project would be about $ 38.5 million equivalent, with a foreign exchange component estimated at about US$ 27 million. Unless participation in the project by SIDA is forthcoming, lending would be IDA $ 10 million, Bank $ 17 million.

Various disputes have arisen between IHA and the contractors engaged in road construction financed under Bank Loan 166/ET and IDA Credit 35/ET. In addition, the 1965 Civil Procedure Code would (unless amended) prohibit arbitration of disputes between contractors and the Government arising from the proposed fourth highway project. In a special loan meeting it was decided that the Bank should not interfere in the negotiations concerning the current disputes, but before inviting negotiations for the new loan/credit we should obtain from the Government satisfactory information on its plans to set up a machinery for the settlement of any future disputes under the new project. A letter was sent in June to the Minister of Finance, inquiring what procedures for settlement of disputes would be used for contracts awarded as a result of the proposed fourth highway project.

(b) Addis Ababa Water Distribution and Sewerage Project: No formal application for Bank/IDA finance has been received but we were informed orally in May 1967 by the Mayor of Addis Ababa and the Vice Minister of Finance, of the Government's intention to seek Bank/IDA finance. The project is expected to cost US $ 9 million, of which $6 million would be foreign exchange. In June 1967 we sent the Minister of Finance a letter indicating what the Bank would expect to see in a feasibility report. We are informed that the French Technical Cooperation Mission in Ethiopia would, if requested, be willing to finance the feasibility studies. Our letter to the Minister of Finance also suggested that it would be helpful if we could have the opportunity to comment on the proposed charter establishing an autonomous water and sewerage board for Addis Ababa before the charter becomes final.

(c) Regional Agricultural Development: Discussions on this project began about 2½ years ago with a request by the Ethiopians for assistance in setting up an agricultural credit organization. After much canvassing by the Bank staff, the Ethiopian Government accepted the proposition that all the elements that make for modern agriculture (extension, marketing, credit, feeder roads, experiment stations, etc.) would have to be concentrated in selected areas and that gradually, with experience and training, such experiments should be multiplied. This approach was recently approved by the Council of Ministers. FAO/IBRD - Rome and the Bank Nairobi Office staff have been cooperating in the preparation of a suitable project. In April 1967, a review of the preparatory work was made in Addis Ababa by the Nairobi Office and FAO staff and it was agreed that an agricultural credit project in the usual sense would be premature at this stage. What should be done would be to start with a project consisting of feeder roads, simple marketing facilities, extension services, demonstration and research and planning work for a second phase which may come within two years' time. The demonstration and research activities would be expected to determine which technical improvements should be financed with credit in the second phase. A first draft project request on this basis was completed in August 1967 with the help of the Nairobi Office, and is currently under review.

(d) Fourth Telecommunications Project: This project which would cover Ethiopia's telecommunications development program from mid-1968 to mid-1973 is still at a preliminary stage. It is expected that total project costs would be about US $17 million, of which $7-8 million would be requested from the Bank. No formal submission from the Government has yet been received.

IV. TOPICS FOR DISCUSSION

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

(i) Fourth Highway Project: Information should be sought concerning the Government's proposals for procedures for the settlement of any disputes arising under contracts awarded as a result of the proposed Fourth Highway Project. (See III(a).

(ii) Contractors' Disputes with IHA: We should inquire as to the current status of these disputes, and the Government's views regarding timing and procedure for settling these disputes. We should make it clear that we are not taking sides with respect to the merits of the disputes, and are pleased by the statement by the General Manager of IHA promising that if negotiations with Marples Ridgway fail, prompt action would be taken to resort to arbitration according to the terms of the contract. (See IIIa)

(iii) Imperial Board of Telecommunications (Loan 441/ET): Review of progress in improving financial management.

(iv) Addis Ababa Water Distribution and Sewerage: We should inquire into the Government's intentions regarding approaching our institutions for this project, preparation of feasibility studies, and creating an autonomous water and sewerage board for Addis Ababa (See IIIb).

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

No meeting is scheduled.

(c) Likely to be raised by Delegation:

Delay in the Bank Group's financing of Fourth Highway project.(see IIIa)

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S.$ million) Bank	IDA	Undisbursed
31-ET	1950	Ethiopia	Roads	5.0	-	-
32-ET	1950	Ethiopia	Development Bank	2.0	-	-
42-ET	1951	Ethiopia	Telecommunications	1.5	-	-
116-ET	1957	Ethiopia	Roads	15.0	-	-
301-ET	1961	Dev.Bank of Ethiopia	Agriculture and Industry	2.0	-	-
314-ET	1962	I.B.T.E.	Telecommunications	2.9	-	-
35-ET	1963	Ethiopia	Roads	-	13.5	2.7
375-ET	1964	EELPA	Power	23.5	-	6.7
441-ET	1965	I.B.T.E.	Telecommunications	4.8	-	3.1
64-ET	1966	Ethiopia	Education	-	7.2	7.2
Total (less cancellations)				56.7	20.7	

..../....

(cont'd....) Total (less cancellations)		56.7	20.7	
of which has been repaid		10.5		
Total now outstanding		46.2		
Amount sold	4.9			
of which has been repaid	2.2	2.7		
Total now held by Bank & IDA		43.5	20.7	
Total undisbursed		====	====	19.7
				====

(b) Technical Assistance

(i) Mr. Sapir arrived in Ethiopia in early July 1967 for a one-year assignment, on secondment from the Bank, to lead a team of experts which will assist the government in preparing Ethiopia's Third Five-Year Plan. The Bank also assisted the Ethiopian Government in the recruitment of other members of this team.

(ii) A joint Bank/UNDP mission assisted Ethiopia in prepardiing a revised request to UNDP for a road transport study.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$ 0.9 million; entire amount is released in dollars.

(f) IDA Subscription

Part II Member: $ 450,000; no release .

(g) Holdings of Bank Bonds

$ 4.0 million.

(h) IFC

IFC has made three investments.

The Cotton Company of Ethiopia has been completed and the Company has paid a dividend of 10% for the fiscal year just ended.

IFC's investment in the Ethiopia Pulp and Paper totals US$ 1 million as a result of its underwriting commitment. The plant is now expected to go into operation late in 1970.

IFC's investment in HVA Metahara totals $ 9 million. Annual production rising to 47,000 tons of sugar for local consumption is expected to begin in November 1969.

IFC has a preliminary application to finance a fruit and vegetable plantation at Ginda, Eritrea. The Danakil potash project has uncertain flooding problems in the mine and Parsons has not as yet located a technical partner.

The deterioration in DBE's operations and prospects continues to give us concern.

(i) Settlement of Investment Disputes

Not signed.

VI. POLITICAL SITUATION

There have been no significant changes in Government personnel or policies. The activities of the Eritrean Liberation Front (which has been receiving material support from outside Ethiopia) appear to have accelerated, causing a Government crackdown in the province. The Sudanese Government claims that 20,000 Eritrean refugees have crossed the border into Sudan following clashes with Ethiopian security forces, and minor incidents have occurred resulting from Ethiopian troops chasing Eritreans across the Sudan border. Ato Tedla Beiru (former member of Eritrean parliament), a Christian Tigrean who led the campaign for Eritrean federation with Ethiopia in the 1950's and who led the Eritrean Government during the initial period of federation, has joined the Liberation Front and has begun broadcasting from Syria appeals for a separate Eritrean state.

The French organized referendum (March 1967) in French Somaliland overwhelmingly favored continued association with metropole France; the other choice was independence. The results eliminated, at least for the time being, a possible armed conflict between Ethiopia and Somalia, both of which aspire to annex the French Somaliland. The Somali nomads living in the Ogaden region of Ethiopia have been relatively quiet.

Although situated within the periphery of the Middle East, Ethiopian Government stood fast to a neutral position in the recent crisis in the region.

VII. ECONOMIC SITUATION

Population:	22.6 million
GNP per capita:	US$ 60
Foreign Exchange Reserves:	US$ 88 million (December 1966)

The great majority of the population obtains its livelihood from subsistence agriculture. The country possesses a considerable agricultural potential, which can be fully realized only by improved administration (land reform), advanced technology and large investments. Livestock offers good long-term potential; the country might well become an important exporter of animal food products. Known mineral resources are minor, apart from important deposits of potash in northeastern Ethiopia, which are being investigated by an American firm. Manufacturing production is still small, the most important industries being food processing, textiles and building materials.

The growth rate in GDP over recent years is estimated at about 4%. Since population increase has been about 2% per year, the per capita growth rate is estimated at around 2%. This growth reflects the rapid increase of production in the monetized economy; in the large subsistence sector indications are that production barely kept pace with population increase.

Between 1960/61 and 1965/66 tax revenues increased at an average annual rate of about 13%, an impressive performance. However, about 40% of the Government's current expenditure is on defense and police. This high share should be viewed against the background of border tensions. Export earnings increased from 1961 to 1965 at an average rate of 9% (increase in volume and price of coffee), while imports grew at an average rate of 10% from 1961 to 1966, partly due to a rapid increase in imports of machinery and transport equipment.

About two-thirds of total investments in the 1961-65 period have been made in transportation and housing, while agriculture received only 5% of total investment. The need to create more favorable conditions for agricultural development has been recognized. With the assistance of Sweden and the Bank's Permanent Mission in Nairobi, the Government is now preparing two regional agricultural development projects. A Ministry of Land Reform has recently been created.

External public debt service of Ethiopia was low up to 1960; it increased to about 7% of exports of goods and services in 1963 and has remained at about that level. This ratio is not high, although Ethiopia's dependence on exports of coffee makes her rather vulnerable. Any reasonable development program, if financed entirely on hard terms, would make future external public debt servicing difficult. This, together with the low level of income makes Ethiopia eligible for some IDA financing. Ethiopia should therefore be regarded as a blend country.

GABON

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

GABON

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Emile Kassa-Mapsi (B)	- Minister Delegate for Planning and Development
Michel Abessolo (F)	- Minister of Finance

Alternates

Pierre Fanguinoveny (B)	- Commissioner for Planning
Claude Panouillot (F)	- Director General Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun, Paris

Advisers

Dominique Casalta	- Adviser, Technical Adviser, Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

Mekambo railway: Final engineering now under way with UNDP financing and the Bank as Executing Agency. Due for completion by March 1968. On completion of the feasibility study of the Mekambo railroad in 1965, the Government and Somifer reached an agreement in principle on the proposed exploitation of the Mekambo iron ore deposits, whereby Somifer (50% Bethlehem Steel, 50% European steel companies and French Government agencies) would own and operate mining and loading facilities and the Government would provide the infrastructure. Total cost of the investment (railroad, mine and ore loading facilities in port) is estimated at about $260 million, of which about $160 million for the railway.

Bethlehem Steel has presented to its European partners a plan whereby its share in Somifer would be reduced to 25% and that of the European partners increased to 75%. On the assumption that Somifer would ship, with firm 15-year sales' contracts from its shareholders, 5 million tons for the first five years of operation and 8 million tons thereafter, Bethlehem Steel has made the following tentative financial plan for the railway (cost estimate of $150 million):

$20 million in equity capital by Gabon
$50 million in the form of a 25-year Bank loan, guaranteed by Somifer and its shareholders
$80 million in the form of European and U.S. development grants and soft loans.

The Bank, as leader of a prospective financing consortium, will consult the other prospective lenders on this plan.

Roads: Feasibility studies financed under the 1964 road loan are expected to lead to a road and river port project by the end of 1967. The government is undertaking final engineering study. Bank will consider retroactive financing for final engineering under construction loan.

Education: In November 1965, a Bank reconnaissance mission identified a small education project. In July 1966 an UNESCO mission visited Gabon to help prepare the project; in July 1967 an appraisal mission visited Gabon. The report is being prepared.

Telecommunications: A reconnaissance mission is scheduled for September to identify a telecommunications project and discuss organizational arrangements.

Water Supply: A reconnaissance mission for possible water supply projects, particularly in Port Gentil is tentatively scheduled for November.

IV. TOPICS FOR DISCUSSION

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

Status of the Mekambo project.

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

None.

(c) Likely to be raised by delegation:

Date of the second meeting of the Governments and institutions likely to be involved in the financing of the Mekambo project. We should respond by stating that the Bank would call the meeting when the progress achieved in the negotiations to be undertaken by Bethlehem Steel with its partners and when the reaction of the other prospective leaders warrant it.

Proposal for a Transport Survey of Gabon. We should indicate that, subject to agreement on the scope and the terms of reference of such a survey the Bank would support an approach by Gabon to UNDP.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose		(Amount U. S. $ million) Bank	Undisbursed
230 FR	1959	Comilog	Manganese ore mining		35.0	-
385-GA	1964	Republic of Gabon	Road project		12.0	0.2
Total (less cancellations)					47.0	
of which has been repaid					11.0	
Total now outstanding					36.0	
Amount sold				25.4		
of which has been repaid				7.1	18.3	
Total now held by Bank					17.7	
Total undisbursed						0.2

(b) Technical Assistance

The Bank was Executing Agency of a UNDP iron ore transport survey and now is Executing Agency of the final engineering study of the proposed Mekambo railroad.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 million. Entire 9% to be released in annual installment of $180,000 through January 1, 1970, convertible into any currency. Date of release of first installment not yet agreed.

(f) IDA Subscription

Part II member. $0.45 million; no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes

Convention signed on September 21, 1965, and ratified on April 4, 1966.

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 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.

In February 1967, President Leon M'Ba, ailing in Paris and anxious to ensure a peaceful succession in case he would be unable to exercise his functions, called for a revision of the Constitution. This revision, adopted unanimously by the National Assembly, provides for the office of a Vice-President with automatic succession rights to the President. It also stipulates that both candidates for the Presidency and Vice-presidency will be elected for seven years on the basis of universal suffrage and that their election will coincide with the election of the Legislative Assembly. A few days later, President Leon M'Ba dissolved Parliament and called for elections. As a result of these elections Leon M'Ba and Albert Bongo were elected President and Vice-President, respectively, with an overwhelming majority.

VII. ECONOMIC SITUATION

(a)	Population:	468,000 (in 1966)
	GDP per capita:	US $479 (in 1966)
	GNP per capita:	US $290 (in 1966)
	Foreign exchange reserves:	Gross foreign exchange reserves imputed to Gabon within the customs and banking unions (UDEAC and BCEAEC) amount to CFAF 2.78 billion ($11.3 million, equivalent to seven months imports)

(b) Agriculture, cattle raising and fishing account for only 15 of Gabon's GDP, and this in spite of the fact that some 70% of the active population is engaged in agriculture. In terms of foreign exchange earnings, the contribution of agriculture is even smaller. Coffee (robusta) and cocoa, the two major agricultural export items, together accounted for only 4% of export receipts in 1960, and still less - 1.5% - in 1965.

During the 'fifties, wood and wood products provided over 70% of Gabon's export earnings. Under the impact of a gradual depletion of the coastal forest zone, an increased extraction of uranium, the development of manganese output and a significant expansion of petroleum production, the relative contribution of wood products to foreign exchange earnings has now fallen to less than 40%. In the light of the important oil discoveries which have been made in the last couple of years, it may be expected that petroleum production will more than double in the next two years. Gabon's rich iron ore reserves still await exploitation, but it is expected to begin some time in the 1970's.

The industrial sector consists primarily of the manufacturing of plywood and veneer. By the end of 1967 a petroleum refinery, set up with financial participation of the UDEAC member countries, will start operation in Port Gentil.

In the late 'fifties, Gabon's GDP grew at an annual rate of 21%. This rate has now slowed down considerably to around 9% per annum in current, (or 4.5% in constant) prices. Population growth being extremely low (0.6% per year), per capita GDP rises at almost the same rate as total GDP. Since most large forestry and mining enterprises are foreign-owned, the difference between GDP and GNP is considerable. It is presently estimated that over one-third of GDP accrues to foreign factors.

Government revenues, primarily originating from foreign trade taxation, have been increasing at a rate of 19% per year, and permit considerable public savings; the latter have increased from CFAF 0.5 billion in 1960 to CFAF 2.4 billion in 1966.

Gabon's balance of payments has been consistently characterized by a large surplus on the balance of merchandise trade and large capital outflows on account of foreign factor income payments. Official foreign aid, primarily from France and the EEC, has flowed in at a steady level of approximately CFAF 2.5 billion per year.

Gabon's external debt service ratio has increased somewhat in the last few years, and now stands at 7%, but in view of the country's future growth potential, Gabon should remain qualified for loans on conventional terms.

GAMBIA

CONFIDENTIAL
September 14, 1967

BRIEFING PAPER - 1967

THE GAMBIA
(not yet a member)

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION (OBSERVER)

S. S. SISAY	Minister of Finance
H. R. MONDAY	Acting Permanent Secretary, Ministry of Finance
J. de LOYNES	Chairman, Gambia Currency Board

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank Group has been approached in May 1967 for the financing of a proposed extension of Bathurst Port. Engineering studies, financed by Great Britain, are to begin in the near future.

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 Senior Officer:

None.

(c) Likely to be raised by delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

None.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

Not yet determined.

(f) IDA Subscription

Not yet determined.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes

The Gambia has not signed the Convention.

VI. POLITICAL SITUATION

The Gambia is a former British territory, which became an independent member of the Commonwealth in February 1965 with a Governor-General representing the Queen and with a Cabinet under Prime Minister Sir David Jawara, the leader of the People's Progressive Party. Since the last elections in 1963, there have been only minor changes in the Cabinet and the political situation in the country is generally regarded as very stable. Two opposition parties exist, but are not playing an important role in the country's political life.

Relations with its only neighbor, Senegal, are friendly. Several treaties of cooperation have been signed between the two countries and Senegal represents The Gambia in most foreign capitals. The Gambia's relations with the United Kingdom are excellent and the U.K. remains an important source of economic assistance for The Gambia.

VII. ECONOMIC SITUATION

(a) Population: 330,000 (1966 estimate)
GDP per capita: $82 (1964 estimate)
Foreign exchange reserves: $3.7 million (December 1965) or about 2-1/2 months' imports.

(b) The Gambia is a very small country, forming a long narrow enclave in the Senegal, which extends from some 200 miles inland along both banks of the Gambia River and varies in width between 15 and 50 miles. Its economy is based primarily on the production of two agricultural products: groundnuts and rice. Groundnuts form the backbone of the monetary economy, accounting for about one-third of total GNP and 95% of total exports. Variations in groundnuts exports, as a result of fluctuating world market prices and weather conditions, thus have an important influence on the entire economy. Total groundnut production has increased by an annual average of about 6.5% since 1961. Rice is the main staple food, but is not produced in sufficient quantities to cover local consumption. The Government is aware of the high danger inherent in the present economic structure and tries to diversify agriculture by developing production and export of vegetables, eggs, fruits, fish and meat.

Since 1952 the Government of The Gambia has experienced increasing difficulties to achieve an equilibrium in its current operations, and after all reserves were exhausted by the end of 1958, had to rely more and more heavily on Grant-in-Aid from the British Government to balance its current budget. Between 1961 and 1965/66 current revenues have averaged around 80% of current expenditures, although revenues have increased slightly faster than expenditures. All development projects were financed entirely by foreign resources, mainly by the British Colonial Development and Welfare Fund, and the continuous high inflow of foreign financial assistance was also essential to avoid serious balance of payment difficulties after The Gambia introduced its own currency in 1964.

Because of its poverty and its heavy reliance on an agricultural product with rather uncertain long-term export prospects, The Gambia's capacity to service conventional loans is doubtful. Eligibility for IDA credits will depend on a more detailed examination of performance.

GHANA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

GHANA

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

Brig. Akwasi Amankwa Afrifa (Bank)	Member, National Liberation Council (equivalent of Minister of Finance)
Albert Adomakoh (Fund)	Governor, Bank of Ghana
E. N. Omaboe (Fund)	Chairman, Economic Committee of the National Liberation Council
K. Gyasi-Twum (Bank)	Principal Secretary, Ministry of Finance
B. K. Mensah	Principal Secretary, Ministry of Economic Affairs

III. BANK/IDA OPERATIONS

(a) General

The Bank was represented at a series of meetings held in 1966, culminating in agreement between Ghana and her 13 Western creditors to reschedule Ghana's medium term external debt. At the first Ghana Aid Meeting, held in April 1967 in Paris under the Chairmanship of the Fund, the Bank representatives stated that the Bank would be prepared to consider suitable projects for financing on concessional terms, provided that Ghana's economic performance continued to be satisfactory, and assuming that donor countries would also consider assistance on similar terms. The Bank will also be represented at an informal one-day Aid Meeting to be held in Accra on September 11, 1967, to be followed by a second full Aid Meeting in the early months of 1968. IMF is to chair these Aid Meetings as long as non-project finance is the dominant question, and until Ghana develops the principal elements of a long term investment program, probably by 1969.

A Bank advisory mission helped Ghana in the preparation of the Development Budget in May/June 1967, including some project identification.

(b) Electric Distribution Project

This project is a part of an extension program of the power distribution network in Ghana, with an estimated total cost of $38.75 million for the years 1966-72. Of a foreign exchange requirement of $24.70 million, $8.54 million has been financed out of a German loan and British supplier credit. A proposed IDA credit of $10.0 million would cover the immediate requirements but not the whole financial gap. Next year, it will be necessary to review the final requirements for the completion of this program. An appraisal mission will be visiting Ghana in September 1967.

(c) Fisheries

A Bank/FAO project identification and preparation mission visited Ghana in June 1967. A suitable project proposal is expected in September, providing for credit, probably through the Agricultural Bank, to finance the foreign exchange costs of constructing twenty 45' - 60' fishing boats per year over a four-year period. The project might include the improvement of two fishing harbors. As at present estimated, the tentative project cost is $6.6 million, of which $4.0 million is in foreign exchange (including the fishing harbors).

(d) Palm Oil

Feasibility studies are under way by Ghanaian personnel, assisted by the Abidjan Office staff. CDC has recently indicated interest.

(e) Railway Rehabilitation

Lack of foreign exchange to buy new signaling equipment and spare parts for locomotives has resulted in loss of efficiency in operations of the railways. The May 1967 Bank Mission identified a project which may cost $6 to $7 million. We wrote the Government to say that we would be willing to consult with the Crown Agents, who are preparing the feasibility report, to facilitate preparation of a report that meets the requirements of the different donor countries and financial institutions, but that we could give no assurances of Bank or IDA financing. There is a question regarding the priority of this project, as the benefits are likely to be short-lived.

(f) Cocoa Rehabilitation

The Abidjan Office will be assisting the Ghanaian authorities in preparing this project.

(g) National Investment Bank (NIB)

NIB has made a proposal to IFC under which the ownership of NIB could be transferred from government to private hands. It is now being studied. An appraisal mission will be visiting Ghana in October/November 1967.

(h) Extension of 5th and 6th Generators at Akosombo

The Volta River Authority (VRA) has requested contingent financing from the Bank/IDA for the 5th and 6th generators at Akosombo. The Japanese have indicated interest in financing the turbines and the Canadians have indicated interest in financing the generators, but incidental switchgear and other facilities might still remain for financing. IDA would be willing to consider financing the uncovered portion, subject to the availability of IDA funds.

(i) Ghana-Togo-Dahomey Transmission Line

Togo and Dahomey have proposed this project to utilize power from VRA. A feasibility study is being prepared by Electricité de France. U.S. AID and African Development Bank have expressed interest in the project. Because of the availability of other potential sources of finance and the current limited supply of IDA funds, we have informed the parties concerned that we would consider financing only if other sources of finance failed to materialize.

(j) Studies

The Bank is executing agent for two UNDP road studies, i.e., Kumasi-Accra and Kumasi-Takoradi/Secondi roads.

IV. TOPICS FOR DISCUSSION

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

(i) The Ghana delegation should be commended on Ghana's satisfactory economic performance over the last 20 months. Two successive balanced budgets featuring restrained recurrent expenditure and rationalization of the development program, encouragement given to private investment by recent reductions in export and company taxes, sale of seven state enterprises to the private sector, and the courageous step of devaluation of the Cedi in July 1967 are the main highlights of this performance.

(ii) To determine if, as now tentatively scheduled, the Ghana delegation is coming through Washington in October to join General Ankrah, Chairman of the National Liberation Council, and to obtain information on the items either the delegation will raise with the Bank or General Ankrah will raise in his requested meeting with Mr. Woods.

(b) <u>To be raised by Bank at a meeting with President or Senior Officer:</u>

None

(c) <u>Likely to be raised by Delegation:</u>

(i) Whether the Bank would be willing to provide IDA financing for the remaining $6.2 million of foreign exchange costs of the 1966-72 electric distribution program (see Part III(b)). We may say that subject to the availability of IDA funds, we shall sympathetically consider the financing requirements after the proposed $10.0 million IDA lending operation is completed and the additional requirements as seen in 1968-69 are better known.

(ii) Whether the Bank or IDA would finance the railways signaling and rehabilitation project? We may express our doubts as to the priority of this project in comparison with, say, agriculture projects such as fishing boats, palm oil and cocoa replanting. Furthermore, if we considered Bank lending for the railways, we would require a feasibility study of the long-term viability of the railways, especially as we are involved in the UNDP-financed feasibility studies of the Accra-Kumasi-Takoradi roads which, by paralleling the railways, raises the issue of alternative development of the roads or the railways.

(iii) Whether the Bank would provide consultants to visit Ghana from time to time to assist in finalizing the palm oil and cocoa rehabilitation projects? The cost might range between $5,000 and $10,000 for both projects. We should generally be receptive.

(iv) Whether the Bank would provide technical assistance for any of the following: (a) a study of Ghana's aid requirements for presentation to the Aid Meeting of early 1968; (b) preparation of Ghana's case for a second round of debt rescheduling, anticipated for the second half of 1968; and (c) another advisory mission to assist in preparing the 1968/69 development budget. We can reply that, in consultation with the Fund and subject to availability of personnel, we are prepared to sympathetically consider any requirements that Ghana cannot adequately meet by resorting to the advice of the Fund or Ghana's own Harvard Advisory Team. We should be favorably disposed as to requests under (a) and (b), as they materially affect Bank activities in Ghana, but we should be reluctant to make promise for (c).

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	Undisbursed
310-GH	1962	Volta River Authority	Power	47.0	0.4
Total (less cancellations)				47.0	
of which has been repaid				-	
Total now outstanding				47.0	
Amount sold			0.1		
of which has been repaid			-	0.1	
Total now held by Bank				46.9	
Total undisbursed					0.4

(b) Technical Assistance

See (a) and (j) under Part III above.

(c) Consultative Groups

A formal aid group meets under IMF chairmanship.

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

$4.2 million; the original $2.7 million has been completely released on a convertible basis.

(f) IDA Subscription

Part II member - $2.124 million; no release.

(g) Holdings of Bank Bonds

US $350,000

(h) IFC

(i) Investment in National Investment Bank (NIB): A proposal for reorganization of the NIB into a predominantly private company has been received. IFC has proposed a mission in October and is awaiting a reply. The reorganization is likely to result in an IFC investment in the share capital of NIB and may necessitate a Bank loan.

(ii) Consolidated African Selection Trust (CAST) has made a preliminary approach to IFC to assist a diamond dredging project. The results of prospecting operations are now expected in May 1968.

(iii) Further activities: prospects depend on the transfer to private ownership of certain State Corporations and obtaining experienced technical partners.

(i) Settlement of Investment Disputes

Signed on November 26, 1965; ratified on July 13, 1966.

VI. POLITICAL SITUATION

(i) The Ghana Army, with the cooperation of the police, overthrew the Nkrumah regime on February 24, 1966. The new regime abolished the Constitution and operates under executive decree. The country is governed by the National Liberation Council (NLC) comprising in equal numbers of army and police leaders. The Chairman of the NLC is General Ankrah who, although not a party to the coup, was brought in by the principal leaders of the coup, General Kotokah and Brigadier Afrifa, as commanding widespread respect. Mr. Harley, the head of the police force and deputy chairman of the NLC, is reputed to be as influential as General Ankrah or other military leaders within the NLC.

(ii) In the first year, the NLC was a reasonably harmonious group with a fair capacity for decision and a marked sensitivity to the need to restore a viable and, hence a civilian based, body politic. However, the passage of time has begun to reveal the limitations in the political and governmental capacities of the NLC; there has been some erosion in the NLC's popularity, and the attempted coup of April 1967 fundamentally changed the internal power structure if not the political attitudes of the NLC.

(iii) Although the NLC appears to have more limited political and governmental capacities than displayed in 1966, it is still firmly in power and confronts a continued political vacuum in terms of civilian opposition groups. Several things have together contributed to some erosion of the NLC's popularity: lack of a single outstanding political personality; some vacillation in regard to moving to civilian government; erratic political timing and public relations; prolonged commissions of inquiry into Congress Peoples Party (CPP) government activities with few conclusive decisions or criminal proceedings; erratic use of restrictive measures such as preventive detention; continued economic deflation with unemployment offsetting stable or declining prices of consumer staples. The attempted army coup in April 1967 with the resulting execution of two officers and detention of about 425 army personnel, as well as several hundred civilians, appears to have particularly shaken both public confidence and the NLC itself. The coup apparently emanated from dissatisfaction at the junior officer level over pay and promotions, and combined with the relative temporary success of a handful of rebels and the weak character of internal army security measures, raises a question mark concerning the internal unity and discipline of the armed forces.

(iv) One result of the attempted coup was to change internal NLC membership relations. The death of General Katokah, leader of the February 1966 coup and head of the armed forces, removed one of the two most powerful men, the other being the head of the police. General Ankrah, the chairman of the NLC, had been declining in influence relative to the two power holders before the coup, but now by assuming command of the armed forces, emerges as potentially the most powerful individual. He and the head of the police are mature, stable men with substantial common sense, but both lack personalities or reputations that attract civilian popularity. The most publicly popular member, Brigadier Afrifa, has proven to be highly erratic, and appears to be losing influence both within and outside the NLC.

(v) Although informed observers do not see any threat to the stability of the NLC except for the question mark of the army itself, these events have apparently convinced the

NLC to move on several fronts. One decision is to give substantially more, if not exclusive, attention to their power basis in the army and police forces. A major reorganization of every facet of the armed forces is envisaged, and the NLC believes this will and should absorb the majority of their time. Two corollary actions appear to flow in large part from this decision. First, the NLC believes it cannot adequately supervise ordinary government affairs by dividing portfolios between members of the NLC. Civilian commissioners were, therefore, appointed in July 1967 to direct all ministries except defense, foreign affairs, internal security, and finance which are retained by members of the NLC. This step also meets the demand for moves towards civilian government, but more important, is an attempt to improve policy and administrative performance where the attempt to have principal secretaries act as executives and quasi-ministers has been largely a failure.

(vi) The second corollary action is apparently the decision to set in train definite steps towards re-establishing civilian government. A draft constitution is reported to be ready, and if released for discussion, will establish some momentum towards civilian rule. It is envisaged that 4 to 6 months discussion will be followed by a Constituent Assembly, and then a simultaneous plebiscite and elections. Three issues appear to determine the timing of issuing the constitution: how to handle the former CPP party members; creation of a role for General Ankrah in the civilian government, and whether the time for elections should be one or two years away. The solution envisaged for handling the former CPP is to disenfranchise the CPP leadership; the debate is over how many to disenfranchise and for how many years. General Ankrah is reported to want to be the Head of State, but not head of the civilian government. There is no clear evidence on the timing of elections. Resolution of these issues continues to be the major political test confronting the NLC. The second major test will be to effectively contain the pressures generated by the stabilization program and the recent devaluation of the Cedi.

(vii) The NLC has concentrated primarily on domestic issues. In foreign relations, they have concentrated on repairing relations with neighboring African states that had been strained by the Nkrumah regime. Although professing a neutral policy in world affairs, their relations with Western countries are on a more solid footing than with the Eastern bloc.

VII. ECONOMIC SITUATION

(a) Population: 7.7 million
GNP per capita: $285.6 (1965 and before devaluation)[1/]
Foreign Exchange Reserves: $62 million (end of 1966)

(b) Ghana has made substantial progress over the last 18 months in coming to grips with the major economic and financial crisis, embracing both domestic and foreign sectors, inherited from and rooted in the policies and mismanagement of the old regime. On the domestic front, the new Government has introduced a firm stabilization regime featuring reduced and rationalized government expenditures and public sector surpluses. On the external front, the 1966 IMF stand-by agreement was successfully implemented and a second stand-by program was agreed in May 1967; the large amount of medium term external debt held by Western creditors was successfully rescheduled in 1966. In July the Cedi was devalued by 30%. This courageous step when combined with the improvements in the budget, development program and improved tax and other incentives for private investment adds up to an impressive improvement in the Ghanaian management of the economy.

Largely in recognition of Ghana's good performance, new bilateral assistance of $67 million has been committed thus far in 1967, and new foreign private investment has materialized both by purchase of existing state enterprises and in new ventures. Having said this, it is also fair to note that significant problems remain to be solved. Although restrained demand and externally financed staple imports have restored equilibrium on the domestic front, stabilization has resulted in sizable unemployment, manufacturing capacity remains underutilized and the task of increasing agricultural output has only begun. More important, the balance of payments continues under severe pressure despite debt rescheduling, new external assistance and continued import controls; the resulting capacity to import in 1967, possibly 1968, falls short of the minimum essential imports required to restore output to adequate levels and reserves are inadequate to take some of the strain. Provided Ghana continues its good economic performance, there are fair prospects for a second debt rescheduling in 1968 and continued external assistance which, when combined with devaluation and resumed private

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1/ The net result of devaluation will be to reduce GNP per capita by a significant amount.

investment, should provide the basis for solving these problems.

During 1966 the economy grew by about 2 to 3%, compared to the virtual stagnation in 1965, resulting from increased domestic output, especially above average agricultural crops for domestic use. Investment rates fell and savings increased largely resulting from reduced government expenditures with no appreciable decline in taxes and increased Cocoa Marketing Board surpluses. As a result, the current account deficit in the balance of payments was reduced by 40% and prices declined significantly in the second half of the year.

Fiscal management and the budget outcome has evidenced the most striking improvement. 1966-67 recurrent expenditures were cut by 5% from the prior year level, as compared to an average annual increase of 13.7% between 1960-65, reflecting the serious effort made to curtail non-essential recurrent expenditures. In large part as a result of this and reduced development expenditures, the total public sector was in substantial surplus over total expenditures. This is a complete reversal of past trends of significant public sector deficits covered by substantial borrowing from the banking system.

The new 1967-68 budget reflects continued serious effort to curtail recurrent expenditures, especially in education and defense. It also introduces reductions in company and export taxation that should materially improve private investment incentives.

Government development expenditures have been reduced and rationalized; 1966-67 government development expenditures were 39% less than in 1965. More importantly, considerable progress has been made in improving the quality of the development program and related policies. After a slow hesitant start, private sector activities have begun to pick up. Seven state enterprises have been sold to five foreign firms as joint ventures. The foreign private equity element of these ventures is over $10 million. In addition, two new ventures were started by foreign investors in 1966-67 and serious interest is in evidence on several others.

The trade and current account deficit improved in 1966 despite a fall in exports, because there was a large decline in imports. External reserves increased by $19.5 million to $72 million, but this reflected both IMF drawings of $50 million and the moratorium on external debt service.

The external reserve position is still not at all comfortable. New external assistance commitments in 1967, although impressively large at $87 million, are about $60 million less than the last Bank Report indicated as necessary to finance an import program that would facilitate economic revival. Indeed, if no additional exports or external assistance materializes, Ghana will only be able to finance about 80% of the Bank staff estimate of import requirements in 1967.

External public debt was about $610 million at the end of 1966. Annual debt service after debt rescheduling with Western creditors (rescheduling of Eastern bloc debt is now being negotiated) would be $34.5 million in 1967-68 or about 10% of estimated exports. Annual debt service will increase sharply in 1969 to about $66 million or about 19% of estimated exports at the 1967 level. This will not be a manageable level of debt burden and Ghana will probably request a second debt rescheduling meeting in 1968, a right she can exercise under the 1966 debt rescheduling agreement.

New external capital requirements over the short run are for non-project finance as the problem is to revive domestic production and government development consists primarily of on-going projects. Building up project lending is also important; however, if the future required capital inflow is to be sustained given the scarcity of non-project lending. Initially there are only a few new completion-type projects, but the Ghanaians are using technical assistance now to prepare suitable projects for the anticipated resumption of public investment in 1969. The character of the external debt burden, even if a second debt rescheduling is achieved, and the prospects for export growth are such that Ghana can only borrow on concessional terms. It is noteworthy that all of the new 1967 bilateral assistance was on concessional terms, and that 95% of the commitments were non-project assistance.

GUINEA

CONFIDENTIAL
September 14, 1967

BRIEFING PAPER - 1967

GUINEA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governor

Ousmane BALDE	(B-F)	Minister of Financial Control

Alternate Governors

Mohamed Lamine TOURE	(B)	Director of Research, Banque Centrale de la République de Guinée
N'Faly SANGARE	(F)	Director General, Banque Centrale de la République de Guinée

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) For some years the Bank has been considering an application by the Guinea Government for the financing of infrastructure (harbor, railway and townsite) in connection with the operation of a bauxite mine in the Boké region. In 1966, the Bank made a loan of $1.7 million for engineering studies of the proposed infrastructure project. As a result of these studies, it would appear that cost estimates for the project are significantly higher than originally estimated and now amount to a total of about $92 million including a foreign exchange component of about $68 million. The Bank is studying these estimates, which have been challenged as being too high by the aluminum companies. After the Government, the consultants and the aluminum companies reach an agreement on the cost estimates and on a precise definition of the infrastructure project, the Bank will be in a better position to evaluate the project's benefits to Guinea and to complete its appraisal of the project. Since Guinea is not considered creditworthy, the Bank's loan will have to be secured by the proceeds of bauxite sales, and negotiations on these aspects are expected to proceed later this year.

(b) The Bank is Executing Agency for a UNDP road transport and maintenance study which is to be completed by April 1968.

IV. TOPICS FOR DISCUSSION

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

Implementation of the recommendations of the Bank's 1967 economic mission to Guinea.

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

None.

(c) Likely to be raised by delegation:

The Bank's position vis-à-vis the Boké Project.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	Bank (Amount U.S. $ million)	IDA	Undisbursed
S 1 GUI	1966	Government	Boké engineering studies	1.7	-	0.4
	Total (less cancellations)			1.7		
	Total now held by Bank and IDA			1.7	-	—
	Total undisbursed					0.4

(b) Technical Assistance

The Bank is executing Agency for a UNDP road transport and maintenance study. The purpose of the study is to determine the economic and technical feasibility of improving the main road from Kissidougou to the Liberian border, and to strengthen the Guinean Highway Department.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$1.80 million. No release.

(f) IDA Subscription

Membership formalities not yet completed.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes

Guinea has not signed the Convention.

VI. POLITICAL SITUATION

Guinea became independent in October 1958, as the first French-speaking country south of the Sahara, by virtue of a negative vote on a referendum concerning a proposed association with the French Community under the Constitution of the new Fifth French Republic. This decision resulted in a sharp break with France which abruptly stopped its financial aid and technical assistance and withdrew all preferential import treatments. In 1960, Guinea withdrew from the franc zone of international payments and created its own currency. Much of its trade shifted to Eastern bloc countries and substantial aid has been received from Mainland China, the Soviet Union and the Socialist countries of Eastern Europe. Aid was also received from West Germany and to a considerable extent from the United States which has recently sharply reduced its assistance. The economic philosophy of the sole political party, which is headed by Mr. Sekou Touré, President of the Republic, and strongly influenced by his half-brother Ismael Touré, Minister of Economic Development, contains a brand of indigenous socialism vaguely defined as calling for organization of economic activity along communal lines. Economic activity is dominated by state enterprises and by state control mechanisms, except for agriculture, which continues to be mostly on an individual subsistence basis, and for the only major foreign investment in the country: the Fria Alumina plant.

Relations with Senegal and Ivory Coast are bad, especially since the Guinea Government granted asylum to former President Nkrumah and recently decided not to attend any longer the meetings of the Senegal River Basin Study Group, formed with Senegal, Mauritania and Mali.

Diplomatic relations with France remain suspended since November 1965 and no financial transactions between the two Governments take place at present, which has brought to a halt important French payments to Guinea veterans as well as Guinea debt service payments to France. French claims concerning the expropriation of French properties in Guinea have never been settled. The internment of the Guinea Foreign Minister first in Ghana (1966) and later in Ivory Coast (June 1967) has impaired the country's relations first with the United States and then with the Netherlands (as commercial airplane companies which were involved in these incidents carried U.S. and Dutch flags respectively).

VII. ECONOMIC SITUATION

(a) Population: 3.5 million (mid-1965)
GDP per capita: $75-80 (1965)
Foreign exchange reserves (gross): $8.4 million (mid-1966)

(b) Guinea is a country well endowed with natural resources and, in particular, with mineral resources still largely undeveloped. There are large deposits of bauxite and iron ore and some diamonds. In addition, it has great hydroelectric potential. Its bauxite is exploited in the Los Islands and at Fria where it is partly transformed into alumina for export. The Boké deposits in the northwest are among the largest and richest in the world. There are major iron ore deposits inside the country and more particularly near the Liberia and Ivory Coast border. Guinea's hopes to realize the Konkouré project, abandoned since independence, have been kept alive by belief in the possibility of Russian financing.

In spite of these resources and a very high amount of foreign aid, the economy has been doing poorly since independence. Agricultural production and official exports of bananas, coffee, pineapples, etc. have declined severely due to the massive and sudden departure of expatriates, subsequent crop diseases, the loss of markets in the Western world and a lack of incentives to farmers paid in a non-convertible currency with which they can buy little. Guinea relies to an increasing extent on imports of foodstuffs, in particular rice imported from the U.S. under the PL 480 program. The Government has attempted to organize and operate a centrally-planned economy but, given its weak administrative infrastructure, has failed to maintain efficiency or to promote growth. The results of the first development Plan and the new 7-year Plan have been disappointing up to now. The investment program, while contributing little to increasing production was very extensive with total investments as high as 25% of GNP, financed by about three-fourths of foreign sources. It left Guinea with an external debt of over $200 million by mid-1966 and a debt service of over 40% of average net export receipts. Extensive rescheduling of the foreign debt is therefore needed.

Short-term prospects for the Guinean economy depend to a large extent on the efforts which will be made to speed up internal production and exports of agricultural products by creating better incentives through the provision of attractive consumer goods to the farmers, to make better use of existing industrial facilities and to change radically the economic quality of new investments. In the medium and long term, prospects are good for the development of additional mineral resources, and a successful implementation of the Boké project might create the major part of the necessary foreign exchange and local public savings to put the investment program on a sound basis.

There is presently no possibility for Guinea to incur any new debt on conventional terms except for enclave projects for which special guarantee arrangements could be made. Guinea is not yet a member of IDA.

IVORY COAST

CONFIDENTIAL
September 15,1967

BRIEFING PAPER - 1967

IVORY COAST

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Son Excellence Konan Bédié	(B)	Ministre Délégué aux Affaires Economiques et Financières

Alternate Governors

Son Excellence Mohamed Diawara	(B)	Ministre Délégué au Plan

Advisers

Mr. Eliard Sibi	Ministère du Plan
Mr. Gomis	Chef de Cabinet, Ministère des Finances
Mr.J.B. Améthier	Directeur des Finances Extérieures et du Crédit

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Oil Palm and Coconut Development: A project providing for the development of 4,000 ha of estate oil palm and 12,000 ha of adjacent small-holdings, with oil mill at Ehania, and of 3,500 ha of estate coconut and 3,000 ha of outgrower scheme was appraised in February/March. A Bank loan of $16-17 million is likely to be negotiated in September/October.

(b) Roads: A project consisting of the construction of the Abengourou-Agnibilekrou road, and feasibility and final engineering of additional roads of some 1,000 km was appraised in April/May 1967. A Bank loan of $5-6 million is likely to be negotiated in October/November.

(c) Telecommunications: A telecommunications reconnaissance mission is scheduled to visit Abidjan in September.

(d) Other prospective projects: Cocoa rehabilitation, rubber development, cotton development, agricultural credit, education, fisheries: all at preliminary stage.

(e) Ivory Coast will be part of a proposed Bank/FAO study of integrated livestock projects in West Africa.

IV. TOPICS FOR DISCUSSION

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

(i) A review of the status of the projects under consideration (oil palm/coconut, roads,etc.).

(ii) The oil palm/coconut project raises a number of questions (credit arrangements for coconut outgrowers and use of cash surpluses generated by the project in particular).

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

None.

(c) Likely to be raised by delegation:

Possible comments on conclusions of economic report, particularly with respect to the forecast of the volume of public savings.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967:

None.

(b) Technical Assistance:

1. Mr. Waterston visited Ivory Coast in July 1966 and February 1967 to advise the Government on planning organization. His reports have been sent to the Government for comments.

2. The Terms of Reference for a Transport Survey and the Government's application for financial assistance have been submitted to the Resident UNDP Representative in Abidjan; the Bank is willing to serve as Executing Agency.

(c) Consultative Groups

None.

(d) Access to Capital Markets

Between 1960 and 1965 borrowing in France amounted to CFAF 5.1 billion, all with French Government guarantee and mainly placed with French insurance companies.

(e) Bank 9% Capital Subscription

$1.80 million, no release.

(f) IDA Subscription

Part II member. $0.909 million, no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Investment in the Banque Ivoirienne de Développement Industriel (BIDI)

Amount:	CFAF 50 million ($204,000)
Date Approved:	January 19, 1965
Form:	Ordinary shares
IFC Director:	Mr. Khosropur

Major Issues

None

IFC has no other investments or projects pending.

(i) Settlement of Investment Disputes

Convention signed June 30, 1965; ratified February 16,1966.

VI. POLITICAL SITUATION

Since independence in August 1960, the Ivory Coast has been governed under the familiar one-party system headed by President Houphouet-Boigny, the dominant political figure in the country and a liberal and moderating influence in African politics. The dominant position of the President and his Government, as well as the fact that foreign advisors exert a strong influence on the administration have in the past given rise to opposition from young, radical elements which in 1963 culminated in various abortive attempts to take over the Government. Since then, the President's position appears to have been strengthened, though with greater awareness of the need for more rapid Africanisation and more forceful presentation of African views in the Government's counsels. At the end of 1965, Mr. Saller, a Frenchman who had been Minister of Finance and Planning since independence was replaced by two young Africans, Mr. Konan Bédié for Financial and Economic Affairs and Mr. Mohammed Diawara for Planning. No major political developments in the course of the last year.

The Ivory Coast maintains very close relations with France, other European countries and the U.S., and the President exercises considerable influence throughout much of former French Africa. Relations with Guinea deteriorated, while the overthrow of Mr. Nkrumah in Ghana has eliminated for Ivory Coast a source of foreign agitation and hostility. Ivory Coast is a member of the "Entente". a loose association between Dahomey, Ivory Coast, Togo, Niger and Upper Volta.

VII. ECONOMIC SITUATION

(a) Population: 4.3 million; GDP per capita: $230 (1965); Foreign exchange reserves imputed to the Ivory Coast within the West African Monetary Union (gross): $105 million (April 1967).

(b) The Economy of the Ivory Coast is based on agriculture and forestry which is relatively well developed and diversified. Over four-fifths of the population derive their livelihood from these two sources. The economy depends heavily on exports of coffee, cocoa, timber and bananas. The Government is trying to diversify agricultural production by developing pineapple, rubber, palm oil, cotton, sugar and rice. Industry, 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 satisfactory. Favorable export markets, Government policies, public investment, considerable private foreign investment and an important French presence have contributed to a rapid growth rate, averaging 10% per year between 1960 and 1964, which is probably consistently the highest in Africa over the last five years. Per capita income is now about $230 equivalent. Since 1965, however, the outlook has become less certain and prospects for further increases in export earnings, and hence for the maintenance of the past high rate of economic growth, are less favorable. Further increases in coffee exports are likely to be seriously hampered by the International Coffee Agreements export quota system; the high growth in timber exports has been slowed down by the Government to prevent a complete depletion of timber resources within a few years and the export of bananas is hampered by high production costs. Thus, three of the four main export products have very limited further growth prospects and a temporary slow-down of the early overall economic development of the country seems thus inevitable until the early 1960s when newly developed agricultural export products (pineapple, palm oil, rubber) will hopefully make a useful contribution. But even then, future growth is very unlikely to resume the speed of the early 1960s.

The financial and monetary situation is sound. The current budget shows a small surplus of about $8 million. Service to the public debt (8$ of export earnings) remains within the financial capacity of the Ivory Coast, with a moderate margin for further conventional borrowings. Whilst there has been a rapid increase in supplier and contractor financing in recent years, there is a growing awareness of the implications for future creditworthiness.

The Ivory Coast can be considered creditworthy for Bank lending in moderate amounts. The very uncertain long-term export prospects, however, suggest that the total foreign debt burden of the Government should not be unduly increased and a part of the Ivory Coast's future foreign long-term borrowing should thus be on concessional terms.

KENYA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

KENYA

I. MEETING WITH DELEGATION

Kenya, Tanzania and Uganda delegations will jointly meet Mr. Knapp at 3:15 p.m. on September 27 in Rio de Janeiro.

II. MEMBERS OF DELEGATION

Governor

J.S. Gichuru (B-F)	Minister for Finance

Alternate

J.N. Michuki (B)	Permanent Secretary, The Treasury
D.N. Ndegwa (F)	Governor, Central Bank of Kenya

Adviser

A.T. Brough	Chief Statistician, The Treasury
B. Rapozo	Personal Secretary to the Finance Minister

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Second Highway Project: This project consists of the improvement of 11 trunk roads, totalling some 300 miles, the construction of nine small bridges on other roads and the detailed engineering of 15 secondary roads totalling some 250 miles (which may lead to a further construction project). In addition, provision will be made to assist a staff training scheme designed to strengthen the Roads Branch of the Ministry of Works. The project was appraised in June of this year; we expect to hold credit negotiations in October/November. The estimated total cost of the project is $15 million; the proposed IDA credit of $10 million would cover virtually all the foreign exchange costs, estimated at 70% of the total.

(b) Smallholder Tea Development II: The Kenya Government has asked CDC and IDA to help finance a continuation of the present successful tea project (credit No. 64-KE). The cost of the proposed project is estimated at $7.0 million (excluding the tea factories). IDA has been asked to contribute about $4.0 million, of which a part may be provided by CDC. The project would consist of planting 34,800 acres of tea between 1969 and 1973 and bringing to maturity the 25,500 acres planted under existing programs. An appraisal visit is scheduled for September/October, 1967.

(c) Livestock Development: This project is designed to assist in the development of some 60 ranches through the provision of credit for watering, dipping or spraying facilities, barns, machinery, etc. It will also include assistance in improving stock routes and the technical services provided by Government departments. The project was appraised in March/April of this year; we expect to hold credit negotiations in November. The estimated total cost is $11.6 million; the proposed IDA credit (subject to the availability of IDA funds) would amount to $7.2 million, including about a third of the local currency costs.

(d) Nairobi Water Supply: The City of Nairobi has at present an adequate supply of water and is able to satisfy increases in demand until about 1972. The project under preliminary consideration is designed to meet further increases in demand after 1972. It consists of the construction of a dam on the Chania River, a treatment plant, a 30-mile transmission pipeline and the expansion of the Nairobi distribution system. The project is estimated to cost about $24.0 million; we contemplate lending $16.5 million, equivalent to the foreign exchange component. A mission made a preliminary review of the project in May of this year; appraisal will follow the completion of an investigation of the site and study of water demand, perhaps next spring.

(e) Tea Roads II: This project, costing some $3-4 million, is expected to consist of the construction of about 200 miles of new feeder factory access roads and the upgrading of about 750 miles of similar roads being built under IDA Smallholder Tea Credit (No. 77-KE). All of the roads would be in tea growing areas; the need for upgrading existing roads arises from the increased acreage of tea being planted in the areas which these roads serve. The scope of the project depends on the results of a comprehensive tea transport and factory location study, about to be undertaken by the Government with the aid of the Nairobi Office.

(f) Education II: The proposed project will probably include teacher training colleges, technical schools, and secondary schools. It will not reach the appraisal stage before the second half of 1968 or later.

IV. TOPICS FOR DISCUSSION

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

(1) Review of prospective Bank/IDA projects in the light of the present limited availability of IDA funds.
(2) Proposed East African Consultative Group.
(3) Arrangements for renegotiation of the Bank's three East African loans.
(4) Possible Kenya participation in Bank bond issues (see Part V(g))

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

General discussion on the new East African Community (see the brief on East Africa)

(c) Likely to be raised by delegation:

Same as under (a) (1) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967 1/

Loan or Credit No.	Year	Borrower	Purpose		Bank	IDA	Undisbursed
					(Amount U.S. $ million)		
256-KE	1960	Kenya 2/	Agriculture and roads		5.6	-	-
303-KE	1961	Kenya 2/	Land Settlement		4.6	-	2.4
64-KE	1964	Kenya	Tea		-	2.8	1.2
70-KE	1964	Kenya	Roads		-	4.5	1.1
77-KE	1965	Kenya	Tea Roads		-	3.0	2.1
93-KE	1966	Kenya	Education		-	7.0	6.7
104-KE	1967	Kenya	Agricultural Roads		-	5.3	5.3
105-KE	1967	Kenya	Agricultural Credit		-	3.6	3.6
			Total (less cancellations)		10.2		
			of which has been repaid		3.0		
			Total now outstanding		7.2		
			Amount sold	4.3			
			of which has been repaid	2.9	1.4		
			Total now held by Bank and IDA		5.8	26.2	
			Total undisbursed				22.4

1/ Excluding the 1955, 1965 and 1967 loans to the East African Common Services Authority for Railways and Harbors and for Telecommunications which are jointly and severally guaranteed by Kenya, Tanzania and Uganda (and the United Kingdom in the case of the 1955 loan).

2/ Guaranteed by the United Kingdom.

(b) Technical Assistance

(1) East African Transport Study (see brief on East Africa).
(2) The Nairobi Office and ADS are helping in the preparation of certain projects.
(3) The 1966 economic mission "in depth" has recently completed its report.

(c) Consultative Groups

The Government has agreed to the proposed Consultative Group for East Africa; Uganda's response is awaited (see brief on East Africa).

(d) Access to Capital Markets

None

(e) Bank 9% Capital Subscription

U.S. $3.0 million; no release.

(f) IDA Subscription

Part II member, U.S. $1.512 million; no release.

(g) Holdings of Bank Bonds

Kenya has subscribed to and has been allotted $1.0 million of the September 15, 1967 Bond issue.

(h) I.F.C.

I.F.C. has one investment in the Kenya Hotel Properties totalling $3.2 million. Tenders for the construction of this Intercontinental hotel are being considered.

The Birla Group has completed a study of the Pulp and Paper project and GOK and IFC are seeking further financial and industrial participants. Escher Wyss of Western Germany has expressed an interest in the project.

A fisheries project awaits a technical sponsor.

(i) Settlement of Investment Disputes

Signed May 24, 1966
Ratified January 3, 1967.

VI. POLITICAL SITUATION

Kenya, a former British colony, attained independence in December 1963 and became a Republic within the Commonwealth a year later. Mr. Jomo Kenyatta, President of the Republic and leader of the Kenya African National Union (KANU), has headed the Government since independence. Although there is a small minority party represented in the Parliament - the Kenya Peoples Union, headed by a former Vice President, Mr. Oginga Odinga - Kenya is essentially a one-party state and Mr. Kenyatta is regarded the national leader. His advanced age raises the problem of succession. So far there has been little indication of who might replace him.

The political situation within the country has been stable, contrary to pre-independence fears of serious inter-tribal and inter-racial strife. Kenya follows a policy of neutrality and non-alignment in foreign affairs. However, it is on friendlier terms with the Western countries than with the Eastern Block. (Just recently several Chinese diplomats were expelled from the country.)

Kenya is harassed by the problem of the Somali "shifta" (rustling) attacks in the northeast. Recently the Somalia Government has identified itself with the territorial demands of the "shifta" and relations between the two countries have worsened. This problem is having some effect on the development of the country both in that the expenditure on the security forces is rising and that the development of livestock in the northeast is to some extent hampered. On the other hand, unless development proceeds, the loyalty of the population in that area cannot be assured. Trade in livestock between Somalia and Kenya has virtually dried up.

(For developments in cooperation with other East African countries, see the East Africa brief.)

VII. ECONOMIC SITUATION

Population: 9.6 million (1967)
GNP per capita: U.S. $111 (1966)
Foreign exchange reserves: U.S. $98.0 million (1965)

During the period 1961-66 the average rate of growth of the Kenya economy was approximately 7% a year at current prices. In 1965 this declined to 3.5% as a result of a poor harvest. When increases in prices and the growth of population are taken into account, there has been little improvement in per capita incomes. The main structural changes in the economy in recent years have been the transfer of land from European farms to African smallholders, rapid introduction of African farmers to cash crops, coupled with the successful program of land consolidation and registration. This is reflected in the fact that during 1961-66 cash revenue from agriculture and livestock accruing to African farmers has almost doubled, and now amounts to about 36% of the gross value of marketed output. The share of agriculture in GDP has fallen over the decade, 1956 to 1966, resulting from higher growth in other sectors and a fall in agricultural prices. Manufacturing, transport, government and services have increased their contribution to GDP over the past ten years.

Along with other African countries Kenya suffers from the problem of rising wage rates and declining employment. The problem is compounded by the shortage of land in certain areas.

The 1966-70 development plan is fairly well conceived, although the proposed growth rate of 6.3% is perhaps optimistic mainly because export income is over-estimated and manpower and other constraints will limit the capacity to carry out development programs. It is expected that domestic investment will continue to increase at a fairly rapid pace both absolutely and relative to GDP but not so much as projected in the Plan. Gross fixed capital formation may rise from about $110 million in 1965 to about $180 million in 1969/70. Public finances have generally been well managed.

Kenya has always had an external deficit on merchandise trade account which increased sharply in 1966, leading to a deficit on the current account balance of payments. This was financed by a net inflow of capital both on public and, reversing earlier trends, on private account. The foreign exchange reserves have increased, with fluctuations, from about $78 million in 1960 to about $98 million in 1965, or about four months imports.

Kenya has a fairly high external public debt compared to her Common Market partners. The total amount outstanding as of December 31, 1966 was $321.3 million to which must be added Kenya's one-third share of EACSO's outstanding external debt of $79.0 million, making a total of $400.3 million. Total debt service (including EACSO) was 5.2% of the gross earnings on the current account balance of payments in 1966.

Since its independence, Kenya has been regarded as a "soft blend" country for Bank/IDA lending and, for administrative convenience, the Common Services projects have been financed by the Bank while the remaining "national" projects have been left to IDA to finance. This practice, also recently endorsed by the Economic Committee, has so far resulted in a 50/50 blend of Bank/IDA lending to Kenya, mainly due to the fact that two large Common Services projects became ready for Bank financing in the course of the last two years. But, with the increasing availability of "national" projects in the near future, this blend is likely to change in the favor of IDA credits, so that the conditions of "soft blend" will materialize.

Until the replenishment of IDA funds, however, there may be a temporary lag in IDA lending. If the Government's investment program should be temporarily threatened by a shortage of funds on non-conventional terms, Kenya could borrow a limited proportion of its modest overall requirements on relatively harder terms, in view of its fairly low debt service. However, on the grounds of poverty and the poor export prospects, such hardening of terms should be very limited.

LESOTHO

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

LESOTHO
(Not yet a member)

I. MEETING WITH DELEGATION

Not scheduled

II. MEMBERS OF DELEGATION

III. BANK/IDA PROSPECTIVE OPERATIONS

Oxbow Project: The Oxbow would provide water and possibly electricity, most of which would be sold to South Africa. Total project cost is to be $50-80 million (dependent upon decisions as to the dam capacity and the inclusion of electricity) a part of which would be financed by South Africa. Bilateral donors might also be interested in participating in this project, provided some Bank Group finance was forthcoming. We have indicated to the Government the type of information which should be included in a final feasibility report and the need for an agreement with South Africa guaranteeing its purchases. A meeting is scheduled for September between Lesotho and South Africa, at which time decisions will be made as to the next steps to be taken. A request was made to the UNDP for assistance in project preparation, but this may face political snags.

Due to the limited availability of IDA funds, preparation of other projects are not encouraged and will await the outcome of the studies of the Oxbow Project.

IV. TOPICS FOR DISCUSSION

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

(i) Availability of local currency financing for Credit 82/BL (roads).
(ii) Results of September meeting with South Africa concerning Oxbow Project.
(iii) Completion of formalities for IMF/Bank/IDA membership.

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

No meeting is scheduled.

(c) Likely to be raised by Delegation

None

V. BACKGROUND INFORMATION

(a) IDA Credits as of July 31, 1967:

Credit Number	Year	Borrower	Purpose	Amount (US$ million)	Undisbursed Balance (US$ million)
82/BL	1966	Basutoland	Roads	4.1	2.8

(b) Through (i) not applicable.

VI. POLITICAL SITUATION

Basutoland became independent as the Kingdom of Lesotho on October 4, 1966, with the Paramount Chief, Moshoeshoe II as King, with only ceremonial powers, and Chief Lebua Jonathan as Prime Minister. Jonathan is the leader of the Basutoland National Party (BNP) which won 31 out of the 60 seats in the general election of April 1965. The Basutoland Congress Party (BCP) has 25 seats, and the Marematlon Freedom Party (MFP) won the remaining 4. Subsequently, however, one of the MFP members crossed to the BNP side. A political crisis developed in December 1966, as a result of which the Prime Minister placed the King under house arrest and put the opposition leaders in prison. On January 5, 1967, the King agreed that he would never again convene or address a public meeting without the consent of the government.

Prime Minister Jonathan has received promises of technical assistance from South Africa. Visits to many other countries, including USA, Japan, Germany and Austria have brought little tangible benefits, though Austria has promised technical assistance in promoting tourism. Relations with Britain remain strained after inconclusive and at times acrimonious negotiations on the future levels of U.K. aid to Lesotho, which resulted in an aid offer (£ 11 million for 1967/68 - 1969/70), much below Lesotho's hopes.

VII. ECONOMIC SITUATION

Population (1966):	976,000 (resident 859,000)
GNP per capita:	$ 60 (estimated)
Foreign Exchange Reserves:	n.a. (Part of South Africa monetary area, using South African currency)

Landlocked within South Africa, Lesotho's economy is basically agricultural, and the succession of drought years, primitive technology and severe soil erosion may have led to a reduction in output over the past 10 years, though statistical data are unreliable. Due to limited economic opportunities at home, more than 40% of adult males work in the Republic of South Africa, mainly in the gold, coal and diamond mines; their remittances to Lesotho provide a substantial part of its cash income.

Communications are very poor, which in such a mountainous country greatly inhibits the marketing of agricultural produce and increases the costs of administration.

It is hoped that efficient exploitation of Lesotho's diamonds by a large mining group will increase the government revenues and help raise incomes. The projected Oxbow scheme to sell water to South Africa is also a possible source of increase of government revenues.

At present Lesotho is heavily dependent on U.K. grants to finance its current and capital expenditure. In 1967/68, Britain is financing more than 50% of the recurrent budget. The prospects for reducing this reliance on budgetary support in the foreseeable future are not good.

Lesotho is considered eligible for IDA financing.

LIBERIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

LIBERIA

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

J. Milton Weeks (Governor)	Secretary of the Treasury
Cyril Bright (Alternate Governor)	Secretary of Planning and Economic Affairs
Frank J. Stewart	Under Secretary for Fiscal Affairs, Treasury Department
S. Edward Peal	Ambassador of Liberia to the United States
George A. Blowers	Consultant to the Liberian Government

III. BANK/IDA OPERATIONS

1. The existing road project

In January 1964, the Bank made its first loan of $3.25 million to finance the foreign exchange cost of Kle-Pujehun and Monrovia-Robertsfield roads. Due to changes in original designs and the need for consultants' services for supervision of construction, services which were originally expected to be financed by U.S. AID, costs proved to be higher than initially estimated. The Bank, therefore, made in August 1965 a supplementary loan of $1.0 million, to increase the amount of the original loan to $4.25 million.

A Bank supervisory mission which visited Liberia in February 1967 found that there were further substantial cost overruns. These overruns were due to the need for building additional and larger bridges and culverts following the unusually heavy rains of 1966, certain aspects of the final engineering being poor, and the initially inadequate organization by one of the contractors. A Liberian delegation led by Mr. Weeks, Secretary of the Treasury, visited the Bank in May 1967 and discussed the problem arising out of approximately $1.0 million cost overrun on the project. A second supplementary loan was requested, but after discussions this request was not pursued by the Government. The Bank, however, agreed to the Liberian request to adjust its disbursement rate to ease the difficult budgetary problem that Liberia faces during the current year in meeting the increased costs.

It is now estimated that the Kle-Pujehun road will be completed by December 1967 and the Robertsfield road by May 1968. The closing date of the loan has, therefore, been extended to June 30, 1968.

2. Prospective Operations

(a) Palm Oil Project. The Bank has made a grant of $36,000 to the Government to help finance a feasibility study for palm oil development. The Government and a French consulting firm (IRHO) have been negotiating a contract which is expected to be signed shortly. The final report will be available in December 1968. Under the best of circumstances, we do not foresee this resulting in a project before late 1969.

(b) Southeast Roads and Harbor. U.S. AID is currently financing a study to determine the economic and technical justification for building roads and upgrading harbors in the Southeast based on the extraction of timber. This study is expected to be completed and a report prepared by February 1968. The Bank/IDA will be approached first on any project or projects coming out of this study.

(c) Tartuke-Karloke Road. This road was proposed for a Bank loan, but because of the heavy cost overruns on the Kle-Pujehun and Monrovia-Robertsfield roads and shortage of funds, the Government does not have the means to finance its share of the costs. The project was, therefore, withdrawn from the Bank, but the Government may renew its request at a later date.

IV. TOPICS FOR DISCUSSION

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

We might remind the delegation that the Bank would like to see the oil palm study going forward and would appreciate the Government finalizing its contract with IRHO as soon as possible.

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

None

(c) Likely to be raised by Delegation:

The Liberians may ask for Bank technical assistance for a proposed debt rescheduling exercise in 1968. A Fund mission is currently in Monrovia and is expected to return by the middle of September. Based on their findings, we should be able to formulate our views on this question before the annual meetings.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967:

Loan or Credit No.	Year	Borrower	Purpose		(Amount U.S.$ million) Bank	Undisbursed
368	1964	Liberia	Roads		3.25	1.0
368	1965	Liberia	Roads		1.0	
		Total (less cancellations)			4.25	
		of which has been repaid			-	
		Total now outstanding			4.25	
		Amount sold		0.3		
		of which has been repaid		-	0.3	
		Total now held by Bank			3.95	
		Total undisbursed				1.0

(b) Technical Assistance Activities

The Bank has agreed to make available up to $36,000 to the Government to help finance the foreign exchange cost of an oil palm project feasibility study (see Part III-2).

(c) Consultative Groups

None

(d) Access to Private Capital Markets

None

(e) Bank 9% Capital Subscription

$1.92 million. No release.

(f) IDA Subscription

Part II member - $760,000. No release.

(g) Holdings of Bank Bonds

None

(h) IFC

(i) Investment in Liberian Bank for Industrial Development and Investment (LBIDI):

Amount: $248,730
Date approved: August 10, 1965
Form: Ordinary shares
IFC Director: Dr. A. A. Khosropur

Major issue: Inactivity of LBIDI. LBIDI has been without a chief executive since it started business in 1965 until the end of July 1967. However, under a management contract between LBIDI and Checchi and Company, Mr. Paul McCann of Checchi and Company was appointed President of LBIDI on August 1, 1967, thus removing one of the causes of inactivity. The other cause, the absence of a flow of suitable business, is related to the country's economic situation and is not expected to be remedied quickly.

(ii) IFC has no other existing investments and no active applications. A preliminary approach has been made to assist an oil palm project, now being studied by a French group.

(i) Settlement of Investment Disputes

Signed on September 3, 1965. Not yet ratified.

VI. POLITICAL SITUATION

Under President Tubman Liberia continues to enjoy stable political conditions. He was re-elected unanimously for a sixth four-year term in May 1967. There is no effective opposition and no leader of a similar stature to replace him. President Tubman is now 71 and what forces would emerge after him is difficult to say. During the current year, Mr. Charles Sherman, who was Secretary of the Treasury, was replaced by Mr. J. Milton Weeks.

VII. ECONOMIC SITUATION

(a) Population: 1.1 million
GNP per capita: $163 (1964)
Foreign exchange reserves not available.

(b) Despite indications that the Liberian economy continued to grow in 1965 and 1966 from the slump of 1963, it continues to be vulnerable to the fluctuations of iron ore and rubber exports, which at 55% of GDP and 93% of exports are the backbone of the economy, and of foreign private investment. The Government continued to make some improvements in fiscal management especially in mobilizing revenues, but the fiscal cost of service on existing external debt absorbs almost all public savings. Inadequate domestic finance and administrative capacities have prevented mounting a well founded development program to realize the considerable growth potential in timber, tree crops and food crops.

The value of iron ore exports increased in 1966, with rubber about the same as 1965. In both cases increased production accounts for the improvement as prices have not recovered from the low levels of the early 1960's. Foreign private investment was about the same level in 1966 as in 1965, and should be about the same level in 1967 due to construction of a large iron ore pellitizing plant. Public investment has been virtually stable for several years, and is heavily dependent on external finance. Unless the stringent public savings (after debt service) problem is solved, there is little prospect that public investment will increase much above the present level.

The public savings problem is one of current expenditure, combined with debt service, growing faster than revenues. With debt service at 18% of expenditures and scheduled to rise in 1968 and 1969 and with little scope for net additional IMF resources after five consecutive stand-by arrangements, the latest in May 1967, the Government faces a difficult budget outlook for 1968 and 1969. The character of the fiscal problem is such that, despite the debt rescheduling of 1963 and adherence to IMF stabilization programs since 1963, the Government might seek another debt rescheduling in 1968 or 1969. An IMF mission is presently in Liberia assessing the problem, and their preliminary findings might be available shortly before the Annual Meetings.

External debt outstanding on June 30, 1965 was $177.7 million, of which $125 had been disbursed; an additional $11 million of debt was reported up to February 28, 1966. External debt service was about $9.1 million or about 7% of export earnings in 1965, rising to a peak of $17 million in 1969; and then declining slowly to $10.2 million in 1977. Liberia has no separately identifiable foreign exchange reserves due to the lack of a central bank or membership in a currency board.

While the pace of economic activity appears to have picked up in 1966, the long term prospects for economic growth are still uncertain. The volume of iron ore exports and to a lesser extent rubber will continue to increase as past investments come into production, but their impact will be offset to some extent by continuation of low or declining world prices. Private foreign investment continues at a respectable level, but is vulnerable to sharp fluctuations as investment in iron ore are completed. Except for possible investment in iron ore and agricultural plantations, it is unlikely that substantial private investment will be undertaken. There is scope for increasing agricultural and timber output, but this requires maintaining public sector investment at a high level. However, the pipeline of externally financed projects will be completed in the next year or two, and it will be necessary to attract new external capital inflows. Improved administrative capacities and local financing for development will be required in order to attract new external finance. This will necessarily have to be long-term capital; the agreement with IMF forbids any new external debt obligations or guarantee of any loans having a final maturity of less than twelve years. Liberia is classified as eligible for IDA credits (soft blend). We do not foresee Bank or IDA lending within the next year, and this will give time to re-evaluate Liberian economic performance, especially with regard to public savings.

MALAGASY REPUBLIC

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

MALAGASY REPUBLIC

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Mr. Rakotovao Ralison (B)	- Controller General, Institut d'Emission Malgache
Mr. Victor Miadana (F)	- Minister of Finance and Commerce

Alternates

Mr. Louis Rakotomalala (B)	- Ambassador Extraordinary and Plenipotentiary, Permanent Mission of the Malagasy Republic to the United Nations.
Mr. Raymond Rabenoro (F)	- Director General of Finance

Adviser

Mr. Jean Kientz	- Director General, Institut d'Emission Malgache

III. BANK/IDA PROSPECTIVE OPERATIONS

Transport: a) We have under consideration a project which includes the construction of three bridges (estimated cost $2.25 million) and possibly the upgrading of the Ambanja-Ambilobe and Fangakamandroso-Tsiroanomandidy roads (total cost estimated at $6 million). An appraisal mission may be scheduled for early 1968.

b) We will shortly submit to the Loan Committee a proposal for a technical assistance grant for a study of the Tamatave port (estimated foreign exchange cost $100,000 or $187,500, depending on whether a hydrological model study is needed or not).

c) We are also prepared to assume the Executing Agency for a UNDP study of port services for the Northwest of Madagascar and Moroantsetra.

Agriculture: a) A mission under the Bank/FAO Cooperative Program visited the Malagasy Republic in July 1967 to prepare a livestock project in the Midwest Region.

b) The UNDP in June 1967 allocated $886,100 (total cost $1.6 million) for a study of the agricultural development of the Morondava Plain. The study is expected to last 2-1/2 years and to result in a feasibility report on the basis of which the Bank/IDA should be able to appraise an irrigation project.

IV. TOPICS FOR DISCUSSION

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

No disbursement yet under the $10 million IDA credit for roads signed in August 1966.

Status of projects under consideration.

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

None.

(c) Likely to be raised by delegation:

Status of projects under consideration.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	Bank	IDA	Undisbursed
				(Amount U.S. $ million)		
MAG-90	1966	Malagasy Republic	Tananarive-Majunga Road	--	10.0	10.0
MAG-510	1967	Malagasy Republic	Education	4.8 1/	--	4.8
Total now held by Bank and IDA				4.8	10.0	
Total undisbursed						14.8

1/ Not yet effective

(b) Technical Assistance

The Bank assisted in the preparation of the Government application to the UNDP for the Morondava feasibility study (see Part III).

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$1.80 million; no release.

(f) IDA Subscription

Part II member - $0.909; no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

At the request of the Minister of Finance, an I.F.C. mission visited Madagascar in November, 1966, to study the demand for long-term financing and to review the financial institutions providing such finance, particularly the SNI, but also the Banque Nationale Malagasy de Développement (BNM). The mission concluded that the present institutions appeared to meet the present and near-future needs for financing, and that I.F.C. should not make an investment in SNI. The Government was so informed in April 1967.

I.F.C. has no existing investments and no active applications. However, I.F.C. has received a preliminary inquiry by a French sponsor for a textile project at Majunga. A formal investment application might be filed at the end of September when the sponsor expects the detailed project report and financial plan to be ready.

(i) Settlement of Investment Disputes

The Convention was signed on June 1, 1966 and ratified on September 6, 1966.

VI. POLITICAL SITUATION

Madagascar, with its oriental antecedents, remains somewhat apart from Black Africa. Its people are highly mixed and possess 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.

The Malagasy Republic became independent in June 1960 and Philibert Tsiranana, leader of the Socialist Democratic Party (PSD), was elected President. Although Madagascar maintains a multi-party system with a parliamentary opposition, the PSD controls all the seats of the Legislative Assembly, except for a few representatives from the Tananarive area. The President was reelected in 1965 by a very large majority.

VII. ECONOMIC SITUATION

(a)

Population:	6.6 million (June 30, 1966)
GDP per capita:	U.S.$ 104 (in 1966)
Gross foreign exchange reserves:	U.S.$ 52 million (four months . imports)

(b) The Malagasy Republic remains a predominantly agricultural nation in spite of the fact that the percentage contribution of agriculture to GDP has declined from 48% in 1953 to 35% at present. Agriculture accounts for 85% of the total value of exports and provides employment to 88% of the economically active population. The value of output has stagnated in recent years due largely to adverse weather conditions and deteriorating export prices. About two-thirds of the agricultural output is produced by the subsistence sector. The major subsistence crops are paddy, manioc and potato; the most important commercial products for export include coffee, cocoa, vanilla, sugar, tobacco sisal and meat. A domestic deficit on rice production occurred in 1964 and 1965 due to bad weather and a rapidly growing population.

The manufacturing sector has experienced vigorous growth, but due to its small base (less than 10% of GDP) it has been unable to offset significantly the effect of the absence of growth in agriculture. GDP increased at a yearly rate of 4% in the 1962-1966 period but prices also increased by 4% in the same period with the result that real per capita income actually declined by 3%, the rate of population growth. The investment ratio of 10% of GDP from 1960-1966 has improved in recent years. Public sector investment has concentrated mainly on transportation infrastructure and agriculture. Private investment has been mainly in agriculture, trade, construction and manufacturing. The latter has been especially important after the introduction of the investment code in 1962.

Public finances have been healthy, showing a fluctuating but consistent surplus on current account. Public domestic savings have averaged about 35% of the yearly total development expenditures and 20% of GDP and are expected to continue to increase.

The balance of payments has shown a persistent deficit since 1960 both on the goods and services and on the overall current

accounts. Balance of payments projections of imports, exports, and foreign factor payments indicate that the overall deficit may be as high as 11 billion FMG by 1971, 20% of which may be covered by private capital inflow. The major part of the external resource gap is expected to be covered by FAC and FED. The existing development plan, approved in mid-1964, provides for investments of FMG 165 billion; 57 percent of which in the public sector. Its emphasis seems generally sound. Implementation will take probably some six years rather than five as projected. On this assumption, investment would rise to 14 percent of GDP by 1970. Private sector expenditures will be directed about equally to agriculture, manufacturing, transport and housing and buildings while the public sector will continue to emphasize transportation (50 percent) and agriculture (25 percent). A rise in the growth rate of real national income to around 4 percent per year or even more should be possible within a few years.

In 1966 the debt service ratio was 2.5 percent of the total exports of goods and services. It is expected to rise to about 3 percent by 1972 on existing debt, which still leaves room for a moderate increase in borrowing on conventional terms.

MALAWI

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MALAWI

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governor	Alternate	Adviser
	A. G. PERRIN (F) Governor, Reserve Bank of Malawi	

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Highway Project

The project provides for (i) reconstruction of the 180-mile Lilongwe-Zomba Road; (ii) consulting services for a study of road transport, licensing regulations and road-rail co-ordination; (iii) refunding of the 1966 Highway Engineering Credit No. S-2 MAI. Total cost is estimated at $13.8 million, foreign exchange component at $9.0 (70%). A Credit Agreement is scheduled for negotiation immediately after the Annual Meetings and is expected to be submitted to the Executive Directors before the end of the year. The proposed IDA financing is for $11.0 million, including $0.5 million for the refunding of the previous IDA engineering credit.

(b) Lilongwe Agriculture Project

The project covers the first four-year phase of a 13-year integrated agricultural improvement scheme (rural infrastructure, extension and credit services, land registration etc.), involving 500,000 acres. Total cost of the four-year phase is estimated at $7.3 million; foreign exchange component $3.6 million (49%). The proposed IDA financing is for $6.0 million (82%). Negotiations for a Credit Agreement are likely to take place in October (probably to be combined with the negotiations for the credits under (a) above).

(c) Lower Shire Valley Agricultural Project

The appraisal report for this project has been completed. The project is designed, over a five-year period, to induce 4,000 farmers to adopt improved agricultural practices (mainly pest control) for cotton production and to provide improved extension and credit services, water supply, marketing facilities, etc. The total cost is estimated at \$4.8 million, of which the foreign exchange component is to be \$2.7 million (56%). Proposed IDA financing is for \$3.7 million (77%). The negotiations for a credit agreement, which had earlier been scheduled for September, have now been postponed pending IDA replenishment.

IV. TOPICS FOR DISCUSSION

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

(i) Confirmation of the timing of the negotiations for the road and Lilongwe project credits; postponement of negotiations for Lower Shire Project.

(ii) The Bank wishes to reach understanding with the Government to limit its borrowings from the banking system during 1968-70. Government development expenditures financed from such sources contributed in 1966 to a significant drop in foreign exchange reserves which, if not discontinued, might entail serious foreign exchange problems. By Mr. Knapp's letter dated August 23, 1967, President Banda has been informed of the Bank's views on this matter.

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

None.

(c) Likely to be raised by delegation:

(i) Nacala Rail Link: Malawi and Portugal have agreed on the construction of a rail link between Malawi and the Mozambique Indian Ocean port of Nacala, but Malawi seems to have been unable to secure acceptable finance (from Japan) for the Malawi section. Cost estimates vary between \$12-14 million, including rolling stock. A feasibility study was prepared by a French firm; a second engineering survey is underway by KAMPSAX (Denmark). Bank/IDA finance for construction works may be asked. However, political (Mozambique), economic and financial implications would be complex and require time-consuming studies on a regional basis (comparison with Beira outlet; competition with TanZam Railway plans; Mozambique development projects, etc.). The Government's time-table for the completion of this project seems to be 1969.

(ii) Technical Assistance for Plan Preparation: The delegation may ask again for the Bank's assistance for the preparation of the 1970-74 Plan. However, Planning Ministry is now comparatively well staffed: a senior planning officer has recently been provided by the U.K. Ministry of Overseas Development. The Bank might undertake short-term assistance by sending one or two sector specialists and offer, for the rest, to review the plan preparation work through extended visits by economic missions (in 1968 and 1969).

(iii) Education Credit No. 102/MAI: The Bank may be requested to approve (a) shifting of Teacher-training college to another site in Lilongwe and (b) extensions to a secondary school in Blantyre/Limbe. Subject to checking of the details, these requests do not appear unreasonable.

(iv) Power Development: The Government may request finance for a hydro-project ($8.5 - 11 million; 30-40 MW) or a smaller diesel station (10 MW) and for a Lilongwe transmission line ($1.7 million). While willing to consider the request, we should indicate the difficulty in allocating IDA funds to Malawi in the immediate future.

V. BACKGROUND INFORMATION

(a) IDA Credits as of July 31, 1967

Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	IDA	Undisbursed
S2-MAI	1966	Malawi	Project Preparation	-	0.5	0.2
102-MAI	1967	Malawi	Education	-	6.3	6.3
		Total now held by IDA			6.8	
		Total undisbursed				6.5

(b) Technical Assistance

(i) The Agricultural Development Service (ADS) is examining for the Government possible agricultural development schemes in the Northern Province.

(ii) Mr. Nottidge, an ADS member, has been assigned as Project Manager for the Lilongwe agricultural project. The Government is planning to give him the overall charge of this project, as well as of the proposed Lower Shire project and a German-financed project in the Salima area. A preliminary government request has been made for a second ADS member to manage the Lower Shire project.

(c) Consultative Group

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) Holding of Bank bonds

None.

(h) I.F.C.

IFC has no existing investments and no active applications.

(i) Settlement of Investment Disputes

Signed on June 3, 1966; ratified on August 23, 1966.

VI. POLITICAL SITUATION

Malawi (formerly Nyasaland) became independent in 1964. In July 1966, a Republic was established with Dr. Hastings Kamuzu Banda, as President. Earlier political difficulties, which were highlighted by Dr. Banda's dismissal of three Cabinet Ministers and the resignation of three others in 1964, have been largely overcome and Dr.Banda continues to enjoy widespread political support.

Unlike the other East and Central African states, Malawi continues to retain the services of a large number of senior expatriate officials. Over the past year, the pace of Africanisation has quickened slightly, and two African (Malawi) Permanent Secretaries have recently been appointed at the Ministries of Education and of Trade and Industry. Mr. R. J. C. Wait, the former Permanent Secretary at the Finance Ministry, has been replaced by his former deputy, Mr. K. J. Barnes (also an expatriate), who is generally regarded as an able civil servant. A promising African, Mr. C.V.B. Munthali, now Permanent Secretary at the Ministry of Trade and Industry and a former Treasury official, is reportedly in line to take over from Mr. Barnes.

In her external relations, Malawi pursues a pragmatic policy conditioned by her economic dependence on Rhodesia, Mozambique and South Africa, whether as vital transit routes or as important employers of Malawi labour, and by the budgetary assistance granted by the United Kingdom. This policy resulted in the conclusion of a trade agreement with the South African Government earlier this year and of a recent agreement with Portugal for the sale of various railway assets in Mozambique owned by Malawi. While this policy has resulted in Malawi's estrangement from a number of African states, including Tanzania and the United Arab Republic, there is a growing appreciation in many African countries (e.g. Kenya) of the special nature of Malawi's position.

VII. ECONOMIC SITUATION

(a) Population: 4 million
GNP per capita: $55
Foreign Exchange Reserves: $21 million equivalent.

(b) Since the achievement of independence in 1964, Malawi has made very substantial economic progress, and over the past two years the gross domestic product in real terms has increased at a rate of approximately 15 per cent per annum. A significant part of this increase is accounted for by the smallholder production of groundnuts, maize and tobacco. The rate of growth in population exceeds 3 per cent and pressure is heavy on most of the good land. The Ministry of Natural Resources is now giving serious consideration to the introduction of irrigation schemes either on an estate or a nucleus-estate basis from 1970 onwards for tea, cotton and rice. The business climate in Malawi is now exceptionally favourable, and in the industrial field the 1965-67 period has seen a series of major investments in textiles, sugar, brewing and distillery. Malawi Railways, now Government-controlled, have benefited from the handling of Zambian transit traffic, which has provided them with a substantial profit in 1966 and 1967.

During Malawi's membership of the Central African Federation (1953-63), her current expenditures were partly met by transfers from the Federal Government. After Independence, the United Kingdom Government granted budgetary assistance to cover the current deficit, and for the period 1966-68 she has undertaken to provide a maximum of £5.3 million of budgetary support. The Malawi Government has been reasonably successful in the management of its recurrent budgets, and its budgetary aid requirements should not exceed £4.6 million in 1967. A Fund mission has recently submitted a report to the Government on possible changes in fiscal policy, and there are reasonable prospects of achieving a balanced budget in Malawi by 1980. In the immediate future British budgetary aid is likely to be scaled down to £4 million per annum between 1968 and 1970.

Development outlays by the Government has risen from £2.7 million in 1964 to £6.3 million in 1966 and an anticipated £6.4 million in 1967. In 1966, £3.1 million of the Development program was financed from external sources, and £3.2 million from domestic sources, of which more than £2 million was from the banking system. The high level of Government development expenditure from local resources was a major factor in the drawing down of total foreign reserves from £9.2 million at end 1965 to £6.5 million at end 1966 (approximately 3 months' imports).

Malawi's main export products are tea, tobacco, cotton, groundnuts and maize. Her export earnings between 1964 and 1966 rose by 25 per cent and reached £13.8 million in the latter year. Imports rose by 75 per cent over the same period, as a result of rising agricultural incomes, of a restocking of inventories and of increased investment. The deficit on current account, before allowing for U.K. grants, amounted to £13 million in 1966.

The country's debt service ratio (exports only) in 1966 stood at approximately 10 per cent, and 19 per cent of current revenue, excluding subsidies, had to be used for this purpose. Malawi is classified as exclusively IDA-worthy on grounds of extreme poverty and reasonably good performance.

MALI

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MALI

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Louis-Pascal NEGRE	(B)	Minister of Finance; Governor, Banque de la République du Mali
Jean-Marie KONE	(F)	Minister of State, Ministry of Planning

Alternate Governor

Segou SANGARE	(F)	

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) A Bank project identification mission visited Bamako in mid-August 1967 to review the possibility of groundnuts and cotton projects. Its report is expected early September.

(b) The UNDP Transport Survey for which the Bank is Executing Agency might lead to an IDA credit.

IV. TOPICS FOR DISCUSSION

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

The economic and financial developments following the devaluation of the Malian franc in May 1967; the progress of the stabilization program.

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

None.

(c) Likely to be raised by delegation:

Possibilities of IDA lending.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	Bank (Amount U.S. $ million)	IDA	Undisbursed
95-MLI	1967	Régie des Chemins de Fer du Mali	Rehabilitation of Railway	-	9.1	7.9
Total (less cancellations)				-	9.1	
Total now held by Bank and IDA					9.1	
Total undisbursed						7.9

(b) Technical Assistance

The Bank is Executing Agency for a UNDP Transport Survey, the purpose of which is to formulate the policies and measures that would lead to optimum service in all modes of transport, and to recommend measures for placing the transport operations of the government enterprises on sound economic and financial basis. The Plan of Operation and the Consultants' Contract are presently under review by the Government.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$1.55 million - no release.

(f) IDA Subscription

Part II member - $0.783 million - no release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes

Mali has not signed the Convention.

VI. POLITICAL SITUATION

Mali became independent in April 1960 as part of the short-lived Sudanese-Senegalese Federation which collapsed in August of the same year. Following this break, the border between Mali and Senegal was closed and the interruption of the Mali-Dakar railway traffic cut off the country's main lifeline to the sea. Influenced by these events and with the aim to inaugurate a completely independent economic and financial policy, President Modibo Keita, leader of the country's sole political party "Union Soudanaise", decided in 1962 that Mali would leave the West African Monetary Union and establish its own currency. Mali's economic and political relations with its neighbors and with France suffered from this decision, but improved somewhat when the relations with Senegal were reestablished in 1963 and the railway to Dakar was reopened. A continuing deterioration of the economic and financial situation which followed the 1962 decision led to a series of consultations between Mali and France on Mali's re-entry into the West African Monetary Union. With assistance by the IMF, an agreement in principle was reached in February 1967 on this matter. As a first step to its implementation, Mali depreciated its currency by 50% at the beginning of May and took other measures to strengthen its economy (see Part VII). It can now be assumed that Mali will considerably strengthen its economic as well as political ties with its neighbors and with France and might re-enter the West African Monetary Union within a year or two.

Internally the Government, controlled by the Polit-bureau, remains in a strong position, despite the country's weak economic performance. The appointment of Mr. Louis Negre, Governor of the Central Bank, as Minister of Finance in September 1966 has increased to some extent the influence of qualified technicians within the Government and weakened the hands of politically-inspired party functionaries.

VII. ECONOMIC SITUATION

(a) Population: 4.5 million.
GDP per capita: About $66.
Foreign exchange reserves (gross) $3.3 million (April 1967).

(b) Mali's economy is based almost entirely on traditional agriculture, livestock and fishing which occupy about 90% of the people. Exports are essentially made up of cattle on the hoof, dry fish, groundnuts and cotton. In an attempt to develop the country, the Mali Government launched in 1960 an ambitious development plan and set out to establish a centrally-planned economy, establishing a large number of public enterprises, many of which have had to be heavily subsidized. Some of these enterprises were established under condition of national emergency following the break with Senegal, and whilst some are basically uneconomic, most of them suffer from poor management, inadequate and incompetent staffing and poor equipment.

Mali encountered increasing difficulties in carrying out its program, in spite of substantial help from Eastern countries with which Mali started trading massively on the basis of bilateral arrangements. It resorted to large scale use of central bank borrowings, and short and medium term foreign credits essentially to finance its development program but also to provide much-needed consumption goods.

Marketing production and exports of groundnuts have fallen recently due in part to unwise pricing and collection policies but essentially to the weakness of the Mali franc with which little can be bought. Exports of cotton, which had been well promoted through extensive technical assistance, show some weakness for that same reason. Also, there is still much incentive to smuggle since it is an easy way of having access to foreign exchange and consumer goods which are very scarce in Mali. In July 1964 Mali obtained a stand-by 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 and little was done to reduce the deficit of the main deficitary public enterprises.

In December 1965, after consultation with IDA, Mali embarked upon another program intended to deal with some more fundamental problems. Different steps have already been taken to promote production and exports, particularly of groundnuts and cotton. The most important of these measures has been the devaluation of the Mali franc by 50% in May 1967 accompanied by a series of complementary measures in the field of public finance and credits, such as the reorganization of the various state enterprises, the limitation in the growth of bank credit (which is expected to put pressure on prices as well as on the balance of payments) and drastic cuts in Government expenditures in view of arriving at a budget equilibrium. Although it is too early to judge the outcome of this new round of austerity measures, the backing by France as well as by the IMF no doubt increases the chances of success. The agreement of February 15, 1967 with France foresees a French guarantee of the convertibility of the Mali franc after devaluation, whereas the IMF has decided to grant a new stand-by credit of $6.5 million, of which $2 million will be in addition to the 1964 stand-by and the remainder will be used to amortize the 1964 stand-by credit. The UNDP study of the transport sector in Mali for which the Bank is executing agency will assist the Mali Government in reorganizing the various state enterprises in this field.

Mali has obtained a moratorium on its external debt from most of its Eastern creditors and has also been enjoying a de facto moratorium from France on short-term debt repayment. In May 1966, it rescheduled its debt vis-à-vis West Germany, but has not met its obligations under the new agreement. A general and extensive rescheduling of the entire foreign debt is still required.

Because of its poverty, uncertain long-term export prospects, and heavy debt burden, Mali's capacity to service conventional debt is nonexistent. Its performance, however, has improved in recent months and Mali has been considered as eligible for an IDA credit to rehabilitate its railway. Eligibility for further credits will depend upon continued implementation of the policies and measures, agreed upon by the Government in consultation with IDA, France and the IMF.

MAURITANIA

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MAURITANIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Birane Mamadou WANE	(B)	Minister of Foreign Affairs and Planning
Mohamed Salem Ould M'KHAITIRAT	(F)	Minister of Finance and Commerce

Alternate Governors

Moktar Ould HAIBA	(B)	Economic and Financial Adviser to the President of the Republic
Pierre BRAEMER	(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Nouakchott

III. BANK/IDA PROSPECTIVE OPERATIONS

No projects are under active consideration at present.

IV. TOPICS FOR DISCUSSION

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

Findings of the Bank's 1967 technical assistance mission.

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

None

(c) Likely to be raised by delegation:

Same as under (a).

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose		(Amount U.S. $ million) Bank	IDA	Undisbursed
249-MAU	1960	Miferma[1]	Iron ore mining		66.0	-	-
69-MAU	1964	Mauritania Government	Road Project		-	6.7	6.4
		Total (less cancellations)			66.0	6.7	
		of which has been repaid			6.6		
		Total now outstanding			59.4		
		Amount sold		63.4			
		of which has been repaid		6.6	56.8		
		Total now held by Bank and IDA			2.6	6.7	
		Total undisbursed					6.4

1/ Guaranteed by the French Government.

(b) Technical Assistance

At the Government's request, a Bank Technical Assistance Mission visited Mauritania in February/April 1967 to assist the Government in preparing guidelines and a coordinated action program for a new development plan. The mission's report is expected to be sent to Mauritania early in September.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 million. No release.

(f) IDA Subscription

Part II member - $0.45 million. No release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

IFC has no existing investments. At present advanced discussions are under way for an equity and loan investment in SOMIMA, a company sponsored by British and French interests with the participation of the Government of Mauritania. The company proposes to exploit a copper ore body at Akjoujt and to produce copper concentrates for shipment through Nouakchott at a rate of about 26,000 tons of contained copper per year. The project is estimated to cost about US$ 56 million. It would include a processing plant and township at Akjoujt, a water supply pipeline and an extension of the sea terminal at Nouakchott. The total investment envisaged by IFC is in the order of US$ 20 million.

(i) Settlement of Investment Disputes

The Convention was signed on July 30, 1965; ratified on January 11, 1966.

VI. POLITICAL SITUATION

The predominant position of President Moktar Ould Daddah was confirmed by his re-election as General Secretary of the sole National Party in June 1966 and as President of the Republic on August 1966. This is significant as it followed the first serious threat to the ethnic unity of the nation in February 1966 when serious disturbances broke out, mainly in the capital, on the issue of making Arabic the official national language. This proposal was opposed by the non-moorish, non-arabic-speaking negro minority which originates from the Senegal valley area. It appears that the efforts of the President to create a new national concensus of the conflicting views have since succeeded and the short term prospects for continued political stability are good.

The feeling of belonging to both parts of Africa, North and South of the Sahara, and having to compromise with both explains the complexity of Mauritania's external policy problems. Mauritania is on friendly terms with Mali and Senegal, its closest neighbors, and with other states of the former French West Africa, but it withdrew in 1965 from O.C.A.M. (Organisation Commune Africaine et Malgache - a political and economic organization grouping of 15 French-speaking states) and is rather cool to the "francophonie" movement sponsored by President Senghor of Senegal. During the recent Middle-East crisis, Mauritania took the part of the Arab countries and broke off diplomatic relations with the United States.

Relations with Morocco still remain tense owing to the fact that the latter has not yet recognized Mauritania as an independent state and both countries have conflicting claims over the Spanish Sahara.

VII. ECONOMIC SITUATION

(a) Population: 1,040,000 (1965 estimate)
GDP per capita: US$ 109 (1964 estimate)
Foreign exchange reserves (gross): US$ 16.4 million (April 1967) imputed to Mauritania within the West African Monetary Union.

(b) Mauritania is a vast country which is a large part desert but which has extensive seasonal pasture lands and a relatively small belt of arable crop land in the region of the Senegal River in the South. Some 90% of the population is engaged mainly in nomadic livestock herding and to a lesser extent in grain production in the South and West, using primitive methods. The population is mainly uneducated and is little affected by the heavy investments in the modern iron ore and fishing industries of the North-East.

An international group has recently shown a definite interest in the development of an important copper deposit in Akjoujt; the copper concentrates would be shipped through the wharf in operation at Nouakchott by mid-1967. Since 1960, the Government has made continuous efforts to build up an economy independent from the neighboring countries and particularly from Senegal. The construction ex nihilo of the capital at Nouakchott, the building of an asphalted road (with a joint IDA-FED financing) linking the capital to the Senegal Valley and the setting-up of state enterprises for trade and transport are part of such a policy.

The Government pursues austere financial policies in the face of limited current receipts and increasing requirements for current outlays. Export levies and taxes from the iron mines provide from a fourth to a third of current receipts. The prospects for the future are that this source, even when eventually augmented by returns from the copper project, will be inadequate to yield sufficient public savings to finance a significant part of the capital required for development. Accordingly, the country will remain dependent for development financing on external sources of capital, mainly the French Government and the Common Market.

The Government is co-guarantor with France of the $66 million Bank Loan to MIFERMA, which is in effect also underwritten by the principal shareholders. The Government has also agreed to become a major shareholder on a grant from France in the copper mine, and will probably co-guarantee any loans which the operating company may receive from the Bank Group and the EIB. If the liability for these loans are not taken into account, the foreign debt service ratio is still low.

In view of the stringent nature of Mauritania's public finances, and except when special supplementary guarantees of self-financing projects can be arranged, all aid to Mauritania should be on soft terms.

NIGER

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

NIGER

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Courmo BARCOURGNE	(F)	Minister of Finance
Alidou BARKIRE	(B)	Minister of Economic Affairs, Commerce and Industry

Alternate Governors

Karimou GOUKOYE	(B)	Commissioner General for Development
Charles GODEFROY	(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Niamey

Advisers

Robert JULIENNE	Director General, Banque Centrale des Etats de l'Afrique de l'Ouest, Paris
Pierre SANNER	Director of Research, Banque Centrale des Etats de l'Afrique de l'Ouest, Paris

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Road Maintenance Project. In 1965, the Bank made a grant of $84,000 to finance the foreign exchange cost of a road maintenance study. In June 1967, following the Consultants' recommendations, the Government of Niger submitted an application for IDA credit of about $3.5 million for financing the proposed project. An appraisal mission is scheduled to visit Niger in September 1967.

(b) Agricultural Credit. A project identification visit under the Bank/FAO cooperative program is scheduled for November 1967.

(c) Niger will be part of a proposed Bank/FAO Study of integrated livestock projects in West Africa.

IV. TOPICS FOR DISCUSSION

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

Review of operations under consideration. (See III)

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

None.

(c) Likely to be raised by delegation.

See (a) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	IDA	Undisbursed
55 NIR	1964	Niger	Roads	-	1.5	1.3

(b) Technical Assistance

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

(c) Consultative Groups

None

(d) Access to 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.

(i) Settlement of Investment Disputes

Convention signed August 23, 1965; ratified November 4, 1966.

VI. POLITICAL SITUATION

President Diori who led Niger to Independence in 1960 is held in high esteem both within the country and abroad. At present, he is the President of OCAM (Organisation Commune Africaine et Malgache) for 1966-67. However, in 1965-66, Niger experienced political unrest due to a struggle for power among the major political figures (President Diori and Djobo Bakari). Although ideological strife has now largely subsided, the Government has from time to time taken vigorous action to curb the activities of the opposition which operates underground and from neighboring countries.

At the moment, Niger is politically stable. It follows a policy of close cooperation with France and other Western countries.

VII. ECONOMIC SITUATION

(a) Population: 3 million
GDP per capita: $80
Foreign exchange reserves imputed to Niger within the West African Monetary Union (gross): $2.5 million (April 1967)

(b) Niger is a landlocked country, most of it desert with serious limitations to development, mainly because of the lack of water. Agriculture is the occupation of nine-tenths of the population and represents over 60% of GDP. The two main agricultural products, i.e., groundnuts and livestock, contribute at the same time 80% of total exports. Great progress has been made in the production of groundnuts whose exports have more than doubled over the last ten years to reach 120,000 tons in 1966. As a relative newcomer, cotton is making slow progress.

Until 1964, budgetary support from France has been necessary in order to balance the Government's current budget. Over the last three years, including 1967, Niger has been receiving investment grants only and small surpluses from the current budget have been available for investment. However, the greatest part of gross investment (10% of GDP) is financed through grants from France and EEC. External debt is small and it represents a light burden for the budget. Niger is eligible for IDA only.

NIGERIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

NIGERIA

I. MEETING WITH DELEGATION

A meeting will be held with Mr. Knapp at 2:45 p.m. on September 27 in Rio de Janeiro.

II. MEMBERS OF DELEGATION (Provisional)

A. A. Atta, Bank Governor (Temporary)	Permanent Secretary, Federal Ministry of Finance
J. A. Adeyeye, Bank Alternate Governor (Temporary)	Deputy Secretary, Federal Ministry of Finance
Clement Isong (Fund)	Governor, Central Bank of Nigeria
A. E. Ekukinam (Fund)	Director of Research, Central Bank of Nigeria

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Disbursement of Existing Loans/Credits

Disbursements on existing loans are being continued. Our disbursement policy has been reviewed in two special Loan Committee meetings since the Eastern Region proclaimed secession on May 30, 1967. The status of the Western Road and the Apapa Road Projects (Loans Nos. 427-UNI and 426-UNI) will be reviewed again before the Annual Meetings.

(b) Projects under Consideration

New lending will depend on clarification of the constitutional situation and a new creditworthiness judgment. Three projects had been negotiated, but not presented to the Board, and one project appraised, prior to suspension of lending. All four of these projects will have to be re-appraised and possibly redefined because of changed circumstances. These are:

(i) A Bank loan of $6.0 million to the Nigerian Industrial Development Bank;

(ii) Two cocoa loans, totalling $7.0 million, for Eastern and Western Nigeria;

(iii) A palm oil project involving Bank lending of $13.0 million in Eastern Nigeria.

The other projects which were not yet appraised at the start of the disturbances were:

(i) A second power transmission and distribution project for Electricity Corporation of Nigeria - for a possible lending of $13-21 million;

(ii) Further extension of Apapa Port - for $2.3 million;

(iii) Water supply in Eastern Nigeria - for $6.0 million;

(iv) Development of rubber in West and Mid-West - for $4.6 million;

(v) Cocoa development in the Mid-West - for $0.8 million;

(vi) Palm oil development in Western Nigeria - for $11.0 million.

(c) UNDP or Bank/IDA-financed studies in progress which may lead to future road projects:

(i) Northern Nigeria: a feasibility study of 550 miles of highest priority roads, some of which are to be finally engineered, is financed by the Northern Road Credit (No. 73-UNI);

(ii) Western Nigeria: a UNDP-financed study which covers about 300 miles of roads;

(iii) Eastern Nigeria: a feasibility study of 300 miles of road, being financed by a Bank grant;

(iv) Federal Government: a study of two federal roads of 440 miles, being financed by the Bank's Apapa Road Project Loan (No. 426-UNI).

IV. TOPICS FOR DISCUSSION

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

(i) Discussion of Electricity Corporation of Nigeria's (ECN) operations, with particular reference to the status of negotiations with Taiwan Power to obtain management for ECN; the outcome of ECN's efforts to recruit technical staff and provision of sub-station equipment.

(ii) Review the progress in implementing the decision to reorganize the country into 12 states, with particular attention to its possible legal and administrative effects on existing Bank loans and IDA credits. For example, we have a road loan and an education credit made for a project in Northern Nigeria which has now been divided into 6 states. A letter from Mr. Broches to the Attorney General, and/or from the Area Department to Mr. Atta, on this question is being considered within the Bank; it might be sent before the Annual Meetings.

(b) <u>To be raised by Bank at meeting with President or Senior Officers:</u>

(i) Review of the political situation and its impact on the economy with special reference to Nigeria's ability to implement the projects mentioned under Part V below and to service external debt over the next year or so. The purpose of the review is to have a frank exchange of views and to prepare the ground for resolving the problems arising out of the present Nigerian situation. One difficulty has been the tendency of the Nigerians to interpret any Bank decision which appears negative in their eyes, as a vote of no confidence or abandonment of them in their times of difficulty. We might explain our difficulties (i.e., the Bank's need to preserve its own creditworthiness, etc.) in a manner that does not imply a lack of confidence in the Nigerians. We should seek the Nigerians' cooperation in keeping us informed of progress and problems, and suggesting, or at least, mutually agreeing on any remedial action. We should emphasize that we would like to see the Bank/IDA projects successfully completed, despite the inevitable problems, and that we are seeking to anticipate, and then remove difficulties that might stand in the way of continued disbursements and the successful completion of projects.

(ii) We should also explain to the delegation that we stand ready to review Nigeria's economic situation and borrowing capacity as soon as circumstances permit, although we could not at present set a date for it.

(c) Likely to be raised by Delegation:

(i) The delegation may raise the question of why the ECN loan (372-UNI) Closing Date was not extended. Is it to be taken as Bank policy that Closing Dates on other Nigerian loans will not be extended in the future? The answer is that this is decided on a case by case basis. The ECN project is substantially completed and we are continuing to disburse after the Closing Date, so that pre-existing claims and commitments will not be affected. This in substance achieves the objective of an extension of the Closing Date.

(ii) The Niger Dam: Will the Bank cover the cost overrun on the dam which now amounts to about $30 million in total cost and $15 million in foreign exchange cost? Present funds are sufficient to cover construction through the first half of 1968. We might say that we have notified the other lenders of this problem and, in due time, we shall consult with them on possible ways of raising the financing required (Italy might be a source of additional funds).

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S.$ million) Bank	IDA	Undisbursed
193	1958	Nigeria	Railways	28.0		-
326	1962	Nigerian Ports Authority	Ports (Apapa Wharf)	13.50		2.31
372	1964	Electricity Corporation	Power (ECN)	30.0		3.28
383	1964	Niger Dams Authority	Power (Kainji)	82.0		43.21
426	1965	Nigeria	Roads (Apapa)	17.50		17.50
427	1965	Nigeria	Roads (Western)	14.50		12.64
72	1965	Nigeria	Education		20.0	19.88
73	1965	Nigeria	Northern Road		15.50	9.28
				185.50	35.50	108.10

Total (less cancellations)		185.50	35.50	
of which has been repaid		7.67		
Total now outstanding		177.83		
Amount sold	13.32			
of which has been repaid	7.18	6.14		
Total now held by Bank and IDA		171.69	35.50	
Total undisbursed				108.10

(b) Technical Assistance

Bank/IDA or UNDP-assisted road studies are underway, as indicated under Part III(c). UNDP approval of two other studies are pending:

(i) Northern Road Study which would include a general assessment of the existing transport system together with an economic analysis and preliminary engineering studies for about 250 miles of high priority regional roads;

(ii) Mid-Western Road Study - scope of work being reviewed by the Bank.

(c) Consultative Groups

Inactive for the time being.

(d) Access to Private Markets

None

(e) Bank 9% Capital Subscription

$6 million; no release.

(f) IDA Subscription

Part II member - $3.024 million; no release.

(g) Holdings of Bank Bonds

None

(h) IFC

(a) Nigerian Industrial Development Bank (NIDB):

Amount: £N499,827 (US $1,339,576)
Date Approved: September 16, 1963
Form: 499,827 ordinary shares, par value £N1
IFC Director: Dr. Khosropur

Major issue: A Bank loan of $6 million was negotiated in April 1966, but is in abeyance because of the unsettled situation in the country. Mr. Mathew, Adviser to NIDB's Management, left Lagos in June 1967, but has not been replaced for the same reason. A reappraisal of NIDB is planned when the situation returns to normal.

(b) IFC has made two investments in Arewa Textiles, Limited in Kaduna. IFC has no active applications.

(i) Settlement of Investment Disputes

Nigeria signed the Convention on July 31, 1965 and ratified it on August 23, 1965.

VI. POLITICAL SITUATION

Nigeria has been ruled by military regimes since January 16, 1966, the regime of General Ironsi lasting until July 29, 1966 to be followed by the regime of Brigadier Gowan. Neither regime was successful in dealing with two paramount problems: the political problem of the relationships between the Regions and the Federation in which the major difficulty was inter-regional and inter-tribal rivalry and antipathy; and the military problem, initially over whether to punish the mutineers of the January 1966 coup, largely Eastern officers, and after the second army coup of 1967 engineered by Northern personnel directed at Eastern personnel, the problem of reconstituting the officer corps, seriously depleted in the two coups, and re-establishing discipline where many army units had mutineed against their officers. In the event, the Eastern Region seceded from the Federation on May 30, 1966 to form a state of Biafra, and civil war between the Eastern Region and the Federation broke out on July 6, 1967.

It is impossible to confidently predict the possible outcome of the civil war. The possibilities range from a Federal military victory followed by the problem of maintaining unity throughout the Federation while controlling and reabsorbing the hostile Ibo parts of the Eastern Region; or a protracted inconclusive quasi-conventional quasi-guerrilla war; or the breakup of the Federation into two or more autonomous states. The sequence of events leading to the civil war and some of the factors that might influence the outcome are described in Annex A (attached).

It is relevant to Bank operations to mention that as a part of the Northern-led Federation's response to the threat to Eastern secession, the Federation proclaimed the division of the country into 12 states, equivalent to the old Regions, instead of the previous 4. Leaving the Mid-West Region intact, a new Lagos state was created out of the Western Region; the Northern Region is divided into 6 states; and the Eastern Region into 3. Should this system prevail, legal, administrative and financial issues will require clarification within Nigeria and between Nigeria and external lenders. Secondly, the Federation has brought prominent civilian leaders of the North, West and Mid-West into the Federal Military Council, in part, along with creation of more regions, to insure the support of the Western and Mid-Western Regions. The new Vice Chairman of the Federal Military Government and Commissioner of Finance is Chief O. Awolowo who is also now Nigeria's Governor for the Bank.

VII. ECONOMIC SITUATION

(a) Population: 56 million
GNP per capita: about $90
Foreign Exchange Reserves (May 1967): $193 million

(b) Although the political disturbances in Nigeria, especially the riots and significant population movements in the second half of 1966, appear to have checked or reversed many of the strong positive economic and financial trends that prevailed from 1964 through mid-1966, the economy evidenced, relative to the situation, a surprising degree of strength and resiliency up to the secession of the Eastern Region in May 1967. However, reliable information is scarce and any trends are now obscured by the outbreak of hostilities in July 1967.

The rate of economic growth fell to between 3 and 4% in 1966 compared to the average 5% in 1964-65, investment and savings rates declined and although exports increased, the increase was at a sharply reduced rate. The inflow of new foreign capital which had risen sharply in 1964 and 1965, fell by 28% in 1966, and external reserves fell by £9 million compared to an increase of £12 million in 1965. Although Government finances were under pressure in 1966/67 resulting from reduced revenues and increased current expenditures, a current budget surplus of £14.4 million was achieved. Government development expenditures were about the same as the prior year actuals. However, the Government appears to have resorted to significant financing from the banking system; credit to the Government increased from £27.2 million in 1965 to £47.2 million in 1966, an increase of 70%. The banking system expanded credit to the economy overall by 23% in 1966, a sharp reversal from 1965 monetary policy. Prices and external reserves, therefore, came under pressure; prices in major cities rose between 8.5 and 14.4%, and external reserves fell from £90.9 million in May 1966 to £69.2 million in May 1967.

On the other hand, the balance of payments on current account neither improved nor deteriorated in 1966 and through early 1967. Exports increased about 5% in 1966 and were maintaining this rate of expansion as late as March 1967. A favorable factor in the 1966 balance of payments was a 6% reduction in imports. This resulted primarily from import substitution of refined petroleum products and consumer goods plus higher import duties. Continued export growth and reduced imports resulted in a surplus balance of trade of £26.8 million in 1966 compared to a deficit of £6.9 million in 1965. However, higher service payments, especially investment income payments in respect of oil, resulted in virtually no change in the current account deficit in 1966 compared to 1965 (£93.7 million in 1966 compared to £92.1 million in 1965). The decline in new capital inflows combined with higher external debt service resulted in an overall deficit in the balance of payments. As noted above, external reserves fell in 1966, and were continuing to decline in 1967.

Slightly less than one half of Nigeria's external public debt is undisbursed ($272.0 million undisbursed out of $598.6 million at the end of 1966). Until recently disbursements were proceeding more or less on schedule, but it is now questionable whether this will continue, especially in the East and Mid-West. However, assuming that existing commitments are carried out as scheduled, total annual service payments on debt presently outstanding ($64 million in 1967 or about 8% of exports at the 1966/67 level) would rise to a peak of $91 million in 1970. If exports stabilize at the 1966/67 level and especially if export growth continues recent year trends, Nigeria should be well able to bear this burden. If exports should decline, then this debt burden might become a serious problem.

These economic trends and indicators are now overtaken by the declared secession of the Eastern Region and the outbreak of hostilities. Formulation of a Bank attitude towards Nigeria will require a new basic assessment of the economy that evolves from the present political-military situation: for example, the quality of the administration that emerges; what happens to existing productive facilities, including transport capacities; the prospects for reviving exports, especially of petroleum; when and to what extent private confidence and public investment might resume; any new external debt that may have been incurred (e.g., for arms); and the liquid assets, such as exchange reserves and commodity stocks, that may be available to facilitate "reconstruction".

POLITICAL BACKGROUND, 1966-67

The military regime of General Ironsi assumed power on January 16, 1966 as the result of a coup engineered largely by officers from the Eastern Region. Most of these officers were from the Ibo tribe, the largest but not the only significant tribal group in the Eastern Region. This Government faced two crucial problems: First, the army problem including reconstituting the officer group of the army, seriously depleted by the murder of many senior, mostly Northern, officers of the coup; maintaining effective control of individual army units and disciplining the mutinous officers who executed the coup; and second, the political problem of the nature of federal and regional relationships in which inter-regional rivalry and antipathy was the principal problem. The Ironsi Government procrastinated on the army problem, but favored and initiated steps to establish a more centralized federation.

After four months of calm, the situation began to deteriorate. First, there were riots in the North in May 1966, directed against civilians of Eastern Region extraction, riots believed to have been deliberately organized by former Northern political leaders, expressing opposition to a strong federal government vis-a-vis the regions. Then in July the Northern-Eastern tribal tensions in the army culminated in a second army coup engineered by Northern officers and ranks. In addition to largely eliminating Ibo personnel in the army, more Ibo civilians fled the North, and, equally important, Ibo civil servants and technicians began to leave Lagos as well as the West. Lt. Colonel, now Brigadier Gowen, a Northern officer and Chief of General Staff of the army, somewhat reluctantly, assumed leadership of the Federal Military Government.

Although tribal tensions in the army were reduced by beginning to re-assign personnel to units resident in the region of their origin (the so-called regionalized army), tension arose over the responsibility of Regional army commanders vis-a-vis the Federal army command, multiplied by the new problem of unreliable army units which had mutineed by the old problem of disciplining the first coup members. The events of May and July raised the parallel problem of Northern vis-a-vis Eastern tension to acute levels, culminating in widespread riots in the North in late September and early October again directed at Ibos, although many others of southern tribal groups were also injured. The attacks on Eastern personnel were so widespread that a general exodus of Eastern people from the North followed, paralleled by a significant exodus of Ibos from Lagos and the Western Region and non-Easterners from the East. Essential services were paralyzed temporarily in the North, and to a lesser extent in Lagos.

The result of these riots was to rupture confidence between the Eastern Region and the Federation, and to cast serious doubt as to the impartiality of army units, now largely composed of Northern personnel, which were still resident in all areas except the East. Political positions also radically changed: the North shifted to favoring a strong federation; the East favoring so loose a federation as to sound like a confederation; the West coming out for a strong federation balanced by creation of additional states to be created exclusively from parts of the North and East; and the Mid-West attempting to stay neutral.

Attempts to reconcile these differences and conciliate the injured feelings of the East followed from October onwards with the increasing participation of civilians and former political leaders who had up to then been excluded from the dialogue going on between army and civil servants of each Government, and by the end of the year, mediation of friendly governments, notably from Ghana. These activities culminated in a meeting in Ghana of the principal military leaders in January 1967, and it initially appeared that most basic issues were resolved in what became known as the "Abure agreement". This agreement essentially was along the lines of a very loose federation with common currency, essential services and one market, but with each region holding a veto on Federal Government policy decisions and controlling its own army, police forces and fiscal affairs.

In the event, the Federal Military Government with the support of the Northern Region and re-enforced by the strong anti-Ibo prejudice in all parts of Nigeria, not only failed to implement the Abure agreement to the satisfaction of the East, but evidenced little responsiveness to the Eastern feelings of injury and grievances resulting from the events of 1966.

The situation rapidly deteriorated from February 1967 onwards, culminating in the Eastern Region proclaiming its secession from the Federation on May 30, 1966 as the independent state of Biafra. The Federal Military Government retaliated with a complete economic and military blockade of the Eastern Region, and took steps to insure its support in the rest of Nigeria. This included, just prior to secession, removing Northern troops from the West and Mid-West; the division of the country into 12 states (6 in the North and 3 in the East plus a new Lagos state added to the old Western and Mid-West States) and, after the secession, the inclusion of civilians drawn from the North, West and Mid-West, into the Federal Military Council. The import of these moves is that prominent leaders of the West and Mid-West are now associated with the Federal Government whereas as late as May these leaders were moving to a position that if the East seceded, so would their regions, and meets their desire for more states which allays their concern over domination of the Federation by any single region.

Initially, the Federal Government refrained from the use of direct force, in part because of the fairly widespread opposition in the West and Mid-West against the use of force, and possibly for military reasons given the changes that occurred in the army in recent months. In the event, Federal military forces attacked the Eastern Region from the North on July 6, 1967, later occupied the Southern coast, and a civil war now exists.

It is impossible to confidently predict the course of the civil war. All that can be said of relevance is that the military capabilities of both sides are an unknown quantity. The strategies of each side initially appeared to be that the Federation was attempting to physically isolate and economically strangle the Ibo parts of the East by occupying the non-Ibo areas as in the North and along the coast, but carefully avoiding using the Mid-West as a military front given the large Ibo speaking population of that region. The Federation consistently declines offers of mediation from abroad in an attempt to localize the conflict. The East, while attempting to contain the Federal military action, was attempting to persuade and/or instigate the Mid-West and Western Regions to abandon the Federation, either by outright secession or by refusing to participate in the use of force thereby isolating the North, and to break the economic and political blockade by gaining recognition or material assistance from abroad for the East, even though this risks internationalizing the conflict. Hostilities have thus far been conducted during the rainy season which inhibits both sides. It is conceivable that the coming of the dry season in October may reveal the real potentials of the combatants, and thereby indicate a trend by the end of the year. On the other hand, the recent seizure of the Mid-West by Eastern troops in conjunction with a mutiny of most Federal garrisons in that Region, indicates how hazardous are any prognostigations of the future on the military front, much less on the political front.

RHODESIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

RHODESIA

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

No invitation was issued.

III. BANK/IDA PROSPECTIVE OPERATIONS

No lending operations in prospect until the international (and hence membership) status of Rhodesia is cleared up.

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:

None.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

Year	Borrower	Purpose		Amount less Cancellations (US$ million)	Undisbursed Balance (US$ million)
1952	Rhodesia	Electric Power		28.0	-
1956	Central African Power Corporation a/	Electric Power		40.0 b/	-
1958	Rhodesia a/	Railways		9.5	-
1960	Rhodesia	Agriculture		5.6	-
1964	Central African Power Corporation	Electric Power		3.85 b/	-
	Total			86.9	-
	of which has been repaid			27.4	
	Total outstanding			59.5	
	Amount sold		49.3		
	of which has been repaid		24.9	24.4	
	Net amount held by Bank			35.1	

a/ As a result of Loan Assumption Agreements entered into in connection with the dissolution of the Federation of Rhodesia and Nyasaland at the end of 1963.
b/ Amount guaranteed by Rhodesia, i.e. one-half of loan. (The other half is guaranteed by Zambia. The original U.K. guarantee of the total amount remains in effect.)

Payments on Rhodesia's share of these loans are being made by the U.K. as guarantor. (Payments on the other half of the two loans to CAPC are being made by Zambia as guarantor.)

(b) Technical Assistance Activities:

None.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

Not a member.

(f) IDA Subscription:

Not a member.

(g) Holdings of Bank Bonds:

None.

(h) I.F.C.

Not a member.

(i) Settlement of Investment Disputes:

Not a member.

VI. POLITICAL SITUATION

The British Government, at the Commonwealth Prime Ministers' Conference in September 1966, agreed to give the Smith regime three months in which to take "initial and indispensable steps" to bring the rebellion to an end, failing which it would sponsor, in the UN a resolution to impose selective mandatory economic sanctions. No steps having been taken in Salisbury on December 16, 1966, the Security Council adopted a resolution imposing sanctions on a selected list of Rhodesia imports and exports including oil and oil products. Subsequently, Mr. Wilson withdrew all previous offers of the U.K. Government for settlement of the dispute, and said that there would be no independence before majority rule.

A commission was established in January 1967 by the Rhodesian Cabinet to consider a new constitution. Following an exploratory visit by Lord Alport in May/June, talks have been proceeding between Governor Sir Humphrey Gibbs and the Smith regime, although there are no indications of an early settlement.

VII. ECONOMIC SITUATION

Population:	4.5 million
GNP per capita:	$ 210
Foreign Exchange Reserves:	Not known

Rhodesia has a dual economy, with large farms, medium or large manufacturing and mining enterprises controlled by about a quarter of a million Europeans on the one hand, and predominantly subsistence agriculture - conducted by over 3.5 million Africans - on the other. Under the Land Apportionment Act, Africans are prevented from farming a large part of the better agricultural land. Apart from racial differences and legal and practical discrimination, the Rhodesian economy is in many ways one of the most balanced and diversified in Africa. It is well endowed with agricultural and mineral resources and the large European population ensures a good supply of managerial skills. The main sectors which are seriously underdeveloped are African education and agriculture. According to the Economic Survey published by the Smith regime in July 1967 (with the Budget) GDP declined by 2.6% in 1966. Gross capital formation declined by about 20%. Exports fell from £ 142.5 million in 1965 to £ 89.8 million in 1966. By means of strict import control the value of imports was restricted to £ 84.2 million which was 30% below the 1965 level (£ 120 million). Apart from import control two other measures helped the balance of payments, namely, blocking of private investment incomes due to residents of Britain and Zambia following similar action by the British and Zambian Government, and ceasing to service the London market debt, except that part held by residents of Rhodesia, Malawi and South Africa and purchased on or before December 4, 1965.

Full trade figures, particularly those of tobacco exports have not been published. Although the tobacco crop was slightly higher in 1966, its value fell by £ 7.4 million, the average price received by growers was 24 pence per lb. compared with 33 pence per lb. in the previous year. Tobacco is being stockpiled and the Finance Minister warned in his 1967 Budget Speech against production for stockpiling. Farmers are being encouraged to turn away from export crops to local market. The regime claims considerable success in establishing import-substitution manufacturing.

RWANDA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

RWANDA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Gaspard Cyimana (B)	- Minister of Finance
Massaya Hattori (F)	- Governor, Banque Nationale du Rwanda

Alternates

Leon Mbarushimana (B)	- Inspecteur d'Etat
Jean Birara (F)	- Vice Governor, Banque Nationale du Rwanda

Advisers

Raymond Miege	- Adviser

II. BANK/IDA PROSPECTIVE OPERATIONS

Kigali-Uganda Border-Kabale road project: FED is financing the detailed engineering of the road. When the study is completed, we are prepared to discuss with the Government and FED whether and how we should be associated with the financing of the construction of this road. We have included the financing of the detailed engineering of the Uganda section of the road in our $5 million IDA road credit to Uganda of July 1967.

Other road projects: A possible project, identified by the Nairobi Office, consists of the detailed engineering of the first 10 kilometers of the Kigali-Gitarama road, including a bridge over the Nyanbarongo, and the 60 kilometer-long Gisenyi-Ruhengeri road, as well as a study of highway administration and maintenance organization. We are at present considering what would be the most suitable way of financing this project.

Power: We have in the past discussed with the Rwanda Government a project consisting of the construction of a transmission line and distribution facilities. At the time of the 1966 Annual Meetings, the Rwanda Government indicated that it hoped to obtain FED financing for a study of the power sector, with a view to subsequent investment. However, a review of the Rwanda Interim Plan indicates that the study of this sector has not much progressed since our last discussions with the Government. In view of this, we have now offered to the Government a reconnaissance visit by a Bank engineer.

Agriculture: A Bank/FAO mission visited Rwanda in October 1966 and identified a project for livestock development in the Mutara region. If the Government so desired, we are prepared to send a project preparation mission.

IV. TOPICS FOR DISCUSSION

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

Status of projects under consideration.

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

None.

(c) Likely to be raised by delegation:

Same as under (a) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

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) Technical Assistance

None.

(c) Consultative Groups

None.

(d) Access to 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.

Not a member.

(i) Settlement of Investment Disputes

Rwanda has not yet signed the Convention.

VI. POLITICAL SITUATION

Rwanda, formerly administered together with neighboring Burundi as a Belgian Trust Territory, became an independent presidential republic in July 1962. Contrary to the situation in the Kingdom of Burundi, where the Watusi minority has remained in power, Rwanda is ruled by the rival Bahutu majority.

The invasion of Rwanda, in late 1963 and early 1964, by the Watusis who had emigrated to Burundi, set off mass killings of those who had remained in Rwanda. This was considered as a panic reaction of the local population, rather than the outcome of deliberate government policy. As a result of the role which Rwanda accused Burundi of playing in the tragedy, the former has turned more and more towards Uganda for its transit traffic, and all common institutions with Burundi have broken up.

In the presidential and legislative elections of the fall of 1965, President Kayibanda and his Parmehutu Party (Parti du Mouvement de l'Emancipation du Bahutu) were returned to power, which they have held since independence. The Parmehutu Party now holds 34 seats out of the total 44 seats of the legislative assembly.

VII. ECONOMIC SITUATION

(a) Population: 2.9 million
GDP per capita: US $43
Foreign exchange reserves: R Fr. 643 million ($6.4 million, equivalent to five months imports)

(b) Rwanda is one of the most densely populated countries in Africa, with 110 inhabitants per square kilometer. Its landlocked geographical situation, deficient transportation network, limited natural resources and political problems place the country in a precarious position, with many difficulties to overcome. There has been little if any economic growth in recent years.

Rwanda is basically an agricultural country. Coffee, the main agricultural export item, accounts for over 50% of export earnings and for the bulk of the population's money income. Coffee production, which had fallen sharply after independence in 1962, has gradually recovered, although total output is still below the 1959 level. Other agricultural export crops include pyrethrum and tea.

Mining is the country's second most important sector. It accounts for over one third of export earnings and provides employment to more than 7,000 Rwandese workers. Cassiterite, the production of which has been fairly stable in the recent years, is the principal extracted mineral. Manufacturing, on the other hand, is in an early stage of development, is largely foreign-owned and employs only 2,300 Rwandese people.

In the post-independence period Rwanda has consistently incurred budget deficits which have been financed partly through internal borrowing and partly through Belgian aid. In 1966, in the wake of the stabilization program, Government revenues almost doubled. Ordinary expenditure increased by an almost identical amount and the deficit remained at about the same level. In the same year Rwanda's trade balance shifted from a surplus of RF 122 million to a deficit of RF 250 million, primarily as a result of adverse price trends for both coffee and cassiterite. Together with this evolution the combined inflow of private and public capital decreased by 20 percent. The overall balance of payments deficit was covered through financial assistance from the International Monetary Fund, which will be maintaining a careful review of economic performance.

In the meantime, Rwanda should continue to be eligible for IDA on grounds of poverty, subject to a review of performance.

SENEGAL

CONFIDENTIAL
September 14, 1967

BRIEFING PAPER - 1967

SENEGAL

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Habib THIAM	(B)	Minister of Planning and Development
Jean COLLIN	(F)	Minister of Finance

Alternate Governors

Ibrahima TAL	(B)	Director General, Banque Nationale de Développement du Sénégal
Louis-Joan EUDE	(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Dakar

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Groundnut scheme: A $9.0 million IDA credit for the financing of small farm equipment and extension services in the groundnut growing regions of Senegal is under consideration. An appraisal mission visited the country in July/August, 1967. We are awaiting the completion of new organizational arrangements for the project, before the appraisal can be completed.

(b) Education: A project preparation mission to help the Government on an education project has been tentatively scheduled for September/October 1967.

(c) Land reclamation projects:

(i) Reclamation of Senegal River Delta (30,000 ha.), involving land reclamation and rice cultivation. We are awaiting the completion of detailed feasibility studies (end of 1967) and are in contact with FAC which finances these studies. Prima facie, it should be possible to develop a self-contained project (10,000 ha. - $2.9 million).

(ii) Reclamation of land and development of rice cultivation in the Casamance region (1,800 ha.) and Bas Saloum (1,400 ha.). Studies scheduled to be completed by the end of 1967. Government has been asked to keep us informed of progress of these studies.

(d) Feeder roads project: The Bank is awaiting information from the Government on a possible feeder roads project in the groundnut area. This would link this area with the existing railroad.

IV. TOPICS FOR DISCUSSION

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

Review of the status of the groundnut scheme and the others listed under Part III.

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

None.

(c) Likely to be raised by delegation:

Review of the status of the groundnut scheme and the others listed under Part III.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	IDA	Undisbursed
96/SE	1967	Régie des Chemins de Fer du Sénégal	Rehabilitation of the railway	-	9.0	8.0
493/SE	1967	Port Autonome de Dakar	Reconstruction of quays and dredging	4.0*	-	4.0
		Total (less cancellations)		4.0	9.0	
		of which has been repaid		-	-	
		Total now held by Bank and IDA		4.0	9.0	
		Total undisbursed				12.0

* not yet effective.

(b) Technical Assistance

None.

(c) Consultative Groups

None.

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$3.0 million. No release.

(f) IDA Subscription

Part II member - $1.5 million. No release.

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

IFC has one existing investment, Societe Industrielle d'Engrais au Senegal, which expects to start up in early 1967 its plant for the production of complex fertilizers and TSP for sale in Senegal and abroad.

(i) Settlement of Investment Disputes

The Convention was signed September 26, 1966: Ratified April 21, 1967

VI. POLITICAL SITUATION

President Senghor has maintained his leadership of Senegal and of the country's single party. The regime is as democratic as can be found today in Africa, and the Government's task is therefore not easy since there are frictions within the party and not all the opposition is open. Opposition from dissenting sections in the country does not appear strong or, in any case, well organized. The April 1967 attempt at killing the President appears more as an isolated act than a manifestation of widespread dissatisfaction among the people.

President Senghor's formula of African socialism is more African than socialist and Senegal remains essentially a mixed economy, with the state controlling mainly the marketing of agricultural exports. The performance of the public administration is high by African standards.

Senegal's relations with the Western world and also with other African countries, except Guinea, are very cordial. President Houphouet-Boigny of the Ivory Coast and Mr. Senghor are regarded as the most prominent leaders of the former French African territories.

VII. ECONOMIC SITUATION

(a) Population: 3.6 million (estimate 1966).
GDP per capita: CFAF 47,500 ($190) (1965).
Foreign exchange reserves imputed to Senegal within the West African Monetary Union: CFAF 5.91 billion ($23.6 million). (April 1967).

(b) Over the last six years, real national income has probably no more than kept pace with the population growth estimated at about 2.6% per year. This modest performance is to be explained mainly by the cost of the necessary adjustment of Senegal from being the administrative, commercial and industrial center of the former French West Africa to the position of a small country both in terms of population and natural resources.

Agriculture is still the basis of the economy and it provides directly or indirectly 60% of total exports in the form of groundnut and groundnut products. Groundnuts have always benefited from a guaranteed market and a guaranteed price, above the World Market level, in France. Association with the European Common Market since 1958 will mean the abandonment of any preferential system or price subsidies from the start of next campaign (1967-68). It has however been recently agreed in Brussels that a system of compensatory finance will come into play whenever the market price for groundnuts reaches a certain minimum level, but the new system is to function only until mid-1969. In order to compensate for the adverse effects to be expected, in any case, from the release of the French guarantee, the Government has embarked upon policies aimed at increasing the productivity of groundnut production and marketing with the financial and technical assistance of France and EEC.

In spite of the difficulties encountered since independence (1960) the Government has kept the financial situation well in hand. Current public expenditure has been practically stabilized since 1963/64 while high Government resources (24% of GDP) have permitted maintenance of a current budget surplus. In June this year, the Government decided to reduce the 1965-69 plan targets by nearly 20% in terms of investment objectives. This move was apparently based on the recognition that financial resources were not forthcoming at the expected rate and that the absorptive capacity of the economy, especially in agriculture, was a serious limiting factor.

In view of the growth need of the country, of a modest debt burden and of the satisfactory financial performance of the public sector, it seems desirable that Senegal continue to receive the major part of its external capital on concessionary terms, implying a soft blend of Bank/IDA financing, if necessary.

SIERRA LEONE

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

SIERRA LEONE

I. MEETING WITH DELEGATION

No meeting is scheduled.

II. MEMBERS OF DELEGATION

Major B. I. Kai-Samba (Governor)	National Reformation Council member in charge of Works, Transport and Communications
Sheikh Batu Daramy (Deputy Governor)	Financial Secretary
Guenter Conrad	Economic Adviser, National Reformation Secretariat
S. B. Nicol-Cole	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 diesel generating plant in Freetown.

The main projects Bank/IDA has under consideration are:

(a) Second Power Project. We plan to appraise this project in September 1967. It involves the expansion of the King Tom Power Plant in Freetown and related distribution facilities, the installation of generator stations at Koidu and Kenema and small generators and distribution facilities at Njala, Kambia and Rokupr. The Bank loan will cover the foreign exchange costs of the project and would be in the amount of $4 - 4.5 million.

(b) Road Project. The Bank is executing agency for a UNDP financed transport survey of Sierra Leone. Phase I of the survey has been completed by the consulting firm, Italconsult, and the Government has accepted its recommendation, i.e., to phase out the railway over a period of 10 years. The Interim Phase II Report (Highway Master Plan) has been submitted to the Government and the Bank. The Government is now expected to select about 200 miles of high priority roads, for which Phase III of the report would provide feasibility studies. Verbally the Government has already expressed its desire to proceed with the Freetown-Waterloo Road as soon as possible and it is looking for Bank financing for this project. A feasibility study for this road, prepared by the Battelle Memorial Institute under U.S. AID financing, has been found unsatisfactory as far as preliminary engineering and cost estimates are concerned. While there is general agreement that the reconstruction of the Freetown-Waterloo road deserves high priority, we require a new feasibility study before we can consider financing engineering studies and later on reconstruction. Phase III report on this road may be available by the end of the year.

(c) Education. The Bank has been associated with the preparation of an education project under the cooperative program with UNESCO since 1964. No substantial progress has been made and early this year it was decided that considerable further project preparation is required. The Government has now applied to UNDP for its financing the provision of an education planner. We have supported this application since we are convinced that technical assistance is required to prepare an education project suitable for Bank/IDA lending.

(d) Agriculture

(i) Oil Palm. The Abidjan Office is preparing a possible oil palm project and proposed the use of a consulting firm (IRHO) to prepare a feasibility study. Headquarters staff has suggested that maximum use be made of the local skills that are available and that instead of a consulting firm that an individual consultant be employed to assist in coordinating and finalizing the report. This point will be settled shortly.

(ii) Rice. The Abidjan Office is also working with the Rice Corporation on a possible swamp rice project. A preliminary questionnaire prepared by the Rice Corporation has been reviewed by the Abidjan Office, and Mr. Haasjes (from the Abidjan Office) and possibly an FAO rice expert may go to Sierra Leone on a project identification mission in September.

(e) Chipboard Factory (IFC).

IV. TOPICS FOR DISCUSSION

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

We may point out that economic performance of the new regime has been found encouraging. In particular the Government's determination to improve fiscal performance as manifested in the 1967/68 budget and the rigorous steps to revitalize the Sierra Leone Produce Marketing Board have substantially contributed to the Bank's decision to proceed with the appraisal of the second power project.

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

No meeting is scheduled.

(c) Likely to be raised by Delegation:

The delegation may repeat its strong plea for Bank support in construction of the Freetown-Waterloo road. The delegation is likely to use the argument that with the acceptance of the recommendation of the transport study to phase out the railway, it will face the politically difficult decision of dismissing railway personnel. In general the austerity budget for 1967/68 will create some unemployment and they will argue that the Bank should facilitate the Government's decision by proceeding with the road project as it would then be easier for the Government to defend the abandonment of the railway. But apart from the second power project, which is an extension of our previous loan, we shall not be in a position to undertake any new lending until an economic mission has had an opportunity to reassess the economic position and prospects of Sierra Leone. Such a mission is scheduled for April/June 1968 in order that at least one fiscal year will elapse thus providing a basis for judging the performance of the new regime. Furthermore, we would have to have the feasibility report of the Phase III Transport Survey, particularly since a two-mile stretch of the road inside Freetown would involve considerable condemnation of private property and realignment of city traffic.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

Loan or Credit No.	Year	Borrower	Purpose		(Amount U.S. $ million) Bank	Undisbursed
388 SL	1964	S.L.E.C.	Power		3.8	0.1
Total (less cancellations)					3.8	
of which has been repaid					0.1	
Total now outstanding					3.7	
Amount sold				0.3		
of which has been repaid				0.1	0.2	
Total now held by Bank					3.5	
Total undisbursed						0.1

(b) Technical Assistance

The Bank is executing agency for the UNDP transport survey described in III(b) above. Total cost of the survey is $887,000 of which $687,000 are provided by the UNDP.

(c) Consultative Groups

None

(d) Access to 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) Holding of Bank Bonds

None

(h) IFC

IFC has no existing investments and no active applications. An FAO feasibility report on a chipboard plant has been completed and an IFC participation is conditioned upon converting the Forest Industries Corporation to private ownership and the location of a technical partner.

(i) Settlement of Investment Disputes

Signed on September 27, 1965; ratified on August 2, 1966.

VI. POLITICAL SITUATION

Since independence in 1961, Sierra Leone had an elected government dominated by Sir Milton Margai's Sierra Leone Peoples' Party. Sir Milton Margai who was Premier until he died in 1964 was succeeded by his brother Sir Albert Margai. In March 1967 elections were held and, in the wake of considerable confusion about whether Sir Albert Margai or Siaka Stevens and his All Peoples' Congress Party (APC) had won the election, the army and police took over the Government of Sierra Leone. They constituted themselves into a National Reformation Council (NRC) consisting of 8 members. Its Chairman is the head of the Armed Forces, Col. A. T. Juxon-Smith.

The political climate since the coup is quiet but appears to be somewhat uneasy. The new military government lacks popularity, particularly among members of the APC who consider themselves deprived of an election victory. There is widespread evidence that the popularity of Margai's government had suffered severely from economic mismanagement and corruption but whether it was actually defeated in the March elections is presently subject to a public investigation. The military and police claim that they took over temporarily in order to prevent potentially dangerous tribal dissensions along party lines which arose in the wake of the March elections. They have repeatedly stressed their intentions to reinstitute a civilian government by mid-1968, but this is met with some scepticism.

So far the new Government has concentrated on domestic issues, particularly on the economic difficulties which it inherited, and it seems that measures taken so far have strengthened its position. There is no question, however, that there will be heavy pressure on the army and the police to allow an orderly return of a civilian government in the near future. The new regime which seems to agree to this view in principle maintains that it needs some time to prepare for the return of a civilian government and to effect measures which will allow them to hand over the country in a better state than the one they inherited from the previous regime.

VII. ECONOMIC SITUATION

(a) Population: 2.2 million

GNP per capita (in 1965/66): US $161 million

Foreign Exchange Reserves (end 1966): $10.7 million.

(b) Sierra Leone derives its comparatively high per capita income from its considerable mineral wealth, particularly in diamonds. Sierra Leone is now producing an estimated 10% of world diamond production. Its iron ore deposits have been exploited for a number of years and very recently bauxite and rutile (titanium dioxide) mines have been set up. Sierra Leone's rutile deposits are among the richest of the world. As compared with mining, the agricultural sector is rather underdeveloped, despite considerable potentials in tree crops and rice. Agricultural products have contributed 20% to total exports of US $76 million in 1966.

Since independence Sierra Leone has had a record of rather unsatisfactory fiscal performance. Efforts to increase Central Government revenue did not keep pace with rising current expenditures, with the result that in the six fiscal years since independence Sierra Leone achieved surpluses on current account in two years only. Central Bank borrowing started to appear in 1963/64 and reached a record level of 3.5 million Leones in the past fiscal year 1966/67. Domestically raised resources for development are practically unavailable with the result that a planned development effort was discouraged. Long-term external assistance was scarce and the Government resorted to suppliers and contractors' financing, which, even though the debt burden is still tolerable from a balance of payment point of view, places a heavy strain on its budget. Finances of the public sector were aggravated by heavy losses of the railways and the Sierra Leone Produce Marketing Board (SLPMB) due to irresponsibility and largely politically motivated producer price policy and plantation development, which led to a virtual bankruptcy of the Board in June 1967.

The new Government approved an austerity budget for 1967/68 which will not only show a small surplus on current account but also a substantially reduced overall deficit of Le 2.2 million (as compared with Le 7.8 million in the previous year). It accepted the recommendation to phase out the railway and as an immediate step reduced the annual subsidy by about 25%. As for the SLPMB, steps taken to put it on a sound footing were also impressive. Non-viable plantations were closed down and others considered to be viable handed over to the Department of Agriculture, thus reducing the functions of the Board to marketing. Producer prices were reduced which would allow the Board to make a profit in the coming crop year. An expatriate manager was appointed on July 1 and arrangements have been made with a bank to consolidate the Board's finances. The IMF is satisfied with the stabilization effort being pursued by the new government, which has considerably improved prospects for a second IMF stand-by agreement later this year.

Service on external public debt absorbed 18% of current budget revenues in 1966/67 and about 12% of export earnings in 1966.

The last economic report (of October 31, 1966) concluded that Sierra Leone is creditworthy for some additional lending on Bank terms, even though in view of her limited domestic savings a stepped-up investment effort should be supported by lending on concessional terms. It is planned to review Sierra Leone's creditworthiness and its possible eligibility for IDA in April-June 1968. This review will have to take into consideration the success of the new regime in adhering to the Fund's stand-by program; in implementing the 1967/68 stabilization budget and in effecting the remedial policies for the Marketing Board and the Railways.

SOMALIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

SOMALIA

I. MEETING WITH DELEGATION

None

II. MEMBERS OF DELEGATION

Governors	Alternates	Advisers
Hagi Farah Ali OMAR (B) Vice Prime Minister & Minister of Finance	Said Mohamed ALI (B) Vice Director Banca Nazionale Somala	Leone FICI Secretary, Acting Deputy Head Dept. at the Secretariat, Banca Nazionale Somala
Scek ABDI Hagi Abicar (F) President, Banca Nazionale Somala	Ali Issa FARAH (Temp.)(F) Director of Budget and Treasury Department	
	Emilio GIANNINI (Temp.)(F) Acting Managing Director Banca Nazionale Somala	

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Port of Mogadiscio: Appraisal report is being prepared on the basis of a field visit in May 1967, and Bank-financed hydraulic studies by consultants (SOGHREA). Total cost is now estimated around $15 million as against around $12 million estimated prior to reappraisal. On the basis of a cost of $12 million and assuming 50 percent participation by FED, $6 million of IDA funds were allocated for this project. However, FED has recently informed us that it will not be able to participate in financing the project until its funds are replenished (1969). In the circumstances, the $6 million IDA allocation was cancelled and $1.6 million of it is now earmarked for a supplemental credit to Somalia for roads. Mr. Kruithof will discuss this matter with the Government in September. The execution of the port project may have to be postponed until IDA and FED funds have been replenished.

(b) Agriculture and Livestock: (i) Agriculture - The Agricultural Development Agency (ADA) of the Somali Government is considering, for submission to IDA, two proposals consisting of: (a) the organization of a service for providing technical assistance and credit to cooperative farms, and (b) the establishment and operation of three seed multiplication farms of 100 ha. each. The preliminary cost estimate is $1 million. The ADA needs assistance by our Nairobi Office in preparing a suitable project.

(ii) Livestock: The Livestock Development Agency (LDA) of the Somali Government is considering projects for submission to IDA. Mr. Groenveld of Nairobi Office, who visited Somalia in July 1967, reported on the possibility of (1) a project for the establishment and operation of four holding grounds, six markets, two marshalling yards, quarantine stations to serve the ports and slaughtering houses in Chisimayo and Mogadiscio; and (2) purchase of a cattle boat to be owned by LDA (but operated by a Dutch group with whom LDA is negotiating) to operate between the Somali port of Berbera and the neighboring Arab ports. No concrete project proposals have yet been prepared.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level

Supplementary IDA credit for the Afgoi-Baidoa road project (see V(a)(ii)).

(b) To be raised by Bank at meeting with President or Senior Officer

No meeting is scheduled.

(c) Likely to be raised by delegation

(i) IDA assistance in financing of projects under III.

(ii) Mogadiscio Power Project: In a meeting with the Bank staff in September 1966, the Minister of Finance enquired if we could be of assistance in surveying Somalia's power needs, particularly in Mogadiscio and its surroundings. We suggested that the Government may submit to the Bank a description of the current power situation and the problem to be solved. To assist the Government, we gave an outline of information to be supplied. We received no further communication from the Government since then.

(iii) Request for technical assistance covering medium-term credit facilities (seeV(b)(ii)).

V. BACKGROUND INFORMATION

(a) IDA credits as of July 31, 1967

Loan or Credit Number	Year	Borrower	Purpose	(Amount U.S. $ million) Bank	IDA	Undisbursed
74/SO	1965	Somalia	Roads	-	6.2	6.2

When the IDA credit was made in March 1965, the total cost of the project was estimated at $14.2 million, including $8 million for the construction of the Afgoi-Baidoa road. In addition to the IDA credit, FED lent $5.15 million and UNDP and the Government provided $2.15 million and $0.7 million, respectively. Due to unforeseen difficulties in FED's contractual arrangements with the consulting engineers, realignments and unsatisfactory progress by the consultants in design and specifications of the Afgoi-Baidoa Road, it was not possible to invite bids until March 1967. When the bids were opened in July the lowest bid (a consortium of German, British and Italian contractors) was for $10.4 million equivalent. The bid could be reduced to $9.7 million by extending the construction period from 26 to 36 months, and modifying the design of two bridges, to which the Government is agreeable. Discussions are underway with FED and the Government to find additional funds to meet the increased cost. FED has suggested that it would be ready to increase its share proportionately (22 percent) by diverting funds from its $2.5 million allocation for maintenance equipment under the same project. The Government, which is unable to provide funds from its own sources, has suggested that an amount of $1 million be diverted from FED's $2.5 million allocation for maintenance equipment, and IDA and FED meet the remaining part of the increased cost. IDA is prepared to consider supplementary lending of up to $1.6 million, depending upon an additional contribution by FED. Mr. Kruithof will visit FED and Somalia in September to discuss satisfactory arrangements for additional IDA and FED contributions for the project.

(b) Technical Assistance

(i) Port of Mogadiscio studies: Hydraulic studies to determine the best site and layout for the port were financed by the Bank under an agreement dated November 1964 ($315,000).

(ii) Medium-term credit: The Somali Finance Minister requested the Bank in June 1966 for technical assistance in reviewing the institutional arrangements for financing of investment in various economic sectors. An IFC mission (August 1966) reported that there was no possibility of establishing in Somalia specialized institutions for investment finance. At the Annual Meetings of 1966, we promised to review the position again, after receipt of the special study on agricultural credit in Somalia carried out by a German team. However, after examining the several proposals for the reorganization or establishment of investment financing institutions, IFC's tentative view is that the existing "Credito Somalo's" Section, which deals with medium and long-term credits, will be able to meet the existing (limited) needs for such credits without any new institutional arrangements.

(iii) Economic Planning: The Bank cooperated with UNDP in the selection of two experts to work as (1) Senior Economic Consultant and (2) Planning Coordinator for preparing a short-term development plan. UNDP has recruited these experts.

(c) Consultative Group

None

(d) Access to Capital Markets

None

(e) Bank 9% Capital Subscription

$1.35 million; no release

(f) IDA Subscription

Part II country: $0.68 million as 90%; no release

(g) Holding of Bank Bonds

None

(h) IFC

IFC has no existing investments and no active applications.

(i) Settlement of Investment Disputes

Signed September 27, 1965; not yet ratified.

VI. POLITICAL SITUATION

In July 1967 there was a change of Government in Somalia. Dr. Abdirashid Ali Shermarke, a former Prime Minister and member of the Somali Youth League, was elected President by 73 votes to 50. A new Cabinet was formed with Dr. Mohamed Haji Ebrahim Egal as Prime Minister. In the meantime, ten members of one of the opposition parties (Somali National Congress) joined the Somali Youth League. The new Finance Minister Haji Farah Ali Omar is one of the ten who changed parties. The Somali Youth League has now a majority of 105 in the Assembly of 124 members. The former Minister of Finance, Ali Omar Scego, is now Minister of State for Foreign Affairs. There are no indications that the new Government will introduce drastic changes in the economic policies of the previous Government.

Relations between Somalia and Kenya have deteriorated in the last year with increased armed clashes taking place along the borders. Relations with Ethiopia have been further strained by the recent developments in French Somaliland. A referendum was held in the territory on March 19, 1967, asking the people whether they preferred continued association with France or to become independent (in which case all economic and military aid from France were to end). About 60 percent of voters favored continued association with France, but Somalia has refused to accept the verdict on the grounds of alleged French interference in the referendum, and on the charge that the voters' list excluded many Somalis living in Djibouti while including all Ethiopian "Afars". They claimed that thousands of Somalis were expelled from French Somaliland before and after the referendum.

VII. ECONOMIC SITUATION

Population	2.5 million (approximate)
GNP per capita	US$50 (rough estimate)
Gross Foreign Exchange Reserves	US$21 million (end of 1966)

Agriculture and livestock are Somalia's principal resources. Two-thirds of the population live a nomadic life moving with their herds from place to place in search of water and grazing land. Besides providing subsistence to two-thirds of the population, livestock represents about 45 percent of export earnings. Livestock exports increased very rapidly in the last few years until it was affected by drought in 1965. Export of banana to the sheltered market in Italy now provides about 45 percent of export earnings. Threatened by the prospect of abolition of Italian preference after 1967, Somali banana producers and exporters, with the assistance from the Government, took measures to reduce the cost of Somali banana to internationally competitive levels. A number of industrial projects have been completed, or are near the stage of completion, but to make these viable, problems relating to management and working capital have to be solved. The First Five-Year Plan (1963-1967) has proved over-ambitious in terms of manpower and financial resources. The Government has recently announced that a realistic short-term plan with limited objectives will be prepared.

The Government's tax efforts have been impressive, total revenues increased at an annual rate of 9.5 percent and now form 20 percent of GDP. However, expenditure on defense and police are high, about 35 percent of total expenditure and 9 percent of GDP. Despite this, budgetary deficit, and the consequent budget aid from Italy have been narrowed as a percentage of the total size of the budget. In monetary affairs Somalia followed a rational policy and was successful in a stabilization program, with the assistance of IMF stand-by arrangements, launched following a balance of payment crisis in 1964.

Public external debt service has so far been low but will increase in the coming years. Service payments on existing external public debt (including undisbursed) will amount to about 9% of export earnings in 1972. If some increased inflow of capital is assumed for the coming years, and if this were contracted at conventional terms, service payments may be around 20 percent of export earnings in 1972.

In view of its fairly satisfactory economic performance, poverty and lack of creditworthiness, Somalia should be regarded as eligible for IDA credit.

TANZANIA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

TANZANIA

I. MEETING WITH DELEGATION

Kenya, Tanzania and Uganda delegations will jointly meet Mr. Knapp at 3:15 p.m. on September 27 in Rio de Janeiro.

II. MEMBERS OF DELEGATION

Governor

A. H. Jamal (F)	Minister of Finance
P. Bomani (B)	Minister of Economic Affairs and Development Planning

Alternate

E.I.M. Mtei (F)	Governor, Bank of Tanzania
I. M. Kaduma (Temp.) (B)	Director of External Finance and Technical Cooperation, The Treasury

Advisers

G. Akermalm	Director General, Bank of Tanzania
R. H. Green	Economic Adviser to the Treasury
Ernest A. Mulokozi	Senior Planning Officer, Ministry of Economic Affairs and Development Planning

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Power: The project includes the provision of five diesel generators, totalling 60 megawatts, and distribution works for the Tanganyika Electric Supply Company (TANESCO). The Bank is financing US $5.2 million out of an estimated total cost of US $8.6 million. Negotiations have been completed and we expect to present the loan to the Executive Directors in October. A major hydroelectric project may follow this project in the next two or three years, costing some US $30 million.

(b) Supplementary Highway Credit: IDA intends to lend about US $3.0 million to cover part of the US $4 million additional costs of the revised highway project (48-TA), and of a training program and engineering for four feeder roads. A draft appraisal report has been prepared, and we hope to negotiate the proposed credit in October this year.

(c) Ranching: IDA has been requested to consider lending US $2.8 million for developing three ranches managed by the National Development Corporation. The total estimated cost is US $4.0 million. Two dairy farms may be included in the project. ADS helped to prepare the project. An appraisal mission is scheduled for October this year.

(d) Education II: Several components of a possible education project are under preliminary consideration, all at varying stages of preparation. The Dar es Salaam Technical College, The University College of Dar es Salaam, secondary schools, teacher training colleges and an agricultural college may be included.

(e) Highways II: IDA will probably be requested for finance of part of the costs of improving the road from Morogoro to Iringa and Iringa to Tunduna. Engineering is being financed partly by USAID and partly under our highway credit (48-TA).

IV. TOPICS FOR DISCUSSION

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

(1) Review of prospective Bank/IDA projects in the light of thelimited availability of IDA funds

(2) Status of compensation negotiations with nationalized firms: Bank/IDA lending policy towards Tanzania

(3) Proposed East African Consultative Group

(4) Arrangements for renegotiation of our three loans to EACSA

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

General discussion on the new East African Community (see brief on East Africa).

(c) Likely to be raised by delegation:

(1) Same as under (a)(1) and (2) above.

Probably: (2) Request for secondment of staff member to the External Aid Department of the Treasury (see part V(b)).

V. BACKGROUND INFORMATION

(a) IDA credits as of July 31, 1967 [1/]

Loan or Credit No.	Year	Borrower	Purpose	(Amount US $ million) IDA	Undisbursed
45-TA	1963	Tanzania	Education	4.6	0.3
48-TA	1964	Tanzania	Roads	14.0	9.3
80-TA	1966	Tanzania	Agricultural Credit	5.0	3.0
	Total (less cancellations)			23.6	
	Total now held by IDA			23.6	
	Total undisbursed				12.6

(b) Technical Assistance

(1) East African Transport Study (see brief on East Africa)
(2) The Nairobi Office and ADS have assisted in the preparation of several projects.
(3) The 1966 economic mission "in depth" has recently completed its report.
(4) The Bank has decided not to second a staff member to the External Aid Department of the Treasury.

(c) Consultative Groups

The Government has agreed to the proposed Consultative Group for East Africa (see brief on East Africa); Uganda's response is awaited.

(d) Access to Capital Markets

None

(e) Bank 9% Capital Subscription

US $3.0 million; no release.

(f) IDA Subscription

Part II Country - US $1.512 million; no release.

(g) Holdings of Bank Bonds

US $4.0 million

1/ Excluding the 1955, 1965 and 1967 loans to the East African Common Services Authority for Railways and Harbors and for Telecommunications which are jointly and severally guaranteed by Kenya, Tanzania and Uganda (and the UK in the case of the 1955 loan).

(h) I.F.C.

I.F.C. has one existing investment, Kilombero Sugar Company and no active applications.

(i) Settlement of Investment Disputes

Tanzania has not signed the Convention.

VI. POLITICAL SITUATION

Tanganyika was the first of the three East African territories to become independent, in December 1961. A new constitution was adopted in late 1962 under which the President has wide executive powers as both head of state and head of government. In December 1963, Zanzibar became independent and, following a revolution and the flight of the Sultan, joined Tanganyika to form the United Republic of Tanzania in 1964.

From the outset, Tanzania has strongly supported East African cooperation. Before Kenya and Uganda became independent, it was on Tanzania's initiative that an East African Federation was proposed. Although Tanzania often expressed dissatisfaction with the working of the East African Common Market and the Common Services, it has not sought the abolition of these institutions. The split of the East African currency into three national currencies was made on Tanzania's initiative and following its disappointment with a lack of progress towards East African unity. During the recent negotiations for the East African Treaty for Co-operation, Tanzania pressed for a rapid final agreement. The Treaty, which is described in the East African brief, was signed on June 6, 1967.

Tanzania is regarded as being one of the radical African States. It follows a policy of non-alignment in its external relations. It has adopted a strong position in respect to the United Kingdom's policy in Rhodesia, and has broken off diplomatic relations with that country. On the domestic front, Tanzania is aiming at the creation of a society based on a socialist framework. Specific measures aimed at the early creation of such a society were amplified in February 1967 in what has come to be called "The Arusha Declaration". This statement, made by President Nyerere, includes an extensive program for the development of an "African socialist" economy, with particular emphasis on the control of the modern sector of the economy by farmers and workers. A further aspect is the emphasis on austerity and reduced dependence on foreign aid; in particular, it is realized that it is necessary to develop domestic resources as efficiently as possible, with a marked emphasis on agricultural development.

A number of nationalization measures which were announced on February 6 marked a substantial shift towards public ownership. The Government has since taken steps to nationalize the commercial banks, eight flour and rice mills and seven export-import firms. It also acquired complete ownership of the National Insurance Company and gave it the monopoly of all new insurance business. The Government obtained an interest of up to 60% in seven large manufacturing enterprises. The Government also intends to acquire a controlling interest in the sisal industry (although, by the date of this brief, no specific measures have been taken in this respect) and has exercised its option to obtain a 50% share interest in the new TIPER Refinery at Dar es Salaam.

Although the Arusha Declaration might be taken to imply more sweeping measures, the Government has subsequently stated that no further nationalization is contemplated and that the policy of encouraging private investment would continue.

The Government has also promised compensation on the basis of the full net value of assets less liabilities in the currency of the former owners, and has engaged a Danish auditing firm to assist in valuation. By mid-1967, the modest claims of two foreign banks which had had limited operations in Tanzania, and the foreign shareholders of the National Insurance Company had been settled. On the other hand, there has been very little progress concerning the three British banks which have entered claims totalling about US $17 million; the banks argue that they have spent many years building up a profitable business throughout Tanzania and that profit during recent years, rather than net assets over liabilities, should be the principal determinant of compensation.

The National Development Corporation, acting on the Government's behalf, has made some progress in negotiating the purchase price of the shares of manufactured concerns. In some cases, however, a temporary deadlock has been reached. Some concerns are reluctant to accept a minority position, fearing excessive government influence: the Government appears willing to modify its position somewhat to allay these fears.

Parallel to these developments, two cabinet reshuffles have occurred, one in February and one in June 1967. The June changes had the important effect of reducing the number of Ministers by about one third, and generally streamlining the administration.

Recently, Tanzania has taken issue with Malawi on the frontier between the two states on Lake Malawi (Nyasa). The move is of limited significance except, perhaps, as an expression of Tanzania's disapproval of Malawi's relations with South Africa and Rhodesia.

VII. ECONOMIC SITUATION

Population: 10.6 million (1967)
GNP per capita: US $75 (1966)
Foreign exchange reserves: US $59 million (1966)

Tanzania has a lower GDP per head than the two other East African countries. Almost 90% of the population depends on agriculture, earning 54% of GDP. Manufacturing only contributes 5% of GDP. Sisal, coffee and cotton are the main cash and export crops.

During the past five years the average rate of growth of the economy has been about 5% per year, accelerating to nearly 9% in 1966. Development was interrupted by a bad crop in 1961 and a milder set-back in 1965 resulting from drought and a fall in the price of sisal. Both imports and exports have been rising at about 7% per year, and the current balance of payments has generally shown a surplus, except in 1966 when there was a small deficit.

The rise in investments has been an important factor in stimulating the growth of the economy. Agricultural output has been affected by the growing response of farmers to market opportunities and the introduction of improved techniques. The mobilization of domestic resources is very good. More than half of the country's development expenditure is financed from local resources.

Although development expenditures lagged behind the targets during the first half of the plan period (1964-1969), mainly due to delays in project preparation, it has now gather momentum. Annual capital expenditure is expected to increase from the current level of US $36 million to about US $70 million a year in 1970.

A marked feature of the development in Tanzania in recent years has been the rapid rise in wage rates and a decline until 1965 in wage employment, except in the public sector. Wage increases have induced the introduction of capital intensive techniques. The Government is well aware of this situation and on the basis of recommendations made in a recent study on incomes policy, has already implemented some measures aimed at linking wage rises to increased productivity. Overall employment in 1966 was fractionally higher than in the previous year.

During 1965/66 Tanzania established its own central bank and a national currency, the Tanzanian shilling. Both cover Zanzibar as well as the mainland. Concurrently exchange control measures were introduced to regulate the outflow of capital to sterling area countries outside East Africa. This apparently brought about a significant reduction in the outflow of private capital. In February 1967, following the nationalizing of the banks, exchange control on capital movements to Kenya and Tanzania was introduced as well but was lifted in June.

Tanzania's total public foreign debt including one third of the EACSO debt has increased substantially in recent years to US $239 million equivalent at the end of June 1966. Higher borrowing was mainly for the implementation of the Development Plan and, to a lesser extent, for compensation of retiring expatriate employees. In 1966, servicing the foreign debt including one third of the EACSO debt amounted to 4% of exports of goods and services. This is expected to rise to about 4.8% by 1970.

Since its independence, Tanzania has been regarded as a "soft-blend" country for Bank/IDA lending and, for administrative convenience, the Common Services projects have been financed by the Bank while the remaining "national" projects have been left to IDA to finance. This practice, also recently endorsed by the Economic Committee, has so far resulted in a 55/45 blend of Bank/IDA lending to Tanzania, mainly due to the fact that two large Common Services projects became ready for Bank financing in the course of the last two years. But, with the increasing availability of "national" projects in the near future, this blend is likely to change in the favor of IDA credits, so that the conditions of "soft blend" will materialize.

Until the replenishment of IDA funds, however, there may be a temporary lag in IDA lending. If the Government's investment program should be temporarily threatened by a shortage of funds on non-conventional terms, Tanzania could borrow a limited proportion of its modest overall requirements on relatively harder terms, in view of its fairly low debt service. We have recently negotiated a US $5.2 million Bank loan for the Tanganyika Electric Supply Company. However, on the grounds of poverty and the poor export prospects, such hardening of terms should be very limited.

TOGO

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

TOGO

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Boukari DJOBO	(B)	Minister of Finance and Economics
Paulin EKLOU	(F)	Minister of Commerce, Industry, Tourism, and Planning

Alternate Governors

Jean TEVI	(B)	Director of Customs
Edouard KODJO	(F)	Secretary General, Ministry of Finance and Economics

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) A project for a power link between Ghana-Togo-Dahomey which will utilize the Volta Dam power is promising. Other lenders, notably the African Development Bank and the U.S.AID are also interested and the Bank/IDA will consider it for lending if alternative financing does not materialize.

(b) The Mono River Multipurpose Project which Togo and Dahomey would like Bank/IDA to finance, is of dubious economic priority and unlikely to qualify for lending.

(c) Road Maintenance: A road maintenance project for an amount of $2.2 million has been identified. An appraisal mission will probably visit Togo in November.

(d) Other Prospective Projects: Road paving, secondary roads, various integrated agricultural projects (mainly oil palm, cotton, etc.) at very preliminary stage.

IV. TOPICS FOR DISCUSSION

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

(i) A review of Togolese projects under preliminary consideration by IDA, in order to determine the priorities attached to these projects by the Togolese authorities.

(ii) Discussion on the three possible road projects (road maintenance, secondary roads, paving of Lomé-Palimé road); interest of Government in Bank/IDA financing; possible Government share of any such financing; position of Government with respect to Lomé-Palimé road (FED is willing to finance, but does not exclude Bank/IDA financing).

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

None.

(c) Likely to be raised by delegation:

Findings of April/May economic mission: Economic Mission found that Togo's economic performance since 1960 is satisfactory with a fairly high rate of economic growth and reasonably good management of the public sector. Possible projects identified in the course of the mission indicated under (a) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

No formal technical assistance project; the Permanent Mission is providing assistance in preparation of agriculture and transportation projects.

(c) Consultative Groups

None.

(d) Access to 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.

IFC has no existing investments and no projects pending.

(i) Settlement of Investment Disputes

Convention signed January 24,1966; ratified July 24,1967.

VI. POLITICAL SITUATION

Independent since April 1960. Following military upheaval and the assassination of President Sylvanus Olympio in January 1963, Mr. Grunitsky, who was defeated in the 1958 election by President Olympio, was recalled by the army. In May 1963 he was elected President, with Mr. Meatchi as Vice-President. Prolonged internal disagreements within the Government, particularly between the President and the Vice-President, led the Army to overthrow Mr. Grunitsky in January 1967, and Colonel Eyadema became President of the Republic. Political parties were dissolved in May 1967. Most ministers are civilians, however. Togo is a member of the "Entente", a loose association between Dahomey, Ivory Coast, Togo, Niger and Upper Volta.

VII. ECONOMIC SITUATION

(a) Population: 1.7 million + 2.6% per year; GDP per capita:$95 (1964); Foreign exchange reserves imputed to Togo within the West African Monetary Union (gross):$30.0 million (April 1967).

(b) Since independence (1960), the overall economic performance has been satisfactory. Total GDP has grown at a high rate of the order of 7.5% per year at current prices and perhaps 5% at constant prices. This growth is mainly attributable to important investments in mining and manufacturing and to increased exports. Exports have increased by 172% between 1957-59 and 1965-66, mainly because of the appearance of phosphates in 1961. Phosphates now account for over 40% of the total. Skillful management of sales of cocoa and coffee by the government marketing board and imports of cocoa from Ghana which nominally add to Togo's exports are the other reasons for the good performance in the external sector. The increased current government expenditures have been matched by increased revenue while the overall taxation rate has been maintained at a low level. Total investment has been financed by foreign aid, mainly from France, EEC and Germany, for about half the total.

Togo should be receiving, as in the past, a soft blend of external capital in order to maintain its rate of growth. But the absorptive capacity of the country is now limited by the lack of well prepared projects, mainly in the agricultural sector where progress has been slowest in the past.

UGANDA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

UGANDA

I. MEETING WITH DELEGATION

Kenya, Tanzania and Uganda delegations will jointly meet Mr. Knapp at 3:15 p.m. on September 27 in Rio de Janeiro.

II. MEMBERS OF DELEGATION

Governor

L. Kalule-Settala (B-F) Minister of Finance

Alternate

A.J.P.M. Ssentongo (B) Secretary to the Treasury
J. M. Mubiru (F) Governor, Bank of Uganda

Adviser

Mr. Byatike

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Smallholder Tea Project: A project for expanding, through the Uganda Tea Growers Corporation (UTGC), the smallholder tea growing area in Uganda from about 4,000 acres at the end of 1965 to 13,700 acres by 1970. An IDA credit of $3.4 million was negotiated in 1965, but the progress has been slow, mainly because of delay in appointing the project agency's Board of Directors and senior staff. However, the outstanding matters have now been settled and the credit for this project will be presented to the Executive Directors on about September 14.

(b) Ranching: This is a project prepared by the Uganda Development Corporation (UDC), with ADS assistance, for the expansion of the beef-cattle sector by further development of the ranches operated by the UDC-owned Uganda Livestock Industries and existing commercial ranches. The appraisal report will be ready shortly and we hope to negotiate the credit in October. An IDA credit of about $3.5 million is contemplated.

(c) Agricultural Credit: This envisages a five-year development program of farms and livestock in Uganda. The Uganda Ministry of Agriculture is currently revising this project on the lines suggested recently by a Bank preappraisal mission.

(d) Education II: A project document for further development of secondary education, to follow broadly the pattern of the existing education project, is expected from Uganda soon.

(e) Roads II: A project seeking further extension and improvements to Uganda's road network is also likely to come soon. This would follow the recently made credit for roads (No. 108-UG).

(f) Power II: A power development project involving the construction of hydroelectric station at Bujagali on the Nile River has been under preliminary consideration since 1966. It is now in abeyance pending the outcome of discussions between Uganda and Kenya regarding coordinated action on future power development in the two countries.

IV. TOPICS FOR DISCUSSION

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

(1) Review of prospective Bank/IDA projects in the light of the present limited availability of IDA funds.

(2) Proposed East African Consultative Group.

(3) Arrangements for renegotiation of the Bank's three East African loans.

(4) Possible Uganda participation in Bank bond issues (see Part V(g)).

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

General discussion on the new East African Community (see brief on East Africa).

(c) Likely to be raised by delegation:

Same as under (a)(1) above.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967 1/

Loan or Credit No.	Year	Borrower	Purpose		Bank (Amount U.S. $ million)	IDA	Undisbursed
279-UG	1961	Uganda	Electric Power 2/		8.4	-	-
101-UG	1967	Uganda	Education		-	10.0	10.0
108-UG	1967	Uganda	Roads		-	5.0	5.0
		Total (less cancellations)			8.4	15.0	
		of which has been repaid			1.1		
		Total now outstanding			7.3		
		Amount sold		8.3			
		of which has been repaid		1.1	7.2		
		Total now held by Bank and IDA			0.1	15.0	
		Total undisbursed					15.0

(b) Technical Assistance

(1) East African Transport Study (see brief on East Africa).
(2) The Nairobi Office and ADS have assisted Uganda in the preparation of several projects.
(3) The 1966 economic mission "in depth" has recently completed its report.

(c) Consultative Groups

See brief on East Africa.

(d) Access to Capital Markets

None

(e) Bank 9% Capital Subscription

$2,997,000; no release.

(f) IDA Subscription

Part II member - $1.512 million; no release.

1/ Excluding the 1955, 1965 and 1967 loans to the East African Common Services Authority for Railways and Harbors and for Telecommunications which are jointly and severally guaranteed by Kenya, Tanzania and Uganda (and the United Kingdom in the case of the 1955 loan).

2/ Guaranteed by the United Kingdom.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

I.F.C. has one existing investment, Mulco Textiles Limited and no active applications.

(i) Settlement of Investment Disputes

Signed and ratified: June 7, 1966

VI. POLITICAL SITUATION

Uganda achieved independence within the British Commonwealth in October 1962. The independence constitution was a federal one, based on an uneasy compromise between the traditional kingdoms and the remaining districts. The first Parliament was a coalition between the left-leaning Uganda People's Congress (UPC), led by Dr. Milton Obote as Prime Minister, with the northern Nilotic tribes being the dominant group, and the traditional Kabaka Yekka (KY) confined to Buganda (the largest of the kingdoms). Conflict between these two parties was long a chronic feature. Matters came to a head in 1966 when what amounted to a revolution took place with the Bantu tribes of the south, rebelling against the dominance of the Nilotic tribes. However, by gaining control over the Army, Dr. Obote was able to assume all powers of government and became President under a new interim Constitution. With the Kabaka (King) and Katikkiro (Prime Minister) of Buganda in virtual exile in England, Dr. Obote and his supporters appeared to be in full command.

In June this year a new Uganda Constitution signifying "the end of the road of federation and the beginning of a unitary system of Government" was introduced in the National Assembly sitting as a Constituent Assembly. The constitutional proposals call for a Republic of Uganda and the abolition of kingdoms. While the smaller kingdoms of Ankole, Toro and Bunyoro are converted into three administrative districts, the kingdom of Buganda is to be eliminated by being divided into four districts. The Constitution also empowers the President to nominate 27 Members of Parliament. Along with these proposals, another Bill was introduced which will give the President wide powers of "preventive detention" and "protective custody" without trial. Strong criticism has been voiced in the National Assembly on both these proposals which seek to give dictatorial powers to the President. Two ministers, Mr. Adoko Nekyon, Minister for Agriculture, and Mr. C. J. Obwangor, Minister for Planning and Economic Development, have resigned recently in protest against these proposals on the grounds that they seriously weaken the power of Parliament and are a negation of the principle of having a proper balance of power between the Presidential Office, the Judiciary and Legislature. President Obote has announced that some amendments to the constitutional proposals will be introduced. After these had been published and considered by the public, he would call a debate in the Constituent Assembly. No indication of timing has been given.

VII. ECONOMIC SITUATION

Population: 7.74 million (1966)
GNP per capita: £38 ($106) (1965)
Foreign exchange reserves: $17.5 million (December 31, 1966)

In recent years the growth of Uganda's economy has been fairly rapid. During the period 1960-65, real per capita income in the monetary sector rose by an annual average of about 2.4%. This period saw an export boom and a marked expansion in public and private spending. Public savings, however, were inadequate to finance an accelerated capital expenditure program and a financial imbalance developed. Externally, despite a favorable current account balance,the heavy private capital outflow caused a substantial loss of reserves which touched a dangerously low level in early 1966. The 1966/67 budget therefore had to provide for drastic measures through increased taxation and economies in expenditure. The Government also took the politically difficult step of reducing the producer price for cotton to bring it in line with the world market price, thereby closing a fiscal gap which had been widening. These steps seem to have had a salutory effect on the country's public finances, improving the mobilization of resources for development.

In contrast to the previous growth which was largely dependent on the export market, economic growth in the next few years will be based more on production for the domestic market. In real terms, the rate of growth is likely to be higher than in the period 1960-65, but this would be largely offset by the uncertainty of coffee prices and the probable fall in export prices of cotton and copper. Hence, real per capita income in the monetary sector is expected to increase by an annual average of only 1.2 percent during 1966-71, as against a rate of 2.4 percent in the period 1960-65.

Uganda faces a deterioration in her current external accounts over the next five years. Market limitations on the country's two main exports indicate that the decline in exports, which became apparent in 1965-66 will continue, since the growth in export volume will be offset by falling prices.

Projected investment in the next few years is expected to be greater than domestic savings, and this implies that Uganda's planned development would depend on sustained capital inflows from abroad. Most of the projects likely to be suitable for external financing have a relatively low foreign exchange component which would indicate that some external assistance would be needed to cover a part of local investment costs.

The ratio of Uganda's debt service payments to estimated receipts on current account in 1966 was about 4.8%. Though Uganda's potential for long-term growth and diversification would suggest some capacity to incur additional debt on conventional terms, there are other factors to be considered. These are the unfavorable outlook for coffee, cotton and copper export earnings, the low per capita income, the probability of further substantial borrowing on conventional terms for East African Common Services, and the need to raise large amounts of external capital to implement the national development program.

Since its independence, Uganda has been regarded as a "soft-blend" country for Bank/IDA lending and, for administrative convenience, the Common Services projects have been financed by the Bank while the remaining "national" projects have been left to IDA to finance. This practice, also recently endorsed by the Economic Committee, has so far resulted in a 60/40 blend of Bank/IDA lending to Uganda, mainly due to the fact that two large Common Services projects became ready for Bank financing in the course of the last two years. But, with the increasing availability of "national" projects in the near future, this blend is likely to change in the favor of IDA credits, so that the conditions of "soft-blend" will materialize.

UPPER VOLTA

CONFIDENTIAL

September 14, 1967

BRIEFING PAPER - 1967

UPPER VOLTA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Governors

Tiemoko Marc GARANGO	(F)	Minister of Finance and Commerce
Pierre Claver DAMIBA	(B)	Minister of Planning and Publics Works

Alternate Governors

Pierre TAHITA	(B)	Director of Planning
Robert PEBAYLE	(F)	Director, Banque Centrale des Etats de l'Afrique de l'Ouest, Ouagadougou

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) In 1965, the Government submitted a project for financing of the infrastructure required for the exploitation of manganese deposits at Tambao near the Niger border. While a feasibility study financed by UNDP is now underway, it does not seem likely that a suitable project will emerge.

(b) A project identification mission from the Permanent Mission in West Africa, which visited Upper Volta in June 1967, concluded that "development of agriculture in Upper Volta cannot be speeded up by capital investments during the next few years". Nevertheless, various agricultural projects (development of the Southeast region, irrigation) are under preliminary consideration.

(c) A Bank reconnaissance mission to identify a suitable telecommunications project is scheduled to visit Ouagadougou in September.

(d) Upper Volta will be part of a proposed Bank/FAO study of integrated livestock projects in West Africa.

IV. TOPICS FOR DISCUSSION

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

Discussion of the findings of the Abidjan Office Agricultural Project Identification Mission, with a view to any action to be taken on various agricultural projects presently under preliminary consideration (including the proposed Bank/FAO livestock study in Western Africa). The Abidjan Office report, or a summary of it, will be sent to the Government after clearance by Agriculture and Transportation Divisions. Mr. Kochman has been informed of the main conclusions of this report.

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

None.

(c) Likely to be raised by delegation:

(see (a)).

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None.

(b) Technical Assistance

None.

(c) Consultative Groups

None

(d) Access to Capital Markets

None.

(e) Bank 9% Capital Subscription

$0.90 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.

(i) Settlement of Investment Disputes

Convention signed September 16, 1965; ratified August 29,1966.

VI. POLITICAL SITUATION

For a long time, Upper Volta was considered as one of the most stable countries in Africa. In 1966, the Labor Union, dissatisfied with the increasingly authoritative policy of the former President Maurice Yameogo and his financial policy which resulted in a decrease of civil servants' salaries, forced him to resign. The army took over under Army Chief of Staff Colonel Laminzane. No significant developments since then. Upper Volta is a member of the "Entente", a loose association between Dahomey, Ivory Coast, Togo, Niger and Upper Volta.

VII. ECONOMIC SITUATION

(a) Population: 4.9 million (1966); GDP per capita: $60; Foreign exchange reserves imputed to Upper Volta within the West Africa Monetary Union (gross): $16.0 million (April 1967).

(b) Upper Volta is a very poor landlocked country, the development of which is severely limited by natural factors, although the population is hardworking. A substantial part of the labor force seeks employment in the richer neighboring countries: the Ivory Coast and Ghana.

Agricultural production constitutes some 60% of GDP and is mainly for subsistence. The main exports are cattle on the hoof, groundnut and cotton, for a recorded total of CFAF 4 billion. Recorded imports are more than twice that amount. Among cash crops, groundnut and, still more, cotton have shown marked progress over the last five or six years. This is to be attributed in the first instance to the successful intervention of foreign (French) crop development agencies such as IRHO and CFDT. Rural development in these regions is now organized with the assistance of foreign development agencies and financed by French (FAC) and European (FED) funds. But, because of very difficult natural conditions, and lack of local extension personnel, progress is slow except in the two crops mentioned above.

The financial situation is precarious and the Government's current budget still needs financial support from France. However, austerity measures taken by the new Government are beginning to bear fruit. Investment is almost exclusively financed by foreign aid in the form of public grants.

Since debt service payments are estimated at about 10% of recorded exports, and because of the very tight budgetary situation, Upper Volta's capacity to bear debt on conventional terms is practically non-existent. In view of limited resources, poor prospects for growth and for exports, and continued reliance on foreign aid for investment financing, and in view also of efforts to increase the public sector performance, Upper Volta should be regarded as eligible for IDA Credits only.

ZAMBIA