~~FY 83-87 Five Year lending p~~

LOAN COMMITTEE

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Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/71-42

October 22, 1971

Minutes of Special Loan Meeting to consider "Iran - Agricultural Development Fund of Iran (ADFI)" held on October 8, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Williams, Cargill, Chadenet, Evans, Votaw, Wapenhans, Berg, Cancio, Eschenberg, Goffin, Mrs. Hardy, Messrs. T. Jones, Loos, Walden and Wittusen (Secretary).

2. Issue: The meeting was called to consider the Agriculture Projects Department's proposal, contained in its appraisal report (PA-93), that ADFI's standard lending rate be increased from 8 to 10%. The South Asia Department, in its memorandum to the Loan Committee of September 14, 1971 (LC/0/71-101), agreed that the Bank should try to negotiate an increase in the standard lending rate, but felt that if an increase in ADFI's lending rate could not be agreed upon during negotiations, the Bank should nevertheless proceed with the project.

3. Discussion: The meeting noted that:

(i) Discussions with the Government both in Tehran and during the Annual Meeting indicated that the Government was strongly opposed to any increase in ADFI's standard lending rate. The Government had recognized the imbalance between the incentives hitherto offered for the development of industry as compared with agriculture. It had, therefore, recently improved the administration of agriculture and was in the process of formulating programs for supporting agricultural development. An increase in the interest rate for agriculture was therefore considered unfeasible at this time and in this context.

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Mr. J. Burke Knapp, Vice President, Chairman
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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
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(ii) On the basis of the sub-borrower's expected returns on investment (financial rates of return ranged from 15% to 32%) and their relative financial strength (large, commercial farmers) an interest rate of 10% could well be borne by them and was well within their debt servicing capacity. The Agriculture Projects Department maintained that a lending rate of less than 9% would in effect mean an unjustifiable subsidy on capital for Iran's wealthiest farmers. Besides, ADFI's income projections indicated that with a lending rate of 8% it would not break even with income on lending operations, but would need other income to cover the deficit.

(iii) On the profitability of ADFI, it was noted that since the institution had been in business only three years any change in the interest rate at this time would probably not materially affect ADFI's profitability before 1973-74. However, if the Bank wished to focus on the profitability of ADFI, various measures could be considered other than increasing the lending rate.

(iv) A lending rate of 8% for agriculture was generally considered too low and it was recognized that the structure of interest rates for both industry and agriculture in Iran needed review. The Bank had pressed the Government to undertake an interest rate study, which was expected to be undertaken during the next few months and form the basis of interest rate discussions with the Government on future projects.

(v) It was generally agreed that ADFI's lending rate should be raised to 9%. The Agriculture Projects Department, recalling its arguments noted in para. 3(ii) above, recommended against proceeding with the project if it should not be possible to negotiate a lending rate of 9%. Others maintained, however, that if the Government remained inflexible on the issue, the Bank should nevertheless proceed with the loan in the interests of avoiding a break in relations with ADFI.

4. Decision: In concluding the meeting the Chairman said that he would want to discuss further with Mr. Cargill whether any purpose would be served in trying to press once more for an increase in ADFI's lending rate, but that if the Government remained inflexible, the Bank should accept a lending rate of 8% in the interest of continuing Bank support of ADFI and of agricultural development in Iran, and should inform the Board of Executive Directors of its efforts to secure a higher lending rate and the Government's reaction.

5. Postscript: Subsequent to a further meeting with Mr. Cargill (cf. para. 4 above), the Chairman decided that no useful purpose would be served in trying to press once more for an increase in ADFI's lending rate.

Dag F. Wittusen
Secretary

DLoos/CSHardy:as

Cleared by: Messrs. Knapp
Cargill
Chadenet
Wapenhans
Cancio

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/71-41

October 20, 1971

Minutes of Special Loan Meeting to consider "Iran - Pipeline Project" held on October 5, 1971 in Conference Room A.

1. Present: Messrs. Knapp (Chairman), Williams, Broches, Cargill, Chadenet, Baum, Jaycox, Votaw, Eschenberg, Loos, Melmoth, van der Meer and Wittusen (Secretary).

2. Issues: The meeting was called to consider issues that had arisen during negotiations of the project with the Iranian Government. These were:

(i) The establishment of a forward planning unit,

(ii) the management covenant, and

(iii) whether a margin of preference should be extended to the Ahwaz Pipe Mill as a local supplier.

3. Forward Planning Unit. The meeting noted that:

(i) The Government had maintained that, while the National Iranian Oil Company (NIOC) would undoubtedly welcome specific suggestions from the Bank staff on ways to improve their planning and financial controls, the establishment of a forward planning unit as such did not seem necessary to them; and in any case, they felt the unit should not be made a formal condition of the Bank loan.

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Directors of the Projects Departments
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Vice President (IFC)

(ii) Although one of the original objectives of the project had been to improve NIOC's forward planning and management control, it was recalled that considerable doubt had been expressed by some Bank officers as to whether the loan would be an effective vehicle for promoting such institution-building. Moreover, it was felt that measures other than the establishment of a forward planning unit (e.g. close follow-up of strict reporting requirements) could be adopted which would enable the Bank to exercise a constructive influence on NIOC's investment and financial planning activities.

4. Decision: It was agreed that references to the forward planning unit should be deleted from the Loan documents. A letter to NIOC setting out the Bank's views on the need for forward planning should be considered.

5. Management Covenant. The meeting noted that:

(i) The Government had objected to the inclusion of a general section in the draft Project Agreement which read, "The company shall at all times be managed by competent, qualified and experienced management", because it could be construed as a negative reflection on the quality of NIOC's present management.

(ii) NIOC's management was good and compared very favorably with the management of some other companies already being financed by the Bank Group.

(iii) Since the NIOC management was considered competent, it was proposed to amend the covenant to read, "The company shall at all times continue to be managed by competent, qualified and experienced management." This would imply a positive Bank judgement on the competence of NIOC's present management as well as a commitment from NIOC regarding the future.

6. Decision: It was agreed that the management covenant should be amended by the insertion of the words "continue to" after the words "at all times", as proposed in para. 5(iii) above.

7. Preference for Local Suppliers. The meeting noted that:

(i) The Loan Committee had decided, in a Special Loan Meeting on August 11, 1971 (LM/M/71-34/1), not to grant a 15% preference to Ahwaz since, according to the information available the Government did not afford it any protection. During negotiations, however, the Government had again urged that Ahwaz should be afford a margin of preference.

(ii) Further discussions with the Iranians had revealed that although the Ahwaz Mill received no protection through customs duty, it did so by administrative measures, which, however, could not be precisely quantified.

(iii) The value added in the domestic production of pipe was low and a 15% preference on the overall price of pipe would give Ahwaz a high degree of "effective" protection.

(iv) The appraisal mission had found that Ahwaz was operating with reasonable efficiency and had the capacity to supply the quantity of pipe required. The project would therefore not be jeopardized if pipe for the Rey-Tabriz pipeline was procured from Ahwaz without going to international competitive bidding. If this were agreed, the proceeds of the Bank loan could be made available for financing skelp imported on the basis of international competitive bidding. Thus, the issue of whether or not to extend a margin of preference to Ahwaz would disappear.

8. Decision: It was agreed that the Bank would have no objection to NIOC purchasing pipe from the Ahwaz Pipe Mill and that $6.6 million from the proceeds of the loan would be available for financing the foreign exchange costs of imported skelp which would be procured on the basis of international competitive bidding.

Dag F. Wittusen
Secretary

DLoos/DFWittusen:as

Cleared by: Messrs. Knapp
Broches
Baum
Jaycox
Votaw

cc: Loan Committee
Participants

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/71-40

October 18, 1971

Minutes of Special Loan Meeting to consider "Iran - Fifth Highway Project" held on October 6, 1971 in Conference Room A.

1. Present: Messrs. Knapp (Chairman), Williams, Broches, Cargill, Chadenet, Baum, Geolot, Votaw, Eschenberg, Mrs. Hardy, Messrs. Loos, Melmoth, Mulligan and Wittusen (Secretary).

2. Issue: The meeting considered:

(i) whether the Bank should agree to the award of five contracts which had been selected on the basis of a new procedure for bid evaluation, and

(ii) whether the Bank should agree to the continued use of this bid evaluation procedure in the future.

3. Discussion: The meeting noted that:

(i) Prior to awarding the five contracts, the Government had obtained the Bank's approval to the use, on a trial basis, of a revised bid evaluation procedure which would minimize the application of "human judgement" in bid evaluation. Briefly, the revised procedure involved the establishment by a committee of three experts appointed on the morning of bid opening, of maximum and minimum prices for those work items in the estimate which totalled 75% of the estimated project cost. Bids which fell outside the limits so

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defined for any item were automatically rejected.

(ii) Out of 75 bids for a group of three of the five contracts, 58 were rejected on the basis of these criteria and awards proposed for the sixth, eighth and ninth lowest bidders. For the remaining two contracts, the method in one case selected the lowest actual bidder and in the other case rejected all nineteen bids.

(iii) Rigid application of the procedure meant that a contractor's bid might be rejected on the basis of one item falling fractionally outside the defined maximum and minimum limits although his total bid might be the lowest.

4. Decision: The meeting concluded that:

(i) Since the Bank had agreed to the use of the revised bid evaluation procedure on a trial basis, the Bank could not rightly object to the award of the five contracts resulting from the application of the procedure.

(ii) With respect to whether the Bank should agree to the continued use of the present bid evaluation procedure, the South Asia and Transportation Projects Departments would meet to discuss necessary modifications.

Dag F. Wittusen
Secretary

CSHardy:as

Cleared by: Messrs. Knapp
Broches
Baum
Cargill
Geolot

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

October 15, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Mali - Rice Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 15, 1971 from the Western Africa Department, entitled "Mali - Proposed Rice Project" (LC/O/71-110).

2. Comments, if any, should be sent to reach Mr. Huber (ext. 4733) by 5:00 p.m. on Wednesday, October 20.

3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Mr. S. Aldewereld, Vice President
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CONFIDENTIAL

LC/O/71-110

October 15, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

MALI: Proposed Rice Project

1. I attach Report No. PA-107, "Appraisal of the Mopti Rice Project", dated October 12, 1971, recommending an IDA credit to the Government of Mali. The five-year lending program, as amended after review by Mr. Knapp in September 1971, is also attached.

I. BACKGROUND

2. The proposed credit of $6.5 million would be the third Bank Group operation in Mali and would increase total lending to $24.7 million, (net of cancellations); the first IDA credit (95-MLI, 1966) provided US$9.1 million equivalent to finance a program for rehabilitation and modernization of the national railway; the second IDA credit (197-MLI, 1970) provided $6.7 million for a four-year highway maintenance program. On September 30, 1971, a total of $8.5 million remained to be disbursed on the two credits. For FY1972 the lending program also includes a credit for railways of $1.5 million, which is presently being appraised, and a credit for telecommunications of $2.0 million, which will be appraised next month. Two IDA operations totalling $7.0 million are presently scheduled for FY1973.

II. ECONOMIC SITUATION

3. The 1970 economic report (AW-14a, distributed to the Executive Directors on May 28, 1970) identified the following key economic policy issues: (a) insufficient incentives for agricultural production because of unattractive producer prices, together with inflationary financing of government deficits, contributed to balance of payments difficulties; (b) heavy losses of state enterprises due to inadequate prices and management, and the rapid increases in government current expenditures created a heavy drain on public finances; and (c) the excessive external debt burden.

4. A recent economic mission, whose report (AW-30, dated July 23, 1971, presently in green cover) will be distributed to the Executive Directors, together with the loan documents for the proposed Project, reported that Government action had resulted in considerable progress

towards overcoming some, albeit not all, of the key economic problems. Increase in agricultural producer prices have spurred production for local consumption as well as exports. Mali's overall balance of payments deficit has considerably declined, thanks to the liberalization of foreign trade and payments, the establishment of the convertibility of the Malian into the French franc, and curbs on domestic credit. While current account deficits were considerably reduced, the overall public finance situation remains difficult and Mali will continue to depend on French aid to finance most of its investment program, particularly as long as the heavy financial drain from public enterprises persists. Although the recent government decision to increase retail prices of several basic consumption goods is likely to improve the financial situation of these companies, a great deal more needs to be done to improve pricing policies and management.

5. Only little progress has been made with regard to rescheduling Mali's excessive foreign debt, two-thirds of which is held by the U.S.S.R. and the People's Republic of China. Service payments, which currently amount to some 20 percent of current government revenues and 13 percent of export earnings, will, according to our projections, reach 50 percent of both government revenues and export earnings by 1976, unless substantial debt rescheduling is obtained. Already Mali is receiving and is likely to continue to receive some form of de facto debt, since the U.S.S.R. and the People's Republic of China seem to be willing not to insist on timely amortization of their credits in case of serious financial difficulties. This will make Mali's external debt more manageable. Under these circumstances, given the extremely low per capita income (about $50), the limited capacity for government savings and a persistent current account deficit in the balance of payments, future external assistance should be made to the maximum extent possible on concessionary terms and should include substantial local currency financing.

III. THE PROJECT

6. With a domestic production of close to 90,000 tons annually, Mali is a major rice producer in West Africa. Production has, however, remained stagnant, and, due to increasing urban consumption, Mali, traditionally a rice exporter, has in recent years become a net importer. In order to reverse the trend, the Government has embarked on a program for construction of polders and improvement of cultivation methods in an area of some 120,000 hectares of which 55,000 are located near Mopti. The proposed project would be the first stage of this program. Following an official request, the project was prepared by French bilateral aid and appraised in April/May 1971.

7. Project implementation would bring about an increase in paddy acreage in the project area from about 22,000 hectares to over 29,000 hectares, while yields would increase from 0.88 tons/ha. to an estimated 1.86 tons/ha. Upon reaching full development the project area would produce about 36,000 tons of rice, of which 34,500 tons would be for the market and 1,500 tons for farm consumption. The increment in production, as a result of the project, would be equivalent to a 30 percent increase in the country's present rice production. With urban demand for rice increasing by some 7 percent annually, total market demand at full development would reach about 100,000 tons compared to some 40,000 tons at present.

8. The proposed project would consist of:

(a) construction of three polders, including land preparation, with a rice cultivated area of 13,300 ha.;

(b) rehabilitation of four polders, including land preparation, with a rice cultivated area of 13,200 ha.;

(c) land preparation only on 2,000 ha. of an existing polder;

(d) construction of buildings for the project; and

(e) establishment of a project authority, "Opération Riz Mopti" (ORM), to operate and maintain the polders, to allocate land in the new polders, and to provide credit and extension service on all polders mentioned above, plus an existing polder with a rice cultivated area of 700 ha.

In addition, the project would include purchase of farm machinery, provision of technical assistance to reinforce the management, train the staff of SCAER (the institution in charge of agricultural credit), establishment and operation of an agricultural research station and a seed multiplication farm, and preparation of a feasibility study for a second stage project in the Mopti region.

9. Overall project costs are estimated at US$9.9 million, including US$1.1 million equivalent in taxes, with a foreign exchange component of US$6.1 million. The proposed IDA credit of US$6.5 million equivalent would finance 73 percent of project cost (net of taxes), covering the estimated foreign exchange component of US$4.6 million of civil works, agricultural research, ORM equipment, technical assistance and second-stage studies. French aid has financed expatriate assistance to "Opérations Riz" (OR), the extension service for rice of the Ministry of Production, and is expected to continue to do so under the proposed project. A grant of US$1.1 million equivalent (12 percent of project cost net of taxes) would cover all expatriate personnel for ORM over the six-year project period. Prior to presentation of the project

to the Executive Directors, assurance would be obtained from the French aid agency (FAC) that it would provide annually sufficient funds to ORM to cover the cost of expatriate assistance. The balance of $1.3 million equivalent (or 15 percent of project cost net of taxes) would come from government contributions, which would cover basic salaries of government employees working under the project, and procurement of locally manufactured ox-drawn farm implements, amounting to $ 0.4 million, which would be bought under a negotiated contract with a Malian firm and lent to farmers by the Government.

10. Recovery of Project costs would be achieved through imposition of a levy on project farmers, which would be set at 50 kg. of paddy per ha. in the first years and increased gradually to 150 kg. of paddy per ha. from the tenth year onwards. Revenue from the levy would be sufficient to recover annual operation and maintenance costs, and all direct investments without interest over a period of about 35 years. At full development the levy would represent some 20 percent of farmers' incremental income.

11. A similar project in another part of the Niger floodplains. the Ségou area, will be carried out with FED financing. Coordination arrangements have been worked out as follows: overall responsibility for project coordination would rest with the Ministry of Production, whose Rural Engineering Department (RED) would be in charge of polder construction and rehabilitation, while "Opérations Riz" (OR), the extension service of the Ministry of Production, would be reorganized in two units: "Opération Riz Mopti" (ORM), which would cover the proposed project, and "Opération Riz Ségou" (ORS), which would cover the FED-financed project. Each would be in charge of operations in its respective area. To insure adequate coordination for implementation of works and extension services, and to provide integrated policy guidance for ORM and ORS, a National Rice Commission would be set up within the Ministry of Production, chaired by the Minister or his representative.

12. Responsibility for civil works construction would rest with RED, which has qualified staff, and would employ the services of experienced consultants. ORM, on the other hand, would employ expatriate staff in management positions with provision for in-service training of local personnel.

13. Civil works contracts, as well as the procurement of machinery and equipment, would be carried out through international competitive bidding.

14. At full development of the project in 1982, farmers' income is expected to reach about US$ 300 annually or about 2-1/2 times the present level. Foreign exchange earnings and savings from rice exports and import substitution are estimated at about US$2.6 million per annum at full development. The economic rate of return from investment is expected to be 14 percent.

IV. RECOMMENDATIONS

15. I recommend that the Association invite the Government of Mali to negotiate a credit of US$6.5 million for the proposed Mopti Rice Project. Negotiations would be in accord with conditions presented in paragraphs 8.01, 8.02 and 8.03 of the appraisal report.

Roger Chaufournier
Director

Attachments

POPULATION: 4.8M

GNP PER CAP: $ 70

IVA MALI - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM			1972	1973	1974	1975	1976
7-MLI-AA-01	RURAL DEVT.	IDA				6.0	
7-MLI-AD-01	RICE DEVELOPMENT	IDA	6.8				
7-MLI-AD-02	RICE DEVELOPMENT II	IDA			3.0		
7-MLI-AD-03	COTTON	IDA			4.0		
7-MLI-AL-01	LIVESTOCK I	IDA		2.0			
7-MLI-AL-02	LIVESTOCK II	IDA				2.0	
7-MLI-AX-01	AGRIC.UNIDENT.	IDA					5.0
7-MLI-CC-01	COMMUNICATIONS	IDA	2.0				
7-MLI-PP-01	POWER	IDA				6.0	
7-MLI-TH-02	HWY REHABILITATION	IDA		5.0			
7-MLI-TR-03	RAILWAYS II	IDA	1.5				

	1964-68	1969-73	1972-76		1972	1973	1974	1975	1976
IBRD				IBRD					
IDA	9.1	31.0	43.3	IDA	10.3	13.0	7.0	8.0	5.0
TOTAL	9.1	31.0	43.3	TOTAL	10.3	13.0	7.0	8.0	5.0
NO	1	7	11	NO	3	3	2	2	1

LENDING PROGRAM (2/24/71)

	1964-68	1969-73	1972-76		1972	1973	1974	1975	1976
IBRD				IBRD					
IDA	9.1	26.4	41.0	IDA	7.0	7.0	7.0	10.0	10.0
TOTAL	9.1	26.4	41.0	TOTAL	7.0	7.0	7.0	10.0	10.0
NO	1	6	10	NO	2	2	2	2	2

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

October 14, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Malaysia - Malayan Railway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 14, 1971 from the East Asia and Pacific Department, entitled "Malaysia - Malayan Railway Project" (LC/O/71-109).

2. Comments, if any, should be sent to reach Mr. Amin-Arsala (ext. 2226) by 4:00 p.m. on Tuesday, October 19.

3. It is planned then, if the Committee approves, to inform the Government and representatives of the Malayan Railway Authority that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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CONFIDENTIAL

LC/0/71-109

October 14, 1971

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

MALAYSIA - Malayan Railway Project

1. There is attached for the consideration of the Committee a draft report "Malaysia - Appraisal of a Railway Project" dated October 6,1971. The report recommends a Bank loan of US$16.0 million equivalent to cover part of the foreign exchange cost of Malayan Railway's modernization program during 1972-73,including US$1.5 million interest and other charges for the same period. The proposed project is part of the five-year Malayan Railway Development Plan (1971-75). The Malayan Railway Administration (MR) would carry out the project.

Background

2. The proposed loan would be the Bank's seventeenth to Malaysia, its second in transportation and its first for railways. The first transport loan was made for reconstruction and modernization of ports in Sabah (Loan 774-MA of June 1971).

3. Other loans have been for projects in agriculture, forestry, industrial finance, power, water supply, education and telecommunications. The execution of these projects has been satisfactory.

4. As of August 31,1971, the amount of loans held by the Bank net of cancellations, sales and repayments was US$267.1 million.

The Economy

5. The current state of the Malaysian economy is, paradoxically, one of satisfactory economic growth and financial stability inspite of lagging private and public investment and gradually rising unemployment, both of which are cause for concern about the long-term growth prospects of the economy. Despite sluggish investment, the economy is buoyed by rising output from heavy investments in the early 1960's, especially in the planting and replanting of rubber and oil palm, which have long gestation periods, and in the development of timber resources. Continuing the trend of the early 1960's, real GNP increased at about 6 percent per year between 1965 and 1970.

6. A major economic policy objective for the future is thus to raise substantially the level of investment, not only in order to maintain the growth of income and employment in the immediate future, but, more importantly, to lay the basis for rapid economic expansion in the long run. The achievement of this objective calls for the strengthening of agricultural and industrial policies so as to induce larger private investment, as well as for a larger public investment program than in the recent past. It will not be easy to develop and execute such policies and programs since the planning and implementation capacity of the Government is already being strained by the shortage of technical and other special skilled personnel.

7. Lack of resources does not seem to be the primary obstacle to investment. However, if Malaysia were successful in raising the level of investment, resulting in more rapid expansion of the economy and hence import demand, she would need, according to the forecast of the last economic report (EAP 23a, May 17, 1971), a net inflow of public capital of about US$85 million a year, including grants, for the coming five years in order to avoid an excessive drawdown of her external reserves. The debt service ratio is low at 3 percent, and is expected to remain below 5 percent for the rest of the 1970's. Malaysia is thus creditworthy for substantial external borrowings on conventional terms.

The Operations Program

8. The Country Program Paper was approved on March 30, 1971. The lending and operations program for FY72-76 is attached as Annex I. During FY72 we expect to present three additional loans for agricultural credit, education and highways for consideration by the Executive Directors.

The Project

9. Over 80 percent of the population and an even higher percentage of the economic activities of West Malaysia are concentrated west of the central mountain range, especially around Kuala Lumpur. Port Swettenham, which is only 27 miles from the capital, has therefore become more important as a port of entry and exit for the commerce and trade of West Malaysia. This tendency has been further encouraged by the Government since the separation of Singapore from Malaysia. The resulting changes in traffic patterns and increasing competition from road transport have forced MR to adopt lower rates. Although MR has been able,

concurrently, to increase productivity and to reduce operating costs, these have not been commensurate with the reductions in rates that it has had to grant. Consequently, since 1964 it has incurred substantial financial deficits.

10. A general transport survey, financed by UNDP, with the Bank as executing agent, was carried out by consultants and a report entitled "Transport Development in Malaysia" was completed in mid-1969. The report recommended a reorganization of the MR management and proposed a tentative investment program for modernization of the Malayan Railway.

11. The Appraisal Report has established that the railway is the least cost mode of transport over medium and long distances for the great bulk of West Malaysia's agricultural, forestry and mining production. The continuation of this service is crucial to the economy. However, to solve its financial problems further cost reductions will have to be affected through modernization, mainly by dieselization. The Malayan Railway Development Plan, therefore, emphasizes investments to complete and get the maximum benefits from dieselization. Finance for the purchase of diesel locomotives has been secured under official bilateral aid and a supplier's credit, both from the United Kingdom. The proposed Bank loan will help finance equipment and works complementary to the dieselization program and essential for its successful implementation. On a conservative basis the weighted average rate of economic return on the total investment in dieselization and modernization is estimated at 20 percent.

12. Total investment during 1971-75 is estimated at about US$43.5 million equivalent, of which the project includes the equipment to be procured and the works to be undertaken during the years 1972-73 at a total estimated cost of US$23.0 million equivalent, including contingencies. In addition to the proposed Bank loan, the supplier's credit and bilateral aid from Britain, a loan from the Federal Government and internally generated funds would contribute toward financing the Investment Plan.

13. The items to be financed under the proposed Bank loan would include freight cars to replace over-age, unbraked wagons, strengthening of couplers, new engines for diesel rail cars, work shop equipment and relaying and realignment of track.

14. All the items to be financed under the proposed Bank loan would be procured after international competitive bidding except spare engines, valued at about US$220,000 for which procurement will be restricted to the original suppliers.

15. The proposed Bank loan of US$16.0 million equivalent would cover the foreign exchange cost of the items mentioned above, including an amount of US$1.5 million for interest and other charges on the loan during the period 1972 and 1973. The financing of interest during this period is justified in the light of MR's poor financial position which is likely to prevail until the full benefits of dieselization are realized. While the financial rate of return on the incremental investment included in the investment program is relatively high, the overall rate of return, based on the present day depreciated value of all railway fixed assets, will probably be not more than 2 percent. Although this rate is low, I agree with the recommendation of the report that it is an appropriate minimum measure for the future financial performance of MR. The importance of the railway for the Malaysian economy and the high economic rate of return on the investment fully justify the project.

16. MR, which is owned by the Government, will carry out the project. Although management and administration of MR have improved considerably in the past few years, some weaknesses still have to be overcome. During negotiations assurances concerning the improvement of the management and administration of MR, along the lines recommended by the Appraisal Report, will be sought.

Recommendation

17. I agree with the recommendations of the Appraisal Report and recommend that Malaysia and the Malayan Railway Authority be invited to send representatives to Washington to negotiate a Bank loan of US$16.0 million for the Malayan Railway Project on the terms and conditions set forth in the attached report.

Raymond J. Goodman
Director
East Asia and Pacific Department

Attachment

Population: 10.8 million
Per Cap Inc: $366

Annex 1

MALAYSIA - OPERATIONS AND LENDING PROGRAMS THROUGH FY 1976
($ millions)

		1972	1973	1974	1975	1976	Total 1964-68	Total 1969-73	1972-76
Agricultural Credit I	IBRD	10.0							
Agricultural Credit II	IBRD				10.0				
Land Settlement - Jengka III	IBRD		15.0						
Land Settlement - Johore	IBRD			20.0					
Land Settlement - Pahang-Tenggarra	IBRD				20.0				
Land Settlement - Other	IBRD					20.0			
Agriculture - Johore (unidentified)	IBRD		20.0						
Livestock - Sabah	IBRD			4.0					
Forestry II - West Malaysia	IBRD			10.0					
Forestry III - Sarawak	IBRD					15.0			
Communications III	IBRD				20.0				
Education II	IBRD	10.0							
Education III	IBRD			10.0					
Education IV	IBRD					10.0			
Population	IBRD		4.0						
Power - NEB VI - Temengor-substation and distribution	IBRD		10.0						
Power - NEB VII - New Thermal Station	IBRD					20.0			
Highways I - Federal Highway	IBRD	10.0							
Highways II - Route I	IBRD		25.0						
Highways III - Other	IBRD				18.0				
Sabah Highways	IBRD			7.0					
Railways I	IBRD	16.0							
Railways II	IBRD			10.0					
Water Supply - Kuala Lumpur II	IBRD		10.0						
Sewerage - Kuala Lumpur	IBRD			8.0					
Sewerage - East Malaysia	IBRD				5.0				
Unallocated	IBRD					15.0			
Operations Program	Total	46.0	84.0	69.0	73.0	80.0		234.3	352.0
	No.	4	6	7	5	5		19	27
Lending Program	Total	46.0	64.0	52.0	53.0	55.0	165.9	214.3	270.0
	No.	4	5	5	4	3	6	18	21

East Asia and Pacific Department
October 13, 1971

LOAN COMMITTEE

LM/M/71-39

October 12, 1971

Minutes of Special Loan Meeting to consider "Togo - Proposed Cement Project (CIMAO)" held in two sessions on September 16 and September 24, 1971 in Room D1257 and Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Williams, Broches, Chadenet, Chaufournier, Fuchs, El-Darwish, Gue, Ljungh, Schott and Wittusen (Secretary). In addition, Messrs. Cheek, Kalmanoff and Asser participated in the first session.

2. Issue: The meeting was called to determine whether the Bank should continue to consider lending for the proposed CIMAO cement project. The Bank had initially expressed willingness to consider the project, particularly because of the potential effect of the project on regional integration. Subsequent inquiries indicated however, that the project had a marginal economic rate of return and was surrounded by many risks and uncertainties. In view of the outcome of the study it had been proposed that the Bank should continue its consideration of the project on the basis of a 1.2 million ton plant to be built in two 600,000 ton stages instead of immediate construction of a 1.2 million plant as initially suggested. The discussion focussed on:

(i) The economic return on alternative plant sizes, and

(ii) The risks and uncertainties surrounding the project.

3. 1.2 million ton plant, in one stage. The meeting noted that:

(i) On the basis of a price of $14 per ton, the average price of clinker c.i.f. West African ports, and the plant operating at full capacity of 1.2 million tons,

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

Copies for Information:

President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

the project showed an economic return of about 9.3 percent. With a zero shadow price for unskilled labor, the return would be about 10.5 percent. Further, by using a shadow rate of exchange for the CFA franc allowing for 30 percent overvaluation, the return would increase to 11.5 percent. Therefore the project could be considered to have an economic rate of return between 10.5 and 11.5 percent.

(ii) Construction of a 1.2 million ton plant in one stage would be justified only if Ghana agreed to participate in the regional scheme for CIMAO and take a substantial part of CIMAO's output from the beginning of production. Other than the advantage Ghana could gain from bartering clinker for its fuel and electric power which were major inputs in clinker manufacturing, there were few incentives for Ghana to conclude any marketing agreements at this time. Ghana had shown some interest in CIMAO, but it was generally believed that Ghana would not seriously consider participating in CIMAO until the project showed definite signs of succeeding. Hence, Ghanaian participation in CIMAO from the beginning of production could not be assumed.

(iii) Demand for clinker in Togo and the Ivory Coast was calculated at about 740,000 tons for 1975, and not until 1980 would the demand exceed one million tons. Therefore, if Ghana did not agree to take a substantial part of CIMAO's output from the beginning, a one stage 1.2 million ton plant was likely to remain under-utilized until at least 1980 and the economic rate of return would drop to 8-9 percent.

4. <u>1.2 million ton plant, in two stages</u>. The meeting noted that:

(i) By constructing a 1.2 million ton plant in two 600,000 ton stages prior commitment from Ghana would be less crucial and the possibility of an under-utilized plant would be eliminated. Demand in Togo and the Ivory Coast might well develop to absorb the entire 600,000 ton output by 1975 when the first stage would come into full operation. The second 600,000 ton line would be installed soon after if the Government were successful in obtaining the participation of Ghana on satisfactory terms. On the other hand, it might be installed at any time up to about five years after the first kiln, at which time the markets of Togo and the Ivory Coast were projected to absorb nearly the entire 1.2 million ton production. Using the shadow rates noted in para. 3(i) above, the two stage approach would have the following effect on the economic rate of return:

(a) If the second kiln was introduced five years after the first kiln, the return would be 9 to 10 percent.

(b) If market conditions allowed the second kiln to be introduced at an earlier stage, e.g. two years after the first stage, the rate of return would be between 10 and 11 percent.

5. Risks and Uncertainties. The meeting noted that:

(i) The Togolese limestone deposits to be used by CIMAO were known to be of low quality which, upon exploitation, would entail higher production costs than normal. It was generally agreed that Togolese clinker, which would also be inferior in quality, would not be internationally competitive outside West Africa and might be undersold even in West Africa by low cost producers elsewhere.

(ii) Marketing opportunities would therefore be limited to West Africa, which in itself might prove an uncertain market. A commitment from Ghana to buy part of the output could not be assumed. Dahomey had announced its intention to establish a clinker plant based on a small deposit and would, therefore, probably not be in the market for Togolese clinker. Togo's marketing relationship with the other countries of the region would be based partly on political considerations, the future of which were impossible to predict.

(iii) Important organizational problems would have to be resolved in order to provide CIMAO with effective management. Management was expected to be provided by a strong cement group with an equity interest. It was noted that the original promoter had withdrawn from producing cement, although another cement group had indicated its interest. It would, however, take a great amount of staff time to reshape the project to make it viable and ensure satisfactory construction, start-up and operating management arrangements.

6. It was noted that the financial return on the project would be quite attractive if present grinding facilities in Togo and the Ivory Coast were to be incorporated in the CIMAO project (although this could only be done by nationalizing the present private grinding companies). Since there was a large margin of profits in cement grinding the integrated project would have a substantial cash flow and make a satisfactory profit. Also, CIMAO was likely to have an effective monopoly in the markets of the participating countries.

7. On the other hand, in terms of the project's economic contribution to the region, it was noted that the project was highly capital intensive and would generate little additional employment. Finally, it was maintained that the project would be quite insignificant in its contribution to regional integration if Ghana did not become party to the CIMAO scheme.

8. Decision: In view of the risks, uncertainties and other considerations noted above in paras. 5 and 7, the meeting concluded that the economic rate of return on either plant size alternative was not high enough to justify the large investment required for the project ($60 million). Therefore, it was decided that:

(i) The Bank should discontinue its consideration of the project for Bank lending.

(ii) The Bank should inform the Governments of Togo and the Ivory Coast of its decision in (i) above and offer a full discussion of the considerations that led to it. Further, the Bank should provide its report on the project to the two Governments in order that they might reconsider their attitude toward the project.

Dag F. Wittusen
Secretary

SCSchott/DFWittusen:as

Cleared by: Messrs. Knapp
Broches
Chadenet
Chaufournier
Fuchs

cc: Loan Committee
Participants

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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October 12, 1971

MEMORANDUM TO THE LOAN COMMITTEE

India - Gorakhpur Fertilizer Expansion Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 12, 1971 from the South Asia Department, entitled "India - Gorakhpur Fertilizer Expansion Project" (LC/0/71-108).

2. Comments, if any, should be sent to reach Mr. Kraske (ext. 2847) by 5:00 p.m. on Friday, October 15.

3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
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Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/O/71-108

October 12, 1971

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA--GORAKHPUR FERTILIZER EXPANSION PROJECT

1. I attach a draft appraisal report entitled "Appraisal of Gorakhpur Expansion Project--Fertilizer Corporation of India", recommending that the Association make a credit to India of US$9.0 million equivalent for this project. The report has been discussed with all concerned departments and there are no issues unresolved.

Background

2. This would be the second IDA credit to the fertilizer manufacturing sector in India; the first, a $20 million credit to finance the expansion of the Cochin fertilizer plant, operated by FACT (The Fertilisers and Chemicals, Travancore, Ltd.), was signed on July 30 this year. The International Finance Corporation has participated in two private sector fertilizer projects in India and is considering another. The Gorakhpur project was suggested by an IDA mission in 1969 as a rationalization, or "debottlenecking", program to utilize more fully the capacity of the original plant, which began production in 1968. The project was appraised in May and July of 1971.

3. The beneficiary of this proposed credit would be the Fertilizer Corporation of India (FCI), the largest fertilizer producer in the country, which accounts for 30 percent of India's nitrogen and 10 percent of its phosphate capacity. (These proportions are expected to grow to 54 percent and 24 percent, respectively, by 1979.) FCI, which is wholly owned by the Government of India (GOI), has at present five plants in operation and is engaged in a large expansion program, including six plants under construction and seven under consideration. This program includes the Nangal expansion project, currently being appraised for an IDA credit later this fiscal year.

Bank/IDA Lending Program

4. During the current fiscal year, three credits to India totalling $64 million (Pochampad irrigation, Cochin fertilizer and Grain Storage) have already been approved. In addition to the present project, a $75 million credit for Railways is expected to be presented to the Executive Directors during the October/December quarter, bringing the total to $148 million by the end of calendar year 1971. A Bank loan of $60 million for ICICI is also expected to be presented during October. In keeping with the GOI's emphasis on improvements in agriculture, the lending program for the balance of the year includes $102.5 million in this and related sectors--$70 million for

agricultural credit in Mysore and Maharashtra, $12.5 million for wholesale markets in Bihar and $20 million for Nangal fertilizer. Another $247 million is envisaged for family planning ($12 million), industrial imports ($75 million), shipping ($80 million), a first credit to the Industrial Development Bank of India ($20 million) and power transmission ($60 million). A copy of the latest version of the five-year lending program is attached.

5. The April 1971 economic report on India was optimistic about the prospects for continued rapid growth after the recession of the late 1960's. An important potential constraint on future growth, however, is the decline in net aid disbursements--the result of stagnant or falling commitments, the drawdown of the non-project aid pipeline and mounting debt service obligations. Since the economic report was written, an additional burden has been placed on India's financial resources by the influx of refugees from East Pakistan. Apart from the social and administrative cost inherent in the refugee problem, the budgetary costs may require a reduction in development outlays if substantial humanitarian assistance is not forthcoming from the international community. Thus, the need for rapidly disbursing development assistance has become even more important than was indicated in the economic report six months ago.

Project Description

6. The proposed IDA credit would provide financing in support of an expansion of the Gorakhpur unit of FCI from its present capacity of 180,000 tons of urea per year to 314,000 tons per year (TPY). The total capital costs of the project are estimated at $16 million equivalent (Rs 120 million), including contingencies, working capital requirements and interest during construction. Of this total, the amount of the proposed credit ($9 million, or Rs 67.5 million) would be relent to FCI by the GOI; the balance of Rs 52.5 million would be provided by the GOI in equity funds.

7. The Gorakhpur plant, located in Uttar Pradesh (U.P.) in northeastern India, was conceived in 1962 and started production in 1968. Financed with Japanese credit and funds from the GOI, it was built by Toyo Engineering Corporation of Japan at a total project cost of Rs 338 million (about $45 million), about half of which was foreign exchange. Much of the high cost for a plant of its size (180,000 TPY area) was due to oversized and spare equipment, as well as to the lengthy completion time. Such conservative design was not uncommon a decade ago, and it was compounded by the fact that Gorakhpur represented Toyo's first urea project outside Japan.

8. The Gorakhpur plant, along with Nangal, is one of the best operating divisions of FCI and normally exceeds 100 percent of design capacity on a daily basis. In FY 1970, its second year of production, the plant produced an average of 88 percent of capacity, and in 1971 production averaged 82 percent. The shortfall was due largely to factors outside Gorakhpur's control--a shortage of naphtha feedstock resulting from a railroad strike, power loss due to a strike at the U.P.

State Electricity Board (SEB) and other power interruptions. To minimize the recurrence of these problems in the future, FCI will double naphtha storage capacity at the plant as part of the expansion project, and the SEB will increase generating capacity and complete a new 220 KV transmission line to Gorakhpur in 1973 (before completion of the expansion).

9. The plant sizes employed at Gorakhpur are small by today's standards, and operating costs are high because the process (partial oxidation of naphtha) requires high power consumption and high-cost feedstock. When the project was planned in 1962, however, it represented the best available proven technology. (Since then, the development of larger plants and higher operating pressures have permitted the efficient use of steam rather than electricity as a source of power and lowered costs of new plants considerably.) Installed equipment and other spare capacity form the basis for the expansion project, for which the incremental capital requirements are low. Although power and fuel costs will remain relatively high, the expansion should not require any increase in the labor force, and incremental operating costs do not reflect any labor, overhead, or selling costs. As a result, they compare favorably with the costs of other large, modern urea factories in developing countries. While the operating costs from the existing plant are much higher than the projected cost of imported urea of Rs 555/ton (c.i.f. Gorakhpur), the operating costs of the expansion project alone, including 10 percent return on investment, will be only Rs 478/ton. As a result, those of the total plant after expansion will be reduced to Rs 626/ton, which is more nearly competitive with imports, even at the official rate of exchange of Rs 7.5/$1 instead of the rate of Rs 10/$1 which we believe to be closer to the effective cost of imports under the present exchange system. This implicit level of protection (12 percent) is well within acceptable limits.

10. Engineering and design work will be carried out by the Planning and Development Division of FCI with the assistance of Toyo, who will also provide process guarantees, and a guaranteed daily production rate. Design conditions require that the proposed project be based on the same technology as is now used at Gorakhpur; therefore, no difficulty is foreseen in its execution. FCI will appoint a project manager who will have full-time responsibility for the execution of the project. Adequate measures are incorporated in the project to minimize its effect on environment.

11. Actual nitrogen consumption in India in FY 1971 was 1,425,000 tons according to GOI estimates. This figure is lower than that in a recently completed joint study by GOI and Bank staff members, and the discrepancy is being studied by the Projects Department. However, even the most conservative forecasts of demand show a continuing deficit in nitrogen production through the 1970's. Since Gorakhpur's primary marketing region (eastern U.P.) is a high fertilizer consumption area and is relatively protected due to transport costs of other producers, the increased urea production can be easily marketed.

Financial and Economic Evaluation

12. The project's profitability is very satisfactory, due to the modest capital costs and the low incremental operating costs involved. The internal financial rate of return of the expansion is about 30 percent, which improves the overall financial return of the Gorakhpur unit from 8 percent to 11 percent. The economic return for the project is satisfactory, about 19 percent, based on estimates of future import prices for urea ($65 per ton). The financial as well as the economic rate of return is sensitive to changes in selling prices and, to a lesser degree, to changes in raw material prices, operating level, and delays in project execution. Under extremely adverse (and therefore unlikely) circumstances, the financial return of the project is still 20 percent and the economic return 13 percent. Thus, while Gorakhpur should not be built today on its present technology, its continued operation and expansion is economically beneficial to India.

13. Net annual foreign exchange savings for the expansion project are estimated at $6.5 million at a production level of 95 percent of capacity, which the appraisal team expects for a normal year. The net annual local currency costs incurred would be Rs 38 million ($5.1 million). The comparison of these figures shows that the expansion project represents efficient import substitution. Given India's growing need for fertilizer and the high rates of return attributable to the incremental investment, I consider that there is adequate justification for proceeding with the project.

FCI Finances

14. Although the Gorakhpur unit itself is quite profitable, the appraisal report indicates that FCI has financial difficulties due to low profit and capacity utilization levels. Principal due on outstanding debt rises sharply in FY 1972 and succeeding years, and greatly increased net profits will be necessary if the company is to service its outstanding debt. It is unclear now whether net income will permit FCI to cover its debt in the next two years. During that time three new plants are scheduled to start production, which should lead to increased cash generation and ability to service debt. A more detailed analysis of FCI is being conducted in connection with the Nangal project. In view of the incremental benefits to India from expanding production at Gorakhpur, I agree with the Projects Department that this small project should not be delayed while overall appraisal of the company is being completed. We will seek limited assurances from the GOI during negotiations regarding the financial condition of FCI (see paragraph 19 below); these would constitute a reasonable first step and are not inconsistent with additional measures to be sought as part of the Nangal negotiations.

Uses of IDA Credit

15. Total equipment costs for the expansion project are estimated at $7.6 million. The GOI has indicated that about 12 percent of estimated equipment value ($0.9 million) would be reserved for domestic suppliers.

This is roughly the same proportion as was agreed upon for the Cochin project, and financing for these items would not be included in the proposed credit. In the view of the appraisal mission, this equipment is not critical and is not likely to affect adversely the project's completion schedule or quality. The GOI will be asked to give assurances during negotiations that procurement will be expedited from outside sources if delays in delivery of locally procured equipment would adversely affect the project schedule.

16. The proposed $9.0 million IDA credit would be disbursed in major part against $6.3 million in equipment and materials which will be subject to international competitive bidding, and an estimated $0.4 million for proprietary items. There will be a 15 percent preference for domestic suppliers. (The prevailing duty is now 30 percent.) The appraisal report estimates that 16 percent of international bids ($1.0 million) will be won by Indian suppliers. Additional disbursements would be against a portion of the engineering and design fees ($0.8 million to Toyo and $0.5 million to FCI), part of the costs of plant erection and commissioning ($0.5 million, of which $0.3 million would be for foreign costs) and an unallocated amount equal to the foreign exchange contingency allowance ($0.5 million). These figures represent a portion of both local and foreign exchange costs for engineering, design, erection and commissioning. Savings in any category will be available for disbursement against other categories.

17. If the foreign exchange contingency is not required, and if Indian suppliers win 16 percent of internationally bid contracts, local cost financing would equal $2.2 million, or 24 percent of the credit. On the other hand, if the contingency funds are required and Indian suppliers win only 5 percent of internationally-bid equipment, the foreign exchange cost of the project would be $9.0 million, or the total amount of the proposed credit. To protect against an unexpected overrun in project costs, either in local currency or in foreign exchange, the GOI should agree to provide additional funds as necessary (half as debt and half as equity) to complete the project. The appraisal report indicates only a modest effect on the project financing due to recent world currency adjustments and considers the financial plan adequate.

Issues

18. An issue in ngeotiations on the Cochin project proved to be, as expected, the terms of GOI relending of the IDA credit. The GOI representatives argued for 7 percent, the rate of lending foreign exchange to public sector entities, and the Association pressed for 9.5 percent. The compromise reached, 8.5 percent with 13 years amortization (including three years of grace), has been unofficially accepted by the GOI for the Gorakhpur project, according to the appraisal team, and is recommended in the report. I support this recommendation.

19. As indicated above (paragraph 15), the appraisal report suggests obtaining assurances from the GOI that it will maintain FCI in a financially sound position. It is expected that the definition of any financial covenants will be an important topic during negotiations; IDA will propose as objectives to be agreed that GOI will provide all the funds necessary to complete FCI's expansion program and that a long-term debt:equity ratio of at least 50:50 and a current ratio of at least 1.2:1 will be maintained for the company. We will also make clear during negotiations that further measures to improve FCI's management and financial performance will be required in connection with subsequent credits.

20. FCI has proposed a critical path schedule for project implementation of 30 months, including three or four months contingency. Since past experience related to project implementation time in this sector has not been satisfactory, we need to assure ourselves during negotiations that the proposed schedule can be realized and that the delineation of responsibilities for project implementation is likely to lead to its attainment. The assistance of Toyo in design and procurement should help in maintaining the project schedule.

Recommendation

21. I recommend that the borrower and the beneficiary be invited to negotiate this credit of US$9.0 million on the basis of the recommendations set out in paragraphs 10.1 and 10.2 of the draft appraisal report.

I. P. M. Cargill
Director
South Asia Department

Attachments

Population: 547 m. (1971 Census - preliminary)
GNP (1970/71) Per Capita: $90

INDIA - FIVE-YEAR LENDING PROGRAM

		($ millions)								
				Fiscal Year				Total	Total	Total
		1972	1973	1974	1975	1976	1977	1964-68	1969-73	1974-77
Agric. Credit - Mysore	IDA	40.0								
Agric. Credit - Maharashtra	IDA	30.0								
Agric. Credit - Uttar Pradesh	IDA		25.0							
Agric. Credit - Bihar	IDA		30.0							
Agric. Credit - Punjab II	IDA		30.0							
Agric. Credit - Madhya Pradesh	IDA		30.0							
Irrigation - Pochampad	IDA	39.0								
Irrigation - Tawa	IDA		43.0							
Irrigation - Jayakwadi	IDA		20.0							
Irrigation - Pamba	IDA		15.0							
Irrigation - Krishna	IDA		30.0							
Irrigation - Kuttiyadi	IDA		5.0							
Grain Storage	IDA	5.0								
Bihar Marketing	IDA	12.5								
Apple Processing	IDA		9.0							
Lake Chilka Fisheries	IDA		10.0							
Agric. Unidentified	IDA		25.0							
Agric. Unidentified (7 projects)	IDA			165.0						
Agric. Unidentified (10 projects)	IDA				270.0					
Agric. Unidentified (10 projects)	IDA					270.0				
Agric. Unidentified (10 projects)	IDA						270.0			
Telecommunications V	IDA		40.0							
Telecommunications VI	IDA			40.0						
Telecommunications VII	IDA				40.0					
Telecommunications VIII	IDA					40.0				
Telecommunications IX	IDA						40.0			

INDIA - FIVE-YEAR LENDING PROGRAM

(Continued)		1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1974-77
		($ millions) Fiscal Year								
Education - Agric. Universities	IDA		20.0							
Education Unidentified	IDA				20.0					
DFC - ICICI IX	IBRD	60.0								
DFC - ICICI X	IBRD			50.0						
DFC - ICICI XI	IBRD					50.0				
DFC - IDBI	IDA	20.0								
Fertilizer - Cochin	IDA	20.0								
Fertilizer - Nangal	IDA	20.0								
Fertilizer - Gorakhpur	IDA	9.0								
Fertilizer - Tata	IBRD			25.0						
Iron Ore - Marcona	IDA		40.0							
Industrial Imports VII	IDA	75.0								
Industrial Imports VIII	IDA		75.0							
Industrial Imports IX	IDA			75.0						
Industrial Imports X	IDA				100.0					
Industrial Imports XI	IDA					100.0				
Industrial Imports XII	IDA						100.0			
Industry - Unidentified	IDA		20.0							
Industry - Unidentified	IDA			20.0						
Industry - Unidentified	IDA				20.0					
Industry - Unidentified	IDA					20.0				
Industry - Unidentified	IDA						20.0			
Family Planning	IDA	12.0								
Power Transmission III	IDA	60.0								
Power - Unidentified	IDA			15.0						
Power - Unidentified	IDA				60.0					
Power - Unidentified	IDA					60.0				
Power - Unidentified	IDA						60.0			

INDIA - FIVE-YEAR LENDING PROGRAM

($ millions)

(Continued)		Fiscal Year 1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1974-77
Water Supply - Bombay	IDA		30.0							
Water Supply - Unidentified	IDA			15.0						
Water Supply - Unidentified	IDA				15.0					
Shipping I	IDA	80.0								
Shipping II	IDA		80.0							
Highways II	IDA		30.0							
Railways XI	IDA	75.0								
Transportation - Unidentified	IDA			45.0						
Transportation - Unidentified	IDA					55.0				
Tourism - Unidentified	IDA				10.0					
Tourism - Unidentified	IDA					10.0				
Unallocated	IDA				20.0		50.0			

	IBRD	60.0		75.0		50.0		159.0	140.5	125.0
	IDA	497.5	607.0	375.0	555.0	555.0	540.0	591.0	1,727.9	2,025.0
	Total	557.5	607.0	450.0	555.0	605.0	540.0	750.0	1,868.4	2,150.0
	No.	15	21	15	18	17	15	11	51	65
Note: the IDA lending program is to be adjusted to --		375.0	375.0	375.0	540.0	540.0	540.0		1,373.4	1,995.0

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

October 5, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Venezuela - Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 5, 1971 from the Central America and Caribbean Department, entitled "Venezuela - Proposed Loan to Banco de Desarrollo Agropecuario for a Livestock Development Project" (LC/O/71-107).

2. Comments, if any, should be sent to reach Mr. Schloss (ext. 4763) by 5:00 p.m. on Friday, October 8.

3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
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Vice President (IFC)

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LC/O/71-107

October 5, 1971

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

VENEZUELA - Proposed Loan to Banco de Desarrollo Agropecuario for a Livestock Development Project

Introduction

1. Attached for consideration by the Loan Committe is Report No. PA-96, "Venezuela - Appraisal of a Livestock Development Project", recommending a Bank Loan of $11 million to Banco de Desarrollo Agropecuario (BDA), to finance the foreign exchange cost of a proposed three-year livestock credit program.

2. To date, the Bank has made ten loans in Venezuela totalling about $330 million (net of cancellations), about 45 percent of which has been for electric power and the rest for roads (30 percent), telecommunications (20 percent), and water supply. The last loan was made in June 1971 in the amount of $35 million for a telecommunications project. IFC has commited $27 million to Venezuela since 1960, covering investments in five enterprises. The most recent operation was in January 1971 when IFC made a standby commitment of $2 million to purchase part of an issue of Consolidada de Cementos, C. A.'s bonds offered to the public by an underwriting syndicate headed by C. A. Venezolana de Desarrollo (CAVENDES), a private development finance company which IFC helped to establish.

3. Execution of Bank-financed projects has on the whole been satisfactory except for a water supply project in Caracas (Loan 444-VE), where, because of noncompliance with tariff covenants, disbursements were suspended for almost two years. The loan was closed at the end of August 1970, when the remaining balance of $4.2 million was cancelled. However, construction of the project has been completed.

4. Apart from the proposed livestock project, three other operations are planned for FY72: a loan of $17 million for the first stage of the Maiquetía Airport (near Caracas), a loan of $33 million for the first stage of the Caracas Metro Project, and a $10 million loan for an education project. With the exception of the proposed Maiquetía Airport Loan, for which legislation already exists, all the loan operations require Congressional action which cannot be predicted with any precision. The Five-year Lending Program (FY 1972-76) is attached.

Economic Situation

5. An economic report (Current Economic Position and Prospects

of Venezuela, CA-5a) was distributed to the Executive Directors on October 12, 1970. A brief mission visited the country in April 1971 to update our information on the changes which have occured since the end of 1970 in the fiscal and balance of payments situation as a result of increases in oil prices and in the taxation of petroleum company profits. An economic mission is presently in Venezuela to reassess the situation and prospects of the economy in the light of these developments.

6. The conclusion reached in the Bank's last economic report was that, after allowing for the introduction of new taxes on the non-oil sector of the order of $1,000 million and new external loan commitments of about $1,000 million over the five years 1970-74, the Government could carry through what the Bank mission considered to be a barely adequate public investment program consistent with the maintenance of an annual rate of growth of GDP of around 5 percent a year. It was recognized that, with the rapid population growth (3 1/2 percent a year), a considerably higher rate of growth in GDP would be desirable in the longer run, but the feasibility of carrying through a much larger investment program during the next few years was questioned on fiscal grounds. A high priority need was to diversify the economy by providing industry with stronger incentives for exports and agriculture with sounder credit policies - steps which were regarded as essential for the long-run viability of the economy. In line with the development strategy outlined in the economic report, major public investments would be required in the "Core Region", which extends from just east of Caracas to west of Valencia and which accounts for roughly 70 percent of the nation's industrial production, three-quarters of all employment in industry and one-third of the total population.

7. The petroleum tax increase enacted in late 1970 and the increase in oil reference prices of early 1971 are expected to raise balance of payments receipts and government revenues by about $460 million this year, and possibly by $600 million annually in 1972 and beyond. This is equivalent to about 5 percent of GDP and over 20 percent of public sector current revenues in 1969 and would more than cover the estimated gap in the financing of the relatively modest public investment program recommended by the Bank's economic mission without any additional revenue measures. The Government is therefore now in a position to carry out more vigorous growth policies, including a larger public investment program, in order to achieve a higher rate of economic growth and a more concerted drive towards diversification of the economy. A number of enterprises with state or mixed ownership, particularly in steel, iron ore, petrochemicals and possibly natural gas, could provide a strong basis for a drive towards diversification of exports. In the social field, larger expenditures are certainly justified in education, health, and other social services in order to raise the efficiency of the labor force. Agriculture, which employs 27 percent of the labor force, will require an additional stimulus to maintain the fast growth rate it has attained in the past decade. There is still substantial room for import substitution, especially in livestock, meat, and dairy products

which account for some $35 million a year of imports.

8. The present economic mission will reassess the prospects for the economy in the light of the easing of the previous fiscal constraints. Meanwhile, Bank lending is proposed for selected purposes where we can help the Government with limited Bank participation in preparing and implementing projects in key areas. With a present and prospective debt service ratio of about 4 percent, Venezuela has ample capacity to meet the service on its existing and proposed external public debt.

The Project

9. This is the first project in the agricultural sector for which a Bank loan is proposed. Past efforts made by Venezuela and the Bank to develop an agricultural project have not been successfully completed mainly because of the absence of appropriate government credit policies in the sector and the lack of a suitable institution to carry out a project. With the creation of BDA - to which the Bank provided assistance in the drafting of its statutes - this constraint no longer exists. BDA, owned half by the Government and half by the private sector, will provide credit to commercial farmers and has been assigned the commercial portfolio of the Government's Banco Agrícola y Pecuario (BAP). Thus the Government is now in a position to follow different credit policies for commercial and subsistence level farming, i.e. through BDA and BAP respectively.

10. A first objective of Bank involvement in this project is the development of the new BDA into a strong and sound agricultural development bank so that it can successfully carry out this and other projects in the future. In line with this objective, the Bank would finance the technical services required for the execution of the project attached to BDA, and would require the establishment of a Cattle Ranch Development Unit attached to the Technical Operations Department of BDA, which will be in charge of the execution of the project.

11. The second major objective is at the level of agricultural credit policy. In the past, many agricultural and livestock activities have been isolated from market forces through various forms of price support programs and subsidized credit. The livestock sector has been enjoying low-cost credits with inadequate repayment control through BAP. The proposed loan would assist BDA in raising the interest rates charged to commercial ranchers on funds lent by the Government to 9 percent per annum on outstanding balances for long-term loans, and to about 10.5 percent on short-term loans. This would enable BDA to cover the borrowing costs, the repayments for the technical and general services to be provided under the project, and the generation of additional capital for further livestock development in future years. In line with the usual practice under Bank-financed livestock projects, repayment terms for the sub-loans would be tailored to the cash flows of each sub-

project, and it is expected that they would be around eight to ten years, with grace periods of three to five years. The Venezuelans have taken the position that the repayment period on sub-loans should be up to fifteen years, which would mean that the Bank loan should be made for twenty years. (Up until now, livestock loans in Venezuela have been for about 16 years at 5 percent interest, but did not include technical services.) I agree with Agriculture Projects Department that there is no sound technical or economical/financial basis to allow for such long repayment periods. Therefore, since the sub-loans would be committed within three years, but would take about five years to be disbursed, and given repayments on the sub-loans of eight to ten years, a term of 15 years, including 5 years of grace is proposed for the Bank loan.

12. The final objective of this project is to improve productivity of the livestock sector. The project is designed to increase beef production in Venezuela through better utilization of large areas of underutilized pasture lands and to improve the productivity of the national herd. The project would provide about 800 ranchers with credit and technical services to increase their production through application of better herd management practices, establishment of improved pastures, upgrading of breeding stock, and improvement of stock handling facilities with related on-farm investments. The direct economic rate of return on the project is estimated at 17 percent; in addition, the project is expected to have a significant impact on the future development of the country's whole livestock industry. With the latter objective in mind, the project would include the financing of special consultants' services to: (a) undertake a comprehensive livestock marketing and processing study; (b) introduce the best known methods of establishing tropical pastures and legume and grass seed multiplication; and (c) to demonstrate large-scale low-cost land clearing techniques. Overseas training grants would be provided for about 10 project technicians.

13. The project has been designed for the development of medium and large units ranging from 150 to 600 breeding cows, as well as small producers with existing herds of about 50 breeding cows. The bulk of the demand for credit will stem from the medium and large farms. Meanwhile, smaller farmers will be assisted by a $75 million loan, which the Inter-American Development Bank (IDB) extended to the Government in 1970 to help finance a broad program of agricultural development (at a total cost of $180 million). Within this program a total of about $36 million of farm credits is proposed with the objective of raising the living standards and output of some 63,000 low income rural families in four major regions of the country. In addition to this small farm-oriented program, IDB plans to present to its Board in October 1971 an $18 million loan to assist in eradicating brucellosis and foot and mouth disease in all the areas covered by the proposed Bank loan.

14. Total project costs are estimated at $39 million and would be covered by the proposed Bank loan ($11 million), BDA ($6 million), the

Government ($15 million) and the ranchers ($7 million). This would be the lowest share of costs borne by the Bank in any livestock project in which it has participated. In the public credit law now before Congress, the Government has recommended a joint Government-BDA contribution. Thus, to the extent that BDA could not meet its share, the Government's contribution would be correspondingly larger. Bank financing would be limited to the foreign exchange cost of the project, with one possible minor exception. BDA has tentatively agreed to hire an expatriate as technical director, but it is still possible that a suitable Venezuelan candidate can be found for this position, and in that event, I would recommend that the Bank still finance his salary and fringe benefits. The amount of local costs that might be involved would be about $75,000.

15. The loan is proposed for a period of 15 years, including 5 years of grace. In view of Venezuela's favorable fiscal and balance of payments condition, it has been the Bank's practive to reduce the terms of Bank lending to the public sector on country grounds. However, since BDA, as a half private/half public institution, would not be able to repay the Bank loan with general fiscal resources, and since it is a new institution, no such reduction of terms is recommended in the present case. The appraisal report recommends that the Government would assume the foreign exchange risk on the proposed loan unless otherwise specified under public credit legislation. As far as we know, there is no such legal impediment. However, should Government not be able to take this risk under the legislation to be passed by Congress, Agriculture Projects Department believes that this risk could be carried by BDA.

16. The proposed loan requires Congressional enactment of a public credit law which would enable the Government to extend its guarantee. The bill was approved by the Cabinet last May and submitted to Congress with a favorable opinion of the Central Bank in June. The Government anticipates Congressional action during the next session, which will start in October, and I recommend that we proceed with negotiations once the bill has been approved by the Financial and Agricultural Commission of Congress. Final approval by Congress could be expected to follow some weeks later, by which time the loan could be ready for Board presentation.

17. The appraisal report recommends that BDA be required to prepare an evaluation of the collectibility of the Government's Livestock Development Plan portfolio prior to negotiations. This portfolio, whose management has been recently transferred to BDA, involves a detailed review of some 5,000 accounts, and I propose that we proceed with negotiations upon receipt of a report on the collectibility of 600 accounts presently under review by BDA. I also propose that we request a report on the remaining accounts as they become available in the future. Agriculture Projects Department is in agreement with this proposal.

Recommendation

18. I recommend that the Bank proceed to negotiate a loan of $11 million to BDA, with the guarantee of the Republic of Venezuela, on the terms and conditions proposed in the appraisal report, after we receive the evidence of Congressional action referred to in paragraph 16 and the portfolio evaluation mentioned in paragraph 17.

Edgar Gutiérrez
Director

Attachment

POPULATION: 9.7M

.P PER CAP: $ 950

IVA VENEZUELA - 5 YEAR OPERATIONS AND LENDING PROGRAMS

(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM

			1972	1973	1974	1975	1976
3-VEN-AL-01	LIVESTOCK I	IBRD	11.0				
3-VEN-AL-02	LIVESTOCK II	IBRD			15.0		
3-VEN-AX-01	AGRICULTURE UNIDENTIFIED	IBRD			10.0		
3-VEN-CC-03	CANTV EXPANSION II	IBRD			20.0		
3-VEN-EE-01	EDUCATION	IBRD	10.0				
3-VEN-EE-02	EDUCATION II	IBRD			15.0		
3-VEN-II-01	INDUSTRY I	IBRD		30.0			
3-VEN-IX-02	INDUSTRY UNIDENT.II	IBRD				20.0	
3-VEN-PM-03	GURI POWER TRANSMISSION	IBRD		15.0			
3-VEN-QQ-01	TOURISM I	IBRD			15.0		
3-VEN-QX-01	TOURISM UNIDENT.	IBRD					20.0
3-VEN-TA-01	AIRPORT (MAIQUETIA)	IBRD	17.0				
3-VEN-TA-02	AIRPORT MAIQUETIA II	IBRD		13.0			
3-VEN-TH-05	HIGHWAYS V	IBRD				20.0	
3-VEN-UT-01	CARACAS METRO	IBRD	33.0				
3-VEN-UT-02	URBAN TRANSP.	IBRD					35.0

	1964-68	1969-73	1972-76
IBRD	202.3	215.0	299.0
IDA			
TOTAL	202.3	215.0	299.0
NO	6	10	16

IBRD	71.0	58.0	75.0	40.0	55.0
IDA					
TOTAL	71.0	58.0	75.0	40.0	55.0
NO	4	3	5	2	2

LENDING PROGRAM (/ /)

IBRD			
IDA			
TOTAL			
NO			

IBRD					
IDA					
TOTAL					
NO					

P & B 09/15/71

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

September 30, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Democratic Republic of The Congo - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 30, 1971 from the Eastern Africa Department, entitled "Democratic Republic of The Congo - Proposed IDA Credit for an Education Project" (LC/0/71-106).

2. Comments, if any, should be sent to reach Mr. Moreau (ext. 3615) by 5:00 p.m. on Tuesday, October 5.

3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/O/71-106

LOAN COMMITTEE

September 30, 1971

MEMORANDUM FROM THE EASTERN AFRICA DEPARTMENT
DEMOCRATIC REPUBLIC OF THE CONGO
PROPOSED IDA CREDIT FOR AN EDUCATION PROJECT

1. Attached for consideration by the Loan Committee is the Appraisal Report (No PE-35) dated August 30, 1971, recommending a $5.8 million IDA credit to the Democratic Republic of the Congo (DRC) for an education project.

Background

2. The five-year lending program for the DRC is attached. I hope to submit to the Loan Committee soon a proposal for a second highway project based on preparatory work carried out under the first highway credit; this highway project, which has already been appraised but awaits the resolution of a few organizational problems, would involve substantial co-financing, probably by the UNDP, USAID, the French aid agency (FAC) and the Canadian aid agency (CIDA). The second Development Finance Company credit for SOCOFIDE was signed on September 24.

The Economy

3. An Economic Report entitled "The Congo's Economy: Evolution and Prospects" (AE-13a) dated December 8, 1970, was distributed to the Executive Directors on March 29, 1971.

4. The economic revival, which was introduced by the monetary reform of 1967 and reinforced by high copper revenues, has continued without interruption for the last three years, with real GDP growing at a yearly rate exceeding 7 percent. This growth has been reflected in all sectors of the economy, although the rise in agricultural output has been somewhat less than that of other sectors. Copper output rose from 320,000 tons in 1968 to 385,000 tons in 1970. Furthermore, industrial production recovered from the initial impact of increased foreign competition caused by the liberalization of imports in 1967 and expanded by almost 10 percent in 1970 alone.

5. The Economic Report stressed the need for curbing recurrent expenditure. The Government has undertaken to do so, but results so far have been disappointing. Although copper prices and current revenue have fared better than anticipated at the beginning of 1971, the overall budget deficit is likely to be larger than expected. Prices have already risen by at least 7% since January 1971.

6. The medium-term prospects for the Congolese economy continue to be promising. Although there may be some decline in public savings owing to lower copper prices in the next five years, this will probably be offset by increased foreign aid, and a larger inflow of private capital, as the Government is firmly determined to keep on encouraging foreign investment. It is accordingly quite possible that GDP will continue to grow at a rate averaging 6-7% annually.

7. Because the bulk of the Congo's post-independence foreign aid has been given in the form of grants, its present foreign debt is fairly low, with debt service representing less than 3 percent of export earnings. However, in view of uncertainties regarding future developments in the country, and in the light of its present poverty (per capita GDP $100), the provision of finance from IDA is appropriate at this time.

The Sector and the Project

8. In the past decade, primary and secondary school enrollments in the Congo have expanded without reference to the human resources required to support an efficient educational system. There is at present no comprehensive plan for developing the education sector. After the long period of disruption in the 1960s, the Government had to concentrate on assuring the basic functioning of the education system. The Government has now substantially improved data collection on school enrollments, the teaching force and physical facilities and, as a result, has become more aware of defects which could be corrected through adequate educational planning. In its efforts to improve the efficiency of the education system and to strengthen planning, the Government intends to control enrollment expansion by reducing the number of overage students, improve teacher quality, modernize curricula, and relate education and training more closely to the manpower needs of the economy. The establishment of an educational planning unit in 1972, expected to be financed by the UNDP, is a vital element in this strategy, but its impact is likely to be limited unless the capacity of the Ministry of Education to implement plans and monitor progress is improved. A management study of the Ministry is therefore needed to identify the reorganizational measures which would strengthen the Ministry's control and administration of the education system. Such a study is included in the proposed project.

9. The output of well-trained Congolese skilled workers is still extremely small relative to the needs of the Congo, which is developing a considerable manufacturing base and is one of the leading mining countries of Africa. The supply of local technicians in the Katanga region is clearly insufficient for the needs of the major enterprises in the region, particularly the copper industry, where output is expected to more than double in the next ten years. Similarly, in Kisangani, the main city in the northern half of the Congo, facilities for training technicians and skilled workers are almost non-existent. Another major need in technical education is for a program to train Congolese technical teachers; at present, schools are staffed by unqualified Congolese and high-cost expatriates.

10. The proposed project would be the first Bank Group operation in the education sector in the Congo. It was prepared by three missions, two of which were joint IDA/UNESCO missions, and it was appraised in February/March 1971. A larger project, scheduled for 1975, would await the results of a manpower study expected to be financed by the UNDP, and would be based on the more detailed educational planning to be undertaken by a new planning unit within the Ministry of Education. UNDP assistance has already been requested by the Government, both for the manpower study and for the staffing of the planning unit.

11. The priority needs which the project is designed to meet are the improvement and expansion of teacher training and technical education; the project would consist of:

a) Rehabilitation and equipment for:

- an upper secondary teacher training college;
- a training college for primary teacher trainers and inspectors; and
- four technical secondary schools.

b) Construction and equipment for:

- a new demonstration secondary school; and
- a new technical teacher training college.

c) Sixty man-months of technical assistance for a management study of the Ministry of Education.

12. The project would significantly improve the quality of education at these levels by its focus on teacher training. It would help to assure an increased supply of trained Congolese secondary teachers and the staffing of primary schools by well-trained Congolese primary teachers who would also be better able to provide leadership to the rural communities. At the primary level, the new primary teacher trainers and inspectors would not only help train new primary teachers adequately, but they would also help to upgrade the skills of the teachers already practicing though not fully qualified. As a consequence of the expanded secondary teacher training, the percentage of fully qualified Congolese teachers at this level is expected to reach 65% by 1980, as compared with only 10% now, thus permitting substantial savings through replacement of expatriate teachers and improvement in overall quality.

13. The project's four technical schools, together with the establishment of the Congo's first school for training and upgrading technical teachers, would assist in remedying the shortage of well-trained skilled workers referred to in paragraph 9 of this memorandum.

14. As a condition of effectiveness of the proposed credit, a project implementation unit would be established within the Ministry of Public Works to provide overall supervision of the project. Its terms of reference would be agreed with IDA and it would be composed of a project director, a deputy project director (architect or engineer) and a full-time educator, as well as an accountant and a procurement specialist, on a part time basis, all of whom would be selected in consultation with IDA. The foreign exchange cost of their services (11 1/2 man-years) would be financed out of the proposed credit.

15. Contracts for civil works, equipment and furniture would be awarded on the basis of international competition, in accordance with the Bank's Guidelines. Domestic manufacturers of furniture and equipment would be accorded a margin of preference of 15% of the c.i.f. price of competing imports, or the existing customs duties, whichever is lower.

16. The total cost of the proposed project, without taking into account possible increases due to the international monetary situation, is estimated at $11 million, and the foreign exchange component, which would be financed by IDA, at $5.8 million. The proposed credit would be disbursed over a period of five years. Taking into account the effect of the revaluation of currencies, in particular in Europe, in relation to the dollar, I recommend, and Education Projects Department concurs, an increase in the amount of the proposed credit to $6.4 million, corresponding to the revised estimated foreign exchange component of the proposed project.

Recommendation

17. The project conforms to the customary pattern of education projects and there are no important issues to be decided before inviting negotiations, other than the $600,000 increase in the amount. I propose that the Association invite the Government of the DRC to negotiate a credit for an education project, along the lines of the recommendations set out in paragraphs 5.01 - 5.04 of the Appraisal Report, in an amount of $6.4 million, as recommended in paragraph 16 of this memorandum.

Michael L. Lejeune
Director

September 29, 1971

Attachments

POPULATION: 16.7M

GNP PER CAP: $ 90

IVA CONGO K - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM

			1972	1973	1974	1975	1976
8-COK-AD-02	COTTON DEVELOPMENT	IDA		5.0			
8-COK-AL-01	LIVESTOCK	IDA		5.0			
8-COK-AP-01	RUBBER DEVELOPMENT	IDA		3.7			
8-COK-AX-01	AGRIC. UNIDENT.	IDA			20.0		
8-COK-AX-02	AGRIC. UNIDENT.	IDA				10.0	
8-COK-AX-03	AGRIC.UNIDENT	IDA					15.0
8-COK-CC-01	COMMUNICATION	IDA			10.0		
8-COK-DD-02	DFC II	IDA	10.0				
8-COK-DD-03	DFC III	IDA		15.0			
8-COK-DD-04	DFC IV	IDA					15.0
8-COK-EE-01	EDUCATION	IDA	7.0				
8-COK-EE-02	EDUCATION II	IDA				15.0	
8-COK-QQ-01	TOURISM I	IDA					15.0
8-COK-TH-03	HIGHWAYS II	IDA	17.0				
8-COK-TH-04	HIGHWAYS III	IDA		15.0			
8-COK-TH-05	HIGHWAYS IV	IDA				35.0	
8-COK-TX-01	TRANSP. UNIDENT.	IDA		25.0			
8-COK-UU-01	SPECIAL PROJECT (URBAN)	IDA				10.0	
8-COK-WW-01	WATER SUPPLY	IDA			10.0		
8-COK-XX-01	UNALLOCATED	IDA					15.0

	1964-68	1969-73	1972-76
IBRD			
IDA		120.7	272.7
TOTAL		120.7	272.7
NO		12	20

	1972	1973	1974	1975	1976
IBRD					
IDA	34.0	68.7	40.0	70.0	60.0
TOTAL	34.0	68.7	40.0	70.0	60.0
NO	3	6	3	4	4

LENDING PROGRAM (12/ 7/70)

	1964-68	1969-73	1972-76
IBRD			
IDA		82.0	135.0
TOTAL		82.0	135.0
NO		10	13

	1972	1973	1974	1975	1976
IBRD					
IDA	36.0	25.0	14.0	30.0	30.0
TOTAL	36.0	25.0	14.0	30.0	30.0
NO	4	3	2	2	2

P & B 09/15/71

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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September 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Guatemala - Telecommunications Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 29, 1971 from the Central America and Caribbean Department, entitled "Guatemala - Proposed Bank Loan for Telecommunications Project" (LC/O/71-105).

2. Comments, if any, should be sent to reach Mr. Rassmuson (ext. 3880) by 5:00 p.m. on Monday, October 4.

3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

Copies for Information:

President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/0/71-105

September 29, 1971

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

GUATEMALA - Proposed Bank Loan for Telecommunications Project

1. I attach Report No. PU-76 "Appraisal of the First Telecommunications Project of the Empresa Guatemalteca de Telecomunicaciones (GUATEL)" dated August 11, 1971, recommending a Bank loan of $16.0 million to the Empresa Guatemalteca de Telecomunicaciones (GUATEL). The five-year lending program, reviewed by Mr. McNamara in January 1971, is also attached.

Background

2. This would be the sixth loan to Guatemala and would increase total lending to $66.5 million (net of cancellations). The last loan, of $4.0 million for livestock development, was signed in February 1971. For FY1972 the lending program includes also a loan for power of $15.0 million (the amount is still tentative) which will be appraised next month. No operations are scheduled at present for FY1973.

3. On August 31, 1971, a total of $15.2 million remained to be disbursed on four loans, two for power, one for education and one for livestock development. No special problems have been encountered in disbursing the power loans, but disbursements on the education loan have been delayed by a combination of factors, including changes in government policy, poor coordination among the agencies involved, and unsatisfactory performance of consultants. Improvements have taken place in recent months, but we expect this project to continue to be difficult and slow to execute. The livestock development loan was made effective in July and disbursements should begin shortly.

Economic Situation

4. Although in the past Guatemala has enjoyed periods of rapid economic growth, a number of basic weaknesses continue to characterize the economy: the elementary needs of large segments of the population remain unsatisfied and the highland Indians are largely outside the market economy; fiscal performance has been feeble, with current savings barely supporting generally low levels of public investment; and only sporadic efforts have been made to strengthen and diversify the external sector. At the time of the Board presentation of the last loan to Guatemala, in January 1971, Management

stated that the presentation of further projects to the Board would be contingent upon a stronger development effort. An economic updating mission visited the country August 23-September 5, 1971, to report on the Government's recent economic policies. While the evidence is not uniformly positive, I consider that the mission's findings on balance represent an improvement which warrants a continuation of Bank lending. Nevertheless, Bank staff will continue to impress upon the Government the need for a more vigorous development effort, particularly on the fiscal side. The updating memorandum will be distributed to the Executive Directors with the loan documents for the proposed telecommunications project. Our last report on "Current Economic Position and Prospects of Guatemala" was distributed to the Executive Directors on December 17, 1970.

5. A new Government assumed office in July 1970 on a platform of law and order. Somewhat contrary to expectations, the Government has stressed the need for social and economic reform and has supported the general objectives of the development plan for 1971-1975 prepared by the previous administration. The development plan envisages a substantial expansion of public investment in sectors such as electricity and telecommunications, where bottlenecks are likely to arise, and in other sectors, such as education and health, which have been relatively neglected in the last decade. At present, the Government is intensifying its efforts at project preparation and negotiation of development loans, and can realistically be expected to expand public investments gradually towards the plan targets in the next four years.

6. The Government has moved fastest in the field of <u>institution-building</u> for development. In 1970-71 several new agencies were created. These include an agricultural development bank, a commodity price stabilization and marketing agency (of potential importance to the peasant sector which produces the bulk of food supply) an export promotion organization, and the telecommunications agency which is to be the Borrower of the proposed loan. In addition, the Government plans to establish an industrial development bank in the coming months. The capital of the proposed bank will be subscribed by the Central Government and the private industrial sector, which would contribute a part of the import duty exemptions granted for industrial investment.

7. The <u>fiscal situation</u> in 1970 was satisfactory, largely because Central Government investment continued at the low level of 1.8 percent of GDP, while current revenues increased satisfactorily, largely due to higher revenues from the sales tax, import duties, and the coffee export tax, the last, as a result of higher coffee prices. No major financing problems are expected for the 1972 budget; this will in part be possible because of the very moderate growth of current expenditure and larger utilization of development loans. In 1973, however, a small financing gap would arise as Central Government investment should increase to 2.5 percent of GDP. The Government does not at this time propose to take new tax measures but has begun the administrative reforms to lay the basis for

stronger tax enforcement. Clearly, since the major increase in expenditures is more than a year off, I do not believe that we are at present in a position to insist with the authorities about the need for new tax measures. However, I propose to continue in the next weeks our dialogue with the Minister of Finance and impress upon him the need for preparatory work in the direction of new measures, not only for financial reasons but also as an instrument to further the redistributive policies which the Government has endorsed. The staff will continue to keep the fiscal situation under close review.

8. The balance of payments strengthened temporarily in 1970 because of higher coffee prices and unusually high regional exports. In 1971, net international reserves may decline somewhat, because of the weakening of coffee prices and the disruption of regional trade following the loss of tariff preferences in the Honduran market in January 1971. The Guatemalan Government, along with those of Costa Rica and Nicaragua, is keenly interested in developing a formula to bring Honduras back as a full partner in the Common Market. For the future a major effort in export diversification is required. The export promotion agency could help in this direction. At present production of items such as meat, flowers and vegetables for the export market is being expanded. The major prospect for diversification is a possible nickel project, which would be undertaken jointly by the International Nickel Company and the Guatemalan Government. If the project proceeds according to schedule, it would result in substantial capital inflows during the period 1973-75, and net exchange earnings of some $20 million annually are expected after the project is fully developed in 1977. Although the Government and INCO have signed a concession agreement, construction cannot begin until INCO raises about $90 million of long-term finance, and the Government is reluctant to provide its guarantee. Discussions are taking place with the Bank Group, the IDB and private sources of finance.

9. The debt service ratio of Guatemala is likely to remain at the moderate level of about 9 percent recorded in 1970. The existing standby arrangement with the IMF, which extends to the end of calendar 1971, includes a limitation on external borrowing with an original maturity of less than 10 years. The authorities have been observing this limit, and intend to continue a similar policy next year so that the proportion of external public debt at short- and medium-term will decline. So long as the Government continues to support the development policies outlined in the Plan, including a sound financing program, Guatemala should be creditworthy for additional substantial long-term external borrowing.

The Project

10. The loan under consideration, which would be for 20 years including a four-year grace period, would be the first telecommunications operation of the Bank Group in Guatemala. The project, which would increase both local and long-distance facilities, is part of GUATEL's

1971-75 expansion program, which calls for an investment of $23.9 million, including the project itself and ongoing works carried over from an earlier expansion plan. The proposed loan of $16 million would finance the foreign exchange cost of the project, the total cost of which is estimated at $21.2 million; it would not cover interest during construction. Due to a possible adjustment of exchange rates, the loan amount may have to be increased. This would be discussed during negotiations. A detailed discussion of the project and its costs, and of the financing plan for the period, is contained in paragraphs 3.04, 3.05 and 6.12 of the appraisal report. According to the financing plan for the 1971-75 period, which in addition to the expansion program includes Q4.6 million as part of a future program expected to commence in 1975 and Q2.7 million for the increase in the working capital, the proposed loan would provide slightly more than half of the total funds required for investment, one-third would be generated within the enterprise, and the remainder would come from other sources. The internal financial rate of return of the project is estimated to be 17 percent.

11. In the last few years, telecommunications facilities have failed to keep pace with the growth of the economy. As a result existing facilities are inadequate, with poor service and a large number of pending applications. This and the forecast modest increase in demand for telephone services fully justify the proposed 1971-75 investment program. With the proposed expansion of telephone facilities the installed capacity of exchanges in Guatemala City will increase by 70 percent by 1975, to a total of about 66,000 lines, and the installed capacity of exchange outside the capital will increase by about 170 percent, to a total of about 11,000 lines, the minimum required to keep the waiting list for local telephone connections from growing further. The long-distance facilities included in the project, together with those being financed by the Central American Bank for Economic Integration (CABEI) as part of a regional project (see Annex 3 of the report), will for the first time provide an adequate quality of service.

12. An important aspect of Bank involvement in the project is institution building. The Bank, involved since 1967 in the preparation of this project, stressed from the outset the need for considerable reorganization of the telecommunications sector. The new Government, following the recommendations of USAID-financed consultants and in close consultation with the Bank, set about reorganizing the sector, and in April 1971 carried out the politically difficult decision to merge the two existing entities, of which one, for national telephone and telegraph operations, was within the Ministry of Communications and Public Works and rather poorly run, while the other, for international services, was autonomous and well run. Telegraph services were severed from telephone services and incorporated in the national postal system. Although institutionally a satisfactory framework has now been set up, there will inevitably be a number of problems before the new entity (GUATEL) can be fully effective. While GUATEL should have the technical and financial capacity to solve these problems, we intend to keep in close touch and to give it all necessary assistance.

13. Procurement would follow Bank Group international bidding procedures, except for part of the switching equipment needed to extend existing exchanges (about $1 million), for which prices would be negotiated. However, in accordance with the Central American Agreement on Fiscal Incentives for Industrial Development, GUATEL must give preference (limited to 50 percent of existing import duties) to suppliers in other Central American countries, and I propose that the Bank should, as in recent power and telecommunications loans to Costa Rica (Loans 631 and 632-CR), give recognition to this arrangement, extending the same preferential treatment to potential, though unlikely, Guatemalan suppliers. Since in practice in no case will a preference equal to 50 percent of import duties exceed 15 percent, this would involve no departure from our normal rules with respect to domestic suppliers. It is not expected that any orders will be placed in Guatemala under the proposed arrangement, and orders from the rest of Central America should also be quite limited in number and amount, not exceeding in any case 5 percent of the total loan amount.

14. The appraisal report recommends that during the execution of the program no additional major capital expenditures be incurred without a financing plan agreed with the Bank, and specifically that GUATEL be required to obtain Bank approval for any new project which would involve in any one year capital expenditures in excess of $300,000 equivalent. While agreeing to this as a starting position, I recommend that the Bank should be flexible in accepting alternative versions if the Guatemalans press for it, so long as we have reasonable assurance that GUATEL will undertake projects only after careful scrutiny and within its financial and technical capabilities.

Recommendation

15. I recommend that the Bank proceed to negotiate a loan of $16 million to GUATEL, with the guarantee of the Guatemalan Government, substantially on the terms and conditions proposed in the appraisal report.

Edgar Gutierrez
Director

Attachments

POPULATION: 4.8M

GNP PER CAP: $ 320

IVA GUATEMALA - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM			1972	1973	1974	1975	1976
3-GUA-AL-02	LIVESTOCK II	IBRD				5.0	
3-GUA-AX-01	AGRIC.UNIDENT.	IBRD					5.0
3-GUA-CC-01	COMMUNICATIONS	IBRD	16.0				
3-GUA-CC-02	COMMUNICATION II	IBRD				10.0	
3-GUA-EE-02	EDUCATION II	IBRD			6.0		
3-GUA-PH-02	POWER III - THERMAL	IBRD	15.0				
3-GUA-PP-01	POWER IV - HYDRO	IBRD			25.0		
3-GUA-PD-01	POWER V	IBRD					5.0
3-GUA-TH-03	HIGHWAYS-UNIDENT	IBRD				10.0	
3-GUA-TP-01	PORTS	IBRD			5.0		

	1964-68	1969-73	1972-76		1972	1973	1974	1975	1976
IBRD	22.0	41.3	102.0	IBRD	31.0		36.0	25.0	10.0
IDA				IDA					
TOTAL	22.0	41.3	102.0	TOTAL	31.0		36.0	25.0	10.0
NO	2	4	10	NO	2		3	3	2

LENDING PROGRAM (1/ 8/71)

	1964-68	1969-73	1972-76		1972	1973	1974	1975	1976
IBRD	22.0	41.3	87.0	IBRD	31.0		31.0	15.0	10.0
IDA				IDA					
TOTAL	22.0	41.3	87.0	TOTAL	31.0		31.0	15.0	10.0
NO	2	4	8	NO	2		2	2	2

P & B 08/13/71

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

B-1215

LM/M/71-38

September 24, 1971

Minutes of Special Loan Meeting to consider "Mauritania - Proposed Livestock Project" held on September 16, 1971 in Room D1257.

1. Present: Messrs. Cope (Chairman), Williams, Chaufournier, Evans, Cheek, Wapenhans, Adams, Bachmann, Delaume, Huber, Rosenblad, Stoops, Sutherland and Wittusen (Secretary).

2. Issue: The meeting considered:

(i) whether to require that additional taxes be levied and collected on livestock within the project area to cover the cost of services provided to livestock owners under the project, as proposed in the appraisal report (PA-102), or

(ii) whether to seek from the Government an understanding that the yearly budget should provide for adequate resources to cover the cost of these services, as proposed in the Western Africa Department's memorandum to the Loan Committee of September 9, 1971 (LC/O/71-99).

3. Discussion: The meeting noted that:

(i) Inadequate budget provisions since independence had led to the deterioration of the services provided to livestock owners and therefore incremental taxes should be levied and collected by local authorities earmarked for the sustained operation of the well and firebreaks maintenance services and animal health program.

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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The Economic Adviser to the President
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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

(ii) While it was reasonable to expect that those receiving benefits from the project would also bear some of the cost, in the form of a user tax, the following reasons would speak against raising tax rates on the livestock sector in the project area:

(a) A tax confined to the project area could jeopardize project implementation as it might cause cattle owners to avoid the area;

(b) An additional tax would be difficult to collect and enforce;

(c) The livestock sector was already heavily taxed in relation to the Government services it had been receiving and in relation to other sectors of the economy;

(d) A tax confined in its application to a portion of the territory of the borrower and the proceeds of which were to be earmarked for specific purposes would require special legislation.

(iii) Since part of the Government's problem in raising revenue stemmed from its inefficient tax collection administration, adequate measures to improve the latter should be taken.

4. Decision: On the basis of the arguments advanced in para. 3(ii) above the meeting endorsed the recommendation made by the Western Africa Department (cf. para. 2(ii) above) and concluded that:

(i) The Credit Agreement should include a provision of funds covenant under which the Government would undertake to provide the funds necessary for the maintenance of the wells and firebreaks included in the project and for continuation of the animal health program;

(ii) In view of the decision in (i) above, the Government would in a Supplemental Letter specify the annual amounts of recurrent costs for which the Government would seek adequate budgetary appropriation;

(iii) Furthermore, the Association should press the Government to take measures necessary to improve its tax collection in the livestock sector and the Government should agree in the above-mentioned Supplemental Letter that it would provide the Association with annual reports on the status of its tax collection in the livestock sector.

Dag F. Wittusen
Secretary

Cleared by: Messrs. Cope
Chaufournier/Adams
Wapenhans
Delaume

cc: Loan Committee
Participants

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

B 1215

LM/M/71-37

September 24, 1971

Minutes of Special Loan Meeting to consider "Argentina - El Chocon Project" held on September 15, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Williams, Alter, Chadenet, Nurick, Armstrong, Wiese, Cabezas, Cancio, Nercissiantz, Ribi, Sheehan, van der Heijden and Wittusen (Secretary).

2. Issue: The meeting was called to consider Mr. Alter's memorandum to Mr. Knapp dated September 13, 1971. Foreign costs of the El Chocon project were likely to be substantially less than originally estimated and about \$9 million of the Bank's \$82 million loan would not be needed for the project. Hidronor was seeking to obtain the Bank's agreement to the use of the El Chocon loan balance towards the foreign exchange costs of civil works of the Banderita power plant which formed part of the second stage of the Chocon-Cerros Colorados project. Mr. Alter recommended that the Bank should be prepared to propose to the Executive Directors an amendment to the Description of the Project in the Chocon Loan Agreement, permitting the use of the \$9 million for Banderita without a change in the interest rate (6 1/2%), but to seek approval only after the Government had raised electricity tariffs in Buenos Aires to a level providing a reasonable return on the investment made in electricity services. The main issue was whether to approve Mr. Alter's recommendations, or to cancel the El Chocon loan balance and initiate a new project for Banderita.

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

3. Discussion: The meeting noted that:

(i) In view of management's decision to scale down Bank lending to the power sector in Argentina, it would be difficult to justify the initiation of a new project for Banderita.

(ii) Regarding whether a new appraisal of Banderita would be needed, it was stated that Banderita was appraised together with the El Chocon project as it formed an integral part of the El Chocon-Cerros Colorados power complex, of which the El Chocon project was the first stage. A complete new appraisal of Banderita would therefore not be necessary, except for an investigation of the proposed financial plan.

(iii) In case Mr. Alter's recommendation were approved, the Bank's involvement with Banderita should be as close as was the case with El Chocon. In particular the Bank should have the opportunity to review design features, procurement and financing arrangements, including those for parallel financing. Project supervision should also be along the lines of El Chocon.

(iv) A $9 million Bank involvement in Banderita was considered of sufficient size to achieve the aims in (iii) above. In addition, it would give the Bank additional leverage needed to influence the revision of SEGBA's power tariffs.

(v) It was generally agreed that the Banderita project was within the scope and general purpose of the El Chocon project and that therefore the application of the El Chocon loan balance to Banderita would not require a change in the lending rate, in accordance with the criteria set out in the Memorandum from the President to the Executive Directors of July 18, 1968 (R68-129).

4. Decision: On the basis of paragraph 3(i) - (v) above, it was agreed to approve Mr. Alter's recommendation (cf. para. 2 above), with the understanding that:

(i) A satisfactory financial plan would be agreed upon, including arrangements for parallel financing;

(ii) The Bank lending terms governing the El Chocon project, including the amortization schedule, would be retained for the funds reallocated to the financing of the Banderita plant; and

(iii) The Bank's role in the El Chocon project would remain the same for Banderita, particularly with respect to review of design features, procurement and financing arrangements, including those for parallel financing, and project supervision.

Dag F. Wittusen
Secretary

Cleared by: Messrs. Knapp
Alter
Cancio
Armstrong/Chadenet

cc: Loan Committee
Participants

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

September 24, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Syria - Second Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 24, 1971 from the Europe, Middle East and North Africa Department, entitled "Syria - Second Highway Project" (LC/O/71-104).

2. Comments, if any, should be sent to reach Mr. Mendoza (ext. 4811) by 5:00 p.m. on Wednesday, September 29.

3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
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Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/0/71-104

September 24, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

SYRIA - Second Highway Project

1. This memorandum recommends an IDA credit of $12.8 million to finance the foreign exchange component of a Second Highway Project in Syria. A report entitled "Appraisal of a Second Highway Project - Syria", dated September 20, 1971, is attached hereto in support of the recommendation. There are no general policy issues involved in the project.

Background

2. The only Bank Group lending operation in Syria has been a $8.5 million IDA credit signed in December 1963 to finance a first highway project. Since then, reluctance on the part of the Government to provide the Bank with the information required for usual country economic reports or to prepare projects suitable for Bank consideration, and difficulties in communications between Syria and the Bank, prevented us from participating in the financing of other projects in the country.

3. Following efforts on both sides, a turn for the better took place in 1969 when the Government provided the Bank with the necessary information and cooperation to prepare an economic report which was distributed to the Executive Directors in March 1970. At that point, the proposed road project was ready for appraisal, but the shortage of IDA funds did not allow us to consider its financing by the Association. The Government indicated that it would only accept for this project IDA funds, although it submitted other projects for which Bank loans would be acceptable (power generation and transmission, expansion of oil pipeline capacity, etc.). At the CPP review of February 10, 1971, it was decided to allocate IDA funds for the second highway project which was appraised in May 1971.

4. A power project, which is being prepared by the Government along the lines suggested by the Bank, could lead to Bank lending in FY 1973. Further lending will hinge on the project identification efforts currently underway and on project preparation by the Government. The attached lending program is therefore tentative only and will be reviewed in the light of the findings of the missions presently in the field.

The Project

5. The proposed project will consist of: (i) about 153 km of highway construction or improvement (Damascus - Lebanese border, Damascus - Jordanian border and a section of Homs-Tartous highways); and (ii) consultants' services to supervise the road works, make feasibility studies and, if the works are justified, proceed to detailed engineering, and carry out a study of highway maintenance needs. Construction of a 200 km new road from Palmyra to Deir-ez-Zor (involving about $5.0 million in foreign exchange) was also prepared and favorably appraised, but due to the limited IDA funds available, it has not been included in the present project.

6. The highway construction and improvement part of the project was prepared by consultants financed under the first highway project. Total cost of this part of the project with contingency allowances (including a 7 percent extra contingency because the political uncertainty in the Middle East may induce contractors to provide against risks involved in, for example, resumed hostility) is $20.9 million of which $11.0 million in foreign exchange. The cost of consultants' services is estimated at $2.3 million of which about $1.8 million in foreign exchange.

7. The internal rate of return on the proposed highway investments, for individual roads or sections, varies from 12 percent to 22 percent and for the whole project has been estimated at 19 percent. These calculations have been made excluding military traffic on the project roads.

8. Execution of the project works will be the responsibility of the Ministry of Communications through its Directorate of Highways and Bridges. Construction would be carried out by unit price contracts awarded after international competitive bidding following the Bank's usual procedures. Consultants for the project will also be engaged in accordance with Bank procedures.

Issues

9. First highway credit: Implementation of the first highway project has faced difficulties. The $8.5 million credit was signed in December 1963 and $2.8 million were still undisbursed as of August 31, 1971. The reasons for this delay, for which the Government is only partly responsible, are explained in the attached appraisal report (para. 1.05 through 1.08). Also, because of inadequate project preparation at the time of making the credit, there were substantial cost overruns in the construction works; had the general performance of the Borrower been better at that time, we might have recommended an additional credit to cover these cost overruns, as we have done in similar cases in other countries. Instead, one of the sections of the Damascus - Aleppo - Raqqu road was left to be financed entirely by the Government and the disbursement percentage for the remaining sections reduced from 50 percent to 30 percent, well below the foreign exchange component of road construction in Syria. The execution of the project has improved over time and works are now proceeding satisfactorily.

10. Two commitments undertaken under the first Credit Agreement (enactment of a new traffic law and creation of a Central Maintenance Office) have yet to be fulfilled. Preparatory work on both of them has been completed in a way satisfactory to the Association but final action is still pending; it is expected that these commitments will be fulfilled late this year. Projects Department recommends, and I concur, that implementation of these two undertakings should be a condition of presentation of the proposed credit to the Board.

11. Purchase of maintenance equipment, for which $1.2 million is allocated under the first credit, has also experienced serious delays, and although some action has taken place recently in this regard, a satisfactory list of equipment and specifications has not been prepared yet. The appraisal report recommends that the proposed credit not be presented to the Board until the maintenance equipment purchase orders have been placed. Although I share the viewpoint that before we submit this credit to the Board, the Association should be assured that the first highway project is to be completed satisfactorily, I believe that for the purchase of maintenance equipment the issuance of bid invitation documents would suffice; in this way we may avoid unnecessary delays in consummating the proposed credit and, consequently, in implementing the second highway project. We have agreed, however, with the Transportation Projects Department, that we should determine the specific conditions on this point during negotiations in the light of the progress that the Syrians have made by that time in equipment procurement.

The Economy

12. An economic and project identification mission is presently in the field and an economic report based on the findings of this mission will be distributed to the Executive Directors before presentation of this project.

Recommendation

13. I propose that the Association invite the Government of Syria to send representatives to Washington to negotiate a Credit Agreement along the lines of the recommendations of paragraphs 6.01, 6.02 and 6.03 of the appraisal report except as stated in paragraph 11 above.

M. P. Benjenk
Director

Attachments

POPULATION: 5.7M

GNP PER CAP: $ 210

IVA SYRIA - 5 YEAR OPERATIONS AND LENDING PROGRAMS

(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM

			1972	1973	1974	1975	1976
4-SYR-II-01	INDUSTRY	IBRD		5.0			
4-SYR-PP-01	POWER	IBRD		25.0			
4-SYR-PP-02	POWER II	IBRD				10.0	
4-SYR-TH-02	HIGHWAY II	IDA	12.2				
4-SYR-TH-03	ROAD 111	IDA					10.0
4-SYR-WW-01	WATER SUPPLY	IBRD/I			10.0		

	1964-68	1969-73	1972-76
IBRD		30.0	45.0
IDA	8.5	12.2	27.2
TOTAL	8.5	42.2	72.2
NO	1	3	6

	1972	1973	1974	1975	1976
IBRD		30.0	5.0	10.0	
IDA	12.2		5.0		10.0
TOTAL	12.2	30.0	10.0	10.0	10.0
NO	1	2	1	1	1

LENDING PROGRAM (2/19/71)

	1964-68	1969-73	1972-76
IBRD		20.0	30.0
IDA	8.5	10.0	20.0
TOTAL	8.5	30.0	50.0
NO	1	3	6

	1972	1973	1974	1975	1976
IBRD	15.0	5.0		10.0	
IDA	10.0		5.0		5.0
TOTAL	25.0	5.0	5.0	10.0	5.0
NO	2	1	1	1	1

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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September 20, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Iran - Industrial and Mining Development Bank of Iran

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 20, 1971 from the South Asia Department, entitled "Iran - Proposed Loan to the Industrial and Mining Development Bank of Iran (IMDBI)" (LC/O/71-103).

2. Comments, if any, should be sent to reach Mrs. Singh Hardy (ext. 2647) by 1:00 p.m. on Friday, September 24.

3. It is planned then, if the Committee approves, to inform the Government and representatives of IMDBI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
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Vice President (IFC)

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LC/O/71-103

September 20, 1971

LOAN COMMITTEE

Memorandum from South Asia Department

IRAN - Proposed Loan to the Industrial and Mining Development Bank of Iran (IMDBI)

1. Attached for the consideration of the Loan Committee is an appraisal report entitled "Appraisal of the Industrial and Mining Development Bank of Iran", (DB-82), dated September 16, 1971. The report favorably assesses the prospects of IMDBI and recommends a loan of $50 million. If approved, this would be the seventh loan to IMDBI.

Background

2. Paragraphs 3-6 of the memorandum to the Loan Committee of August 5, 1971 (LC/O/71-94) contained up-to-date information on the level of Bank lending and recent developments in the Iranian economy. Bank lending in the current fiscal year is expected to total $175 million. Details of operations yet to be considered by the Loan Committee are given in the attached annex. A request has been received for a Bank loan to another industrial credit institution - the Industrial Credit Bank (ICB) and this request is being considered for FY 73.

3. Next to oil, industry has been the fastest growing sector in the Iranian economy over the last decade. Real value-added in manufacturing grew at an average annual rate of 11 percent, raising the share of industry in GNP from 11 percent to 15 percent. Industrial employment almost doubled reaching an estimated 1.6 million at the end of the decade. The pattern of industrial production has been primarily the replacement of imports of consumer goods. First came the expansion of textiles, food processing and other light consumer goods industries, followed by the assembly of durable consumer goods - refrigerators, cars, etc. - for the growing middle-class. Then towards the end of the decade, industrial production moved into the more complex phase of intermediate and capital goods production (the latter mainly by public sector industries) together with a wider range of durable consumer goods. These achievements in industrial growth were greatly facilitated by a number of factors, not the least of which was the government's willingness to protect domestic industry and extend generous tax, credit and other incentives to the modern sector.

4. Industrialization has not been without its problems and over the last two years, the Bank has been actively involved in assisting the government in its efforts to define and implement a sound strategy for the further development of the industrial sector. This cooperation is evident in the report "Industrialization of Iran: The Record, The Problems, and The Prospects", SA-14, May 11, 1970 which has been distributed to the Board and in three studies which are currently being discussed with the government: an intensive study of the textile industry, "IRAN - Report on Textiles and Man-Made Fibers", June 10, 1971; the report "Industrial Policies and Priorities, Iran" SA-27, August 16, 1971, and more recently, "Iran, A Program of Preinvestment Studies", SA-28, August 31, 1971. The task confronting Iranian industry is how to maintain the dynamism of the sector's growth in view of rapidly changing technologies and important structural shifts both within the sector and in the economy. Industrial policy in the seventies will be guided by the need to continue the process of deepening the structure of production while maintaining a balance with the growth of other sectors, particularly agriculture and with the need to maintain the rate of growth of industrial employment and encourage production for export.

The Project

5. The Bank assisted in the formation of IMDBI in 1959, and with the exception of one USAID loan of $3.5 million in 1959, the Bank has been IMDBI's only source of foreign exchange. To date, the Bank has made six loans to IMDBI totalling $155 million. As of August 6, 1971, about $27 million of the last Bank loan of $50 million was available for commitment. This loan made in August 1970, is expected to be fully committed by the end of 1971. It has been estimated that up to the end of calendar 1973 IMDBI will need $75 million to cover its foreign exchange commitments. IMDBI has negotiated two loans totalling DM51 million (about $13.5 million equivalent) from Kreditanstalt fur Wiederaufban (KFW) which are expected to be signed shortly, and IMDBI has requested a seventh Bank loan of $50 million. The remainder of about $12 million is expected to come from other sources.

6. IMDBI continues to play a major role in the financing of industry. Long-term finance for industry is available only from the two specialized institutions, IMDBI and ICB (the Industrial Credit Bank). In 1969, IMDBI provided over 80 percent of the total long-term institutional finance to industry and its share of private industrial investment has ranged between 12 and 17 percent in recent years.

7. IMDBI's operation has been financed largely by government funds and Bank loans. The interest rate charged on government funds was increased from 4 to 5 percent last year but these are still largely concessionary terms. IMDBI has not started to mobilize rial resources

from the private market and the major obstacle continues to be the absence of an organized capital market. At the present time, interest rates of 8 percent (tax-free) are paid on government bonds and on time and savings deposits. To raise funds from the market, companies would have to offer 15 percent or more, compared to IMDBI's present lending rate of 9 percent. IMDBI nevertheless continues its efforts to develop the capital market in Iran. IMDBI was largely instrumental in establishing the Tehran Stock Exchange in 1968 and IMDBI intends to place 80 percent of its forthcoming share issue with the public through the stock market. This would be the first public issue in Iran. After the proposed share issue (para.5.10), more than one third of IMDBI's rial resources will have been obtained from the market and from internal cash generation. In addition, IMDBI and the Central Bank of Iran have asked IFC and the Bank to undertake a study of the capital market and IMDBI has sought the assistance of IFC in establishing an investment company to which IMDBI could sell part of its equity holdings.

8. The appraisal report draws attention to certain weaknesses in IMDBI - the depletion of senior staff and the weakness of middle level management (paras.3.03 and 3.04); the need to streamline management responsibility which is still too heavily concentrated at the top (para.3.05); the need to prepare more balanced appraisal reports (para 3.13); the need to give greater emphasis to the employment effects of investments (para 4.12); the need to improve its liquidity position (para.5.09) and to improve the supervision and reduce the level arrears in its portfolio (paras. 4.22-4.30). IMDBI recognizes these problems and has already taken some measures to strengthen its organization and management. These measures will be reviewed and confirmed during loan negotiations.

9. IMDBI's lending rate was increased from 8 percent to 9 percent on July 22, 1970 in conjunction with the last loan. No further increase in the lending rate is envisaged at this time. There are no other issues and the seventh loan would be on the terms and conditions usual for a well established development finance company.

Recommendation

10. IMDBI continues to be a suitable recipient for Bank loans and I concur with the recommendation in paragraph 6.08 of the appraisal report that the Bank make a seventh loan to IMDBI of $50 million. I propose that representatives of IMDBI be invited to Washington for negotiations to begin October 4.

Attachment

I.P.M. Cargill
Director

Annex I: "Iran - 5 Year Operations and Lending Programs"

POPULATION: 26.3M

GNP PER CAP: $ 280

IVA IRAN - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM			1972	1973	1974	1975	1976
5-IRN-AC-02	AGRIC. CREDIT-ADFI II	IBRD	15.0				
5-IRN-AC-03	AGRIC.DEV.FUND III	IBRD			25.0		
5-IRN-AC-04	AGRIC.DEV.FUND IV	IBRD					30.0
5-IRN-AF-01	AGRICULTURE-FISHIRIES	IBRD		30.0			
5-IRN-AI-03	IRRIG.PACKAGE SCKEME I	IBRD		20.0			
5-IRN-AI-04	IRRIGATION DEZ	IBRD	20.0				
5-IRN-AI-05	IRRIG.PACKAGE SCKEME II	IBRD				30.0	
5-IRN-AL-01	LIVESTOCK DEVT.I	IBRD			10.0		
5-IRN-AL-02	LIVESTOCK DEVT.II	IBRD					10.0
5-IRN-CC-02	TELECOMMUNICATION II	IBRD		25.0			
5-IRN-CC-03	TELECOMMUNICATION 111	IBRD					35.0
5-IRN-DD-07	IMDBI VII (DFC)	IBRD	50.0				
5-IRN-DD-08	IMDBI VIII	IBRD			50.0		
5-IRN-DD-09	IMDBI IX	IBRD					50.0
5-IRN-EE-02	ARYA-MEHR UNIVERSITY	IBRD		20.0			
5-IRN-EE-03	EDUCATION III	IBRD			20.0		
5-IRN-EE-04	EDUCATION IV	IBRD					20.0
5-IRN-PP-01	POWER	IBRD	30.0				
5-IRN-PP-03	POWER	IBRD			50.0		
5-IRN-PP-05	POWER IV	IBRD					50.0
5-IRN-TA-01	AIRPORT	IBRD		35.0			
5-IRN-TA-02	AIRPORT	IBRD				30.0	
5-IRN-TH-06	HIGHWAYS VI	IBRD		40.0			
5-IRN-TH-07	HIGHWAYS	IBRD				40.0	
5-IRN-TL-01	PIPELINES	IBRD	33.4				
5-IRN-TL-02	PIPELINE	IBRD		60.0			
5-IRN-TL-03	PIPELINE	IBRD				50.0	
5-IRN-TP-02	PORT	IBRD					10.0

PCPULATION: 26.3M

GNP PER CAP: $ 280

IVA IRAN - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM

	1964/68	1969/73	1972/76
IBRD	141.0	661.9	888.4
IDA			
TOTAL	141.0	661.9	888.4
NO	7	20	28

	1972	1973	1974	1975	1976
IBRD	148.4	230.0	155.0	150.0	205.0
IDA					
TOTAL	148.4	230.0	155.0	150.0	205.0
NO	5	7	5	4	7

LENDING PROGRAM (2/10/71)

	1964/68	1969/73	1972/76
IBRD	141.0	603.5	745.0
IDA			
TOTAL	141.0	603.5	745.0
NC	7	17	22

	1972	1973	1974	1975	1976
IBRD	145.0	175.0	140.0	140.0	145.0
IDA					
TOTAL	145.0	175.0	140.0	140.0	145.0
NO	4	5	4	4	5

P & B 07/13/71

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

September 16, 1971

MEMORANDUM TO THE LOAN COMMITTEE

India - Ninth Loan to ICICI

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 16, 1971 from the South Asia Department, entitled "India - Proposed $50 million Ninth Loan to Industrial Credit and Investment Corporation of India (ICICI)" (LC/0/71-102).

2. Comments, if any, should be sent to reach Mr. Clevenger (ext. 3510) by 1:00 p.m. on Tuesday, September 21.

3. It is planned then, if the Committee approves, to inform the Government and representatives of ICICI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director of the Development Services Department
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Vice President (IFC)

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LC/O/71-102

September 16, 1971

LOAN COMMITTEE

Memorandum from South Asia Department

India - Proposed $50 million Ninth Loan to Industrial Credit and Investment Corporation of India (ICICI)

1. Attached is an unedited appraisal of the Industrial Credit and Investment Corporation of India (ICICI) recommending a ninth loan of $55 million to this institution. $32.1 million of the last loan ($40 million) to ICICI was committed as of August 31; the balance of this loan is expected to be committed by the end of this calendar year for projects which have already been approved by ICICI's Board.

2. The Bank has been associated with ICICI since 1955, when it was founded, and has made eight loans to ICICI, totalling $205 million. The recent appraisal mission reports that ICICI continues to be creditworthy, can use capital effectively, and needs additional foreign exchange resources, only a fraction of which can be obtained from other sources. Since this would be the ninth loan to ICICI and since ICICI faces no special problems affecting its creditworthiness or ability to use Bank funds, it is proposed to process this project without a formal appraisal report. The Executive Directors received a full appraisal of ICICI in May 1970; the expanded form of the President's Report should be sufficient to bring them up to date. The attached "technical" report prepared by the appraisal mission would, therefore, not be refined further and would not be distributed.

3. This loan and a further loan to ICICI in FY 1974 are the major items of Bank financing in India proposed in the current lending program. Although India is a blend country, the large amounts of external capital which will be needed for some time require that almost all of India's development borrowing be on soft terms if the necessary transfer of resources is to be accomplished and a grave debt service crisis avoided. $375 million IDA lending is planned for the current fiscal year. The operations program for this year includes twenty-one projects in addition to the proposed ICICI loan, of which three, a fertilizer, an irrigation and a grain storage project for a total IDA lending of $64 million, have been approved. Included among the seven other projects expected to be ready for Board presentation before the end of June 1972, are another fertilizer project, an industrial imports project, and a development finance company project involving a $20 million credit for the Government-owned Industrial Development Bank of India (IDBI). The ICICI appraisal mission found this project sufficiently prepared to warrant inclusion in this year's lending program. Attached is a copy of the current operations and lending program.

The Economy

4. The Indian economy, recently analysed in "Economic Situation and Prospects of India" (SA-25a), dated May 11, 1971, has grown at an annual rate of about 5% in the period following the drought-caused recession of 1965-67. The Indian Government has followed strict budgetary and monetary policies in recent years, resulting in a rapid increase of net foreign exchange reserves (from about $200 million in December 1967 to over $1 billion at present). During 1967-71, imports (especially food) came down sharply, and in 1970-71 export performance, although mixed, showed an overall increase of over 8%, so that the deficit in the trade balance decreased from $1.3 billion in FY 1967 to $130 million in FY 1971.

5. Economic growth in recent years reflects the encouraging performance of agriculture, especially of foodgrain production. Preliminary reports indicate that foodgrain production in the last crop year topped 107 million tons. Yet, even with the green revolution, India's agriculture, and thus its economy, will remain heavily dependent on good weather. Growth of industrial output, which accounts for 19% of GNP, has been less impressive. While industrial production in 1968 and 1969 rose by about 7%, the growth rate fell to just over 5% in 1970, mostly as a result of the poor performance of heavy industry.

6. The principal cause of concern, and an important constraint for the future, is the poor rate of investment. Net investment was 12% of national income in FY 1970 against nearly 15% in FY 1966. The investment climate has improved following the general elections; the number of industrial licences sanctioned and the amount of new capital issued have substantially increased. Public sector investment, however, is held back by lack of resources, and increases in public savings through higher taxation were inadequate to make up for the shortfall in net aid receipts. The present tensions with Pakistan and the impact of the large and increasing number of refugees, will certainly aggravate this problem. The cost of caring for the refugees will require cutbacks of other expenditures, most likely public capital expenditures.

The Project

7. ICICI's operations have largely followed the general economic trend. The recovery of the Indian economy led to an upswing in ICICI's business. Project approvals increased sharply in 1968, following declines in 1966 and 1967, and have grown steadily since. Well over half of ICICI's commitments in the past two years have taken the form of foreign exchange loans for import financing totalling about $20-30 million a year.

ICICI rupee loan commitments have been comparatively modest, although they have increased in the last two years of growth rates of better than 50% (from only 10% of total operations in 1968 to over 20% in 1970). Increases in share prices over the last eighteen months and improved prospects for dividend income and capital gains have encouraged ICICI to place considerably more emphasis than before on equity investments. Direct equity "approvals" by ICICI were Rs 10 million in 1970 and Rs 19 million in the first six months of 1971, bringing the cumulative total to about Rs 95 million.

8. ICICI is projecting future commitments to grow at about 24% in the next year or so and at an average of 14% over the next five years. This appears reasonable. ICICI's forecast is backed up in the more immediate future by a sizeable and quite firm project pipeline. Foreign exchange loan commitments are estimated to require about $180 million equivalent between June 30, 1971 and the end of 1975. Commitments expected before the end of 1973 amount to about $95 million, of which $38 million is for projects already approved by ICICI's Board and $18 million for projects currently under active consideration.

9. Against the requirement of $95 million, $15 million of the last Bank loan and $6.5 million of bilateral funds were still available to ICICI on June 30, 1971, leaving a gap of $73 million to be covered. In addition to the proposed Bank loan of $50 million, ICICI expects to use $8 million from additional KFW and U.K. lending and possibly about $10 million from other foreign banks. Even though ICICI would probably have to pay more for its borrowing from commercial sources than for IBRD loans, it would seem desirable for a "mature" institution like ICICI to enter the international capital market more aggressively than in the past.

10. To finance rupee commitments projected through 1975, ICICI will require approximately Rs 550 million in addition to loan collections, portfolio sales and cash generated through operations. Two share issues of Rs 25 million each (the first of which is scheduled for late 1971) are contemplated. Preparatory work for a debenture issue of Rs 75 million in the spring of 1972 has also begun, as a first step in the substantial Rs 500 million borrowing program. Based on reactions of potential buyers, ICICI is confident that both the share issue and the debenture issue will be successful.

11. The appraisal mission has recommended relaxing the limit on ICICI's debt equity ratio from the present 9:1 to 10:1 and justifies this on the grounds of ICICI's strong portfolio and financial position as well as its prudence in financial management. This recommendation has been reviewed by Mr. Diamond whose reaction to it I quote: "The mission's arguments are no doubt strong. Moreover, the effective difference between a debt limit of 9:1 and 10:1 is small; in the former case 10% of the company's assets could be wiped out before creditors are effected, and in a latter case, 9.1%. However, that difference will be smaller with each successive relaxation, and I can visualize an argument being

made every year or so for such relaxations, in the light of a portfolio and a financial position which we have every reason to believe will continue to be sound. Somewhere the creditor needs to draw a line; and I believe that it would be appropriate to do so at the present 9:1 ratio. (Moreover, the strength of ICICI's position is directly related to the general Indian economic situation, which is today clouded by important factors). With such leverage as it has now, ICICI appears to be sufficiently profitable to satisfy shareholders and to obtain additional share capital when it needs it. On the basis of present forecasts, the contractual limit of 9:1 will not be reached until some time in 1973, two years after the share capital increase is about to take place. It would not be inappropriate to leave the present limit intact, for reconsideration at that time, in the light of prospects for raising new equity then, rather than in 1975 as now planned." I agree with Mr. Diamond's conclusion.

12. ICICI's financial position is sound. An increase in ICICI's interest rates in 1970 for both local and foreign currency loans is expected to be reflected in increased income starting in 1971. Net profits should increase by about 10% annually during the next five years, and would be in a range of 19% to 24% of share capital. ICICI has been paying dividends since 1956. In 1970 the dividend was 10%; dividends are forecast to remain at this level. The pay-out ratio has remained modest (37% in 1970), enabling ICICI to build up sizeable reserves.

13. ICICI's management is of proven capability. Mr. G.L. Mehta, who has been Chairman since 1958, will retire by the end of this year and will be succeeded by Mr. H.T. Parekh, who has been with ICICI since its inception and is now Deputy Chairman and Managing Director. ICICI's appraisal and follow-up work is good. Appraisals continue to center on the engineering and financial aspects, however, following discussions with the Bank during negotiations of the eighth loan agreement, ICICI has given increasing attention to the economic impact of its projects. During negotiations understandings previously reached concerning ICICI's economic analysis of projects should be confirmed. These understandings required that ICICI take into account the effective rate of protection from foreign competition and other criteria to assess the economic advantages to India before supporting major subprojects.

14. A good relationship exists between ICICI and the Government. With the nationalization of the major Indian banks in 1969 the Government became the principal shareholder in ICICI. This development has so far had very little effect and has certainly in no way diminished ICICI's autonomy of judgment. ICICI's Board and Management continue to be a business minded group and are maintaining their standards.

Recommendation

15. The proposed loan raises no new substantive issues. Negotiations of a further loan agreement would essentially serve to confirm understandings reached in previous loan agreements. I recommend that representatives of ICICI and the Government of India be invited to negotiate a $50 million loan to ICICI on terms substantially in line with the terms of recent Bank loans to development finance companies.

Attachments

I.P.M. Cargill
Director

Annex 1

Population: 547 m.
Per cap. GNP: $98

INDIA - ACTUAL AND PROPOSED LENDING THROUGH FY 1977

		Thru 1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Irrigation-Pochampad	IDA	39.0								
Irrigation-Tawa	IDA	46.0								
Irrigation-Krishna	IDA		30.0							
Irrigation-Jayakwadi	IDA	20.0								
Irrigation-Pamba	IDA	15.0								
Irrigation-Kuttiyadi-Kerala	IDA		5.0							
Agricultural Credit-Maharashtra	IDA	30.0								
Agricultural Credit-Mysore	IDA	40.0								
Agricultural Credit-Uttar Pradesh	IDA	25.0								
Agricultural Credit-Punjab II	IDA		30.0							
Agricultural Credit-Bihar	IDA		30.0							
Agricultural Credit-Madhya Pradesh	IDA		30.0							
Grain Storage	IDA	5.0								
Bihar Wholesale Markets	IDA	8.0								
Apple Processing and Marketing	IDA		9.0							
Lake Chilka Fisheries	IDA		10.0							
Agriculture Unidentified	IDA		25.0							
Agriculture Unidentified (7 projects)	IDA			165.0						
Agriculture Unidentified (10 projects)	IDA				270.0					
Agriculture Unidentified (10 projects)	IDA					270.0				
Agriculture Unidentified(10 projects)	IDA						270.0			
Telecommunications V	IDA		40.0							
Telecommunications VI	IDA			40.0						
Telecommunications VII	IDA				40.0					
Telecommunications VIII	IDA					40.0				
Telecommunications IX	IDA						40.0			

		Thru 1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Education-Agric. Universities	IDA	20.0								
Education-Unidentified	IDA				20.0					
DFC-ICICI IX	IBRD	55.0								
DFC-ICICI X	IBRD			50.0						
DFC-ICICI XI	IDA					50.0				
DFC-IDBI	IDA	20.0								
Fertilizer-Cochin	IDA	20.0								
Fertilizer-Nangal	IDA	20.0								
Fertilizer-Debottlenecking-Gorakhpur	IDA	9.0								
Fertilizer-Tata	IBRD		25.0							
Iron Ore-Marcona	IDA		40.0							
Industry-Unidentified	IDA		20.0							
Industry-Unidentified	IDA			20.0						
Industry-Unidentified	IDA				20.0					
Industry-Unidentified	IDA					20.0				
Industry-Unidentified	IDA						20.0			
Industrial Imports VII	IDA	75.0								
Industrial Imports VIII	IDA		75.0							
Industrial Imports IX	IDA			75.0						
Industrial Imports X	IDA				100.0					
Industrial Imports XI	IDA					100.0				
Industrial Imports XII	IDA						100.0			
Family Planning	IDA	12.0								
Power Transmission III	IDA	60.0								
Power Unidentified I	IDA			15.0						
Power Unidentified II	IDA				60.0					
Power Unidentified III	IDA					60.0				
Power Unidentified IV	IDA						60.0			
Highways II	IDA	30.0								
Shipping I	IDA	80.0								
Shipping II	IDA		80.0							

		Thru 1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Railways XI	IDA	55.0								
Transportation Projects-Unidentified	IDA			45.0						
Transportation Projects-Unidentified	IDA					55.0				
Water Supply-Bombay	IDA	30.0								
Water Supply-Unidentified I	IDA		15.0							
Water Supply-Unidentified II	IDA			15.0						
Tourism-Unidentified	IDA				10.0					
Tourism-Unidentified	IDA					10.0				
Unallocated	IDA				20.0		50.0			
	IBRD	55.0	25.0	50.0				159.0	160.5	75.0
	IDA	639.0	439.0	375.0	540.0	605.0	540.0	591.0	1701.4	2499.0
Total:		694.0	464.0	425.0	540.0	605.0	540.0	750.0	1861.9	2574.0
No.		21	15	14	17	17	15	12	51	78
Note: the IDA lending program is to be adjusted to		375.0	375.0	375.0	540.0	540.0	540.0		1373.4	2370.0

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

September 14, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Iran - Agricultural Development Fund of Iran

1. The Committee is requested to consider, without meeting, the attached memorandum dated September 14, 1971 from the South Asia Department, entitled "Iran - Proposed Loan to the Agricultural Development Fund of Iran (ADFI)" (LC/O/71-101).

2. Comments, if any, should be sent to reach Mr. Loos (ext. 4127) by 5:00 p.m. on Friday, September 17.

3. It is planned then, if the Committee approves, to inform the Government and representatives of ADFI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
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Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/O/71-101

September 14, 1971

LOAN COMMITTEE

Memorandum from South Asia Department

IRAN - Proposed Loan to the Agricultural Development Fund of Iran (ADFI)

1. Attached for consideration by the Loan Committee is an appraisal report (PA-93) entitled "Appraisal of the Second Agricultural Credit Project, Iran" dated June 24, 1971. The report assesses favorably the prospects of ADFI and recommends a loan of $14 million equivalent for a period of 12 years (including a grace period of 4 years). The proceeds of the loan would be used to help finance investments in commercial agriculture and processing industries. ADFI would be the Borrower with the Government of Iran as Guarantor.

Background

2. The Bank has made nineteen loans, amounting to $612 million, (net of cancellations) for projects in Iran, of which $328 million was disbursed and $146 million repaid as of June 30, 1971. The lending program calls for loans of about $125-150 million in each of the next five years. Specific proposals are summarized in Annex I.

3. Recent developments in the Iranian economy are discussed in the last economic report "Current Position and Prospects of Iran" (SA-23a) dated May 18, 1971.

4. The Iranian economy has expanded at a very rapid rate in recent years. Between 1963/64 and 1969/70, the rate of growth of GNP in constant prices was about 10 percent per annum. The main factors behind this rapid growth were sharply increasing levels of investment in both the public and private sectors and the continued growth in oil revenues. While the oil sector's contribution to GNP grew at 16 percent per annum, non-oil GNP grew at just under 9 percent per annum. Industry and mining averaged an annual growth of over 12 percent and agriculture grew at somewhere between 5 and 6 percent per annum. Last year (1970/71), in spite of a slowing down in the rate of growth in industry and agriculture over the previous year, the growth of real GNP is estimated to have stayed around 10 percent.

5. In the period up to 1967/68, the rapid growth of the economy was accompanied by a high level of domestic savings and price stability. However, the relative stagnation in public sector savings combined with the maintenance of high and rising levels of public sector expenditures,

increasingly financed by borrowing from the banking system and a sharp rise in external borrowing, led to major strains on the economy during the last three years. These have been reflected in a steadily rising balance-of-payments deficit and service payments on foreign borrowing. The effect of the recent oil agreements in November 1970 and February 1971 will be to substantially improve Iran's financial position. However, the need remains to mobilize greater resources for investment and to improve the average terms of foreign borrowing. At the present time, we consider Iran creditworthy for Bank lending.

6. Recognizing that the growth of agriculture has lagged behind the overall rate of growth of the economy, the Iranian authorities are placing increased emphasis on the agricultural sector. A two-pronged approach has been adopted. The traditional sector is being strengthened by the provision of technical and financial assistance, and increased emphasis is also being placed on developing the production potential of the commercial sector.

7. Credit at reasonable rates is vital to agricultural development in Iran. The main sources of institutional credit are the Agricultural Cooperative Bank of Iran (ACB), the Rural Cooperatives and ADFI, although the commercial banks also provide some credit. The ACB and the Rural Cooperatives channel government funds as short-term credit to small and medium-sized farmers; their loan ceilings are $13,000 and $260 equivalent respectively. ADFI was established as the main source of investment credit for medium and large-scale commercial farming ventures. It has recently reduced its lower loan limit from $66,000 equivalent to $33,000 equivalent so as to make its facilities available to a wider range of farmers. There is still, however, a gap between ACB's upper limit and ADFI's lower limit; and Iran, in consultation with the Bank, is attempting to develop arrangements which would meet this need. It is also expected that ADFI would, at a later stage, lower its own limit.

ADFI

8. ADFI is a wholly-government-owned autonomous agency. It was established in 1968 to assist private agricultural enterprises by extending financial and technical assistance of a kind which is not readily available in Iran. Its activities include the granting of loans to individuals for medium and large-scale crop and livestock production projects, to agri-business and to agro-industry, as well as to marketing services. Investment in private companies through equity participation is another aspect of its operations. In addition to these two forms of assistance, ADFI's charter also permits it to underwrite or subscribe to capital and loan issues for agricultural puproses; to guarantee agricultural loans made by third parties; to buy or sell medium and long-term debentures of private agricultural companies; to provide technical, financial and managerial assistance to agricultural projects and to prepare such projects. It is also authorized to encourage and foster technical, managerial, financial and administrative skills related to agriculture.

9. ADFI was established with an initial capitalization of \$13.2 million, to be provided entirely by Government. In addition to its capital and reserves, it may issue agricultural development bonds up to \$66 million and borrow funds from the Plan Organization. It has used neither of these facilities so far. It may also use re-discount and credit facilities of the Central Bank (US\$1.2 million outstanding in February 1971) and the credit facilities of other banks in Iran. ADFI has also been authorized to obtain loans and credits up to \$200 million from foreign or international sources. The first such loan was the Bank's loan (662-IRN) for \$6.5 million made in March 1970.

10. As stated in the appraisal report, the Project for which the Bank loan was made is progressing satisfactorily, and the investments financed are sound; the 20 sub-projects visited by Bank staff were found to be "sound, economically justified and well supervised". It is expected that the first Bank Loan will be fully committed by the end of calendar 1971, and fully disbursed by December 31, 1972, which is the Closing Date in the Loan Agreement. While lending operations under the Bank financed Project have gone according to schedule, ADFI's activities outside the Project have fallen short of expectations. When the first Project was appraised, it was estimated that ADFI could break even in 1970/71 when its lending operations were expected to reach a level of about \$23 million equivalent. However, as of February 1971, ADFI had approved loans involving a total commitment of only \$12.7 million equivalent. The profitability forecasts, have, therefore, not been realized. It is now expected that ADFI's major activity for some time would be under the Bank's first and the proposed second Projects.

The Project

11. The proposed Bank loan will be used primarily for financing crop production on about 12,000 ha. of idle land; orchards; dairy, poultry and sheep farming; and industries for processing agricultural products. It is expected that about four agri-business operations, in which farm production will be linked to processing and marketing, would also be financed. Investments would be for land development and minor irrigation facilities; buildings, machinery and equipment; roads; planting material and livestock. The increased production will be mainly for domestic consumption, although some quantities of cotton and fruits may be exported. Market prospects provide a sufficient incentive for investment in these production activities. Farmers' and enterprises' financial benefits and the anticipated rate of return to the economy are satisfactory.

12. The total project cost is estimated at \$35.1 million, of which \$15.6 million (44 percent) would be foreign exchange. As under the first Project, 30 percent of the total project cost would be financed by the sub-borrowers, a similar amount by ADFI and the balance of 40 percent from the Bank loan. In addition to their contribution, sub-borrowers will also be required to bear the foreign exchange risk.

The Issue of Interest Charges

13. ADFI now charges 8 percent on its loans and a 1 percent commitment fee on undisbursed balances. It has proposed that its standard rate remain unchanged but that the lending rates to agri-business, and for working capital, be increased to 9 or 10 percent. The appraisal report, however, recommends an increase in the standard rate to 10 percent with a continuation of the 1 percent commitment fee.

14. The argument in the appraisal report (paragraphs 5.05 and 5.06) is basically that ADFI will not be able to operate at a profit without an increase in the lending rate and that a rate below 10 percent would imply a subsidy to project sub-borrowers resulting in an erosion of ADFI's capital. Other reasons given in support of a higher rate are:

(a) that interest rates in Iran and on Bank loans have risen;

(b) that present rates of interest in agriculture and other sectors from commercial sources are relatively high; and

(c) that sub-borrowers can afford the higher rate because of the high returns they should reap from ADFI-assisted investments and because they are "usually well off with substantial investments outside agriculture".

15. I am not wholly convinced by this reasoning. There has been no change in the Central Bank's discount rate, since the increase from 7 to 8 percent in 1969; moreover, other recent measures have reduced the structure of long-term rates in Iran. ADFI's lending rate is not out of line with other long-term rates as evidenced by the figures in paragraph 2.16 of the appraisal report; only the Bank Sadarat, which mainly makes short-term loans which are rolled over, charges as much as 10 percent. Most of these rates are subsidized by Government in order to stimulate investment in key development sectors. I agree that the long-term objective should be to eliminate such subsidies, but am not persuaded that the immediate and complete removal of the subsidy to ADFI's clients, as proposed in the appraisal report, would be conducive to agricultural development in Iran.

16. In my view an important issue to be considered is the probable effect of a sharp increase in interest charges on farmers' willingness to invest. It is true that returns expected on ADFI sub-projects are ample to support charges higher than the present 8 percent; but the fact that farmers <u>can</u> still make a profit at higher rates does not mean that they <u>will</u> go forward rapidly with agricultural development projects. There are other more profitable outlets for investment funds in Iran, and there is still a shortage of investors willing to put resources into agriculture. Greater private sector participation is urgently needed if the lag in agricultural growth is to be overcome. There is still a need to shift resources from

other sectors to agriculture, and for this to happen investors in agriculture, including clients of ADFI, will have to feel that such investments offer returns on a par with projects in industry and other non-agricultural activities.

17. As far as ADFI's profitability is concerned, there are other alternatives to be considered which seem to be more appropriate than an increase in the lending rate. If ADFI's volume of lending is increased and the additional resources obtained either by a further increase in share capital over and above the Rls 400 million suggested in the appraisal report and/or by a long-term loan on concessional terms from the Plan Organization, ADFI could operate at a profit. However, the Agriculture Projects Department does not believe that a sufficiently large increase in lending volume is likely. Alternatively, assuming that ADFI's volume of lending does not increase, a reduction in the amount of the Bank loan with a corresponding increase in share capital and/or a concessional loan from the Plan Organization would directly improve ADFI's profit prospects. There are other possibilities, such as the implementation of ADFI's own proposal to charge a higher rate from agri-businesses and for working capital, extending its application to the larger farmers outside the agri-business category.

18. I am quite willing, however, to try for some increase in ADFI's lending rate considering (i) the even higher rates charged by private money lenders and traders, who provide the greater part of agricultural credit in Iran; (ii) the increase in our own interest rate since the last loan was made to ADFI; and (iii) the larger margin which ADFI requires for supervision and other expenses; and we have asked Mr. Eschenberg to discuss these points with ADFI, Plan Organization, the Central Bank and other interested parties. Nevertheless, even if ADFI is still unwilling to increase its lending rate to 10 percent, I would recommend going ahead with the project rather than waiting for such an increase, because of the factors referred to above in paragraphs 15-17. In this event, we will stress, during negotiations, the need for ADFI to take such other measures as would be necessary to ensure its operating at a profit by 1973-74, the profit it makes by 1975-76 being sufficient to cover its cumulative losses up to 1973-74. Agriculture Projects Department recommends reference back to the Loan Committee in the event that ADFI should be unwilling to agree to raise the standard rate to 10 percent. With certain other adjustments a rate of between 9 and 10 percent might be acceptable to the Agriculture Projects Department, but they take the view that unless a standard rate of at least 9 percent is agreed, the project should not be proceeded with.

Recommendation

19. With the exception noted in paragraph 18, I concur with the recommendation that the Bank should make a second loan to ADFI for $14 million and propose that representatives of ADFI be invited to Washington for negotiations.

Attachment

Gregory B. Votaw
Deputy Director

Annex I: "5 Year Operations and Lending Programs"

POPULATION: 26.3M

GNP PER CAP: $ 280

IVA IRAN - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM			1972	1973	1974	1975	1976
5-IRN-AC-02	AGRIC. CREDIT-ADFI II	IBRD	15.0				
5-IRN-AC-03	AGRIC.DEV.FUND III	IBRD			25.0		
5-IRN-AC-04	AGRIC.DEV.FUND IV	IBRD					30.0
5-IRN-AF-01	AGRICULTURE-FISHIRIES	IBRD		30.0			
5-IRN-AI-03	IRRIG.PACKAGE SCKEME I	IBRD		20.0			
5-IRN-AI-04	IRRIGATION DEZ	IBRD	20.0				
5-IRN-AI-05	IRRIG.PACKAGE SCKEME II	IBRD				30.0	
5-IRN-AL-01	LIVESTOCK DEVT.I	IBRD			10.0		
5-IRN-AL-02	LIVESTOCK DEVT.II	IBRD					10.0
5-IRN-CC-02	TELECOMMUNICATION II	IBRD		25.0			
5-IRN-CC-03	TELECOMMUNICATION III	IBRD					35.0
5-IRN-DD-07	IMDBI VII (DFC)	IBRD	50.0				
5-IRN-DD-08	IMDBI VIII	IBRD			50.0		
5-IRN-DD-09	IMDBI IX	IBRD					50.0
5-IRN-EE-02	ARYA-MEHR UNIVERSITY	IBRD		20.0			
5-IRN-EE-03	EDUCATION III	IBRD			20.0		
5-IRN-EE-04	EDUCATION IV	IBRD					20.0
5-IRN-PP-01	POWER	IBRD	30.0				
5-IRN-PP-03	POWER	IBRD			50.0		
5-IRN-PP-05	POWER IV	IBRD					50.0
5-IRN-TA-01	AIRPORT	IBRD		35.0			
5-IRN-TA-02	AIRPORT	IBRD				30.0	
5-IRN-TH-06	HIGHWAYS VI	IBRD		40.0			
5-IRN-TH-07	HIGHWAYS	IBRD				40.0	
5-IRN-TL-01	PIPELINES	IBRD	33.4				
5-IRN-TL-02	PIPELINE	IBRD		60.0			
5-IRN-TL-03	PIPELINE	IBRD				50.0	
5-IRN-TP-02	PORT	IBRD					10.0

POPULATION: 26.3M

GNP PER CAP: $ 280

IVA IRAN - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN $ MILLIONS)

OPERATIONS PROGRAM

	1964/68	1969/73	1972/76		1972	1973	1974	1975	1976
IBRD	141.0	661.9	888.4	IBRD	148.4	230.0	155.0	150.0	205.0
IDA				IDA					
TOTAL	141.0	661.9	888.4	TOTAL	148.4	230.0	155.0	150.0	205.0
NO	7	20	28	NO	5	7	5	4	7

LENDING PROGRAM (2/10/71)

	1964/68	1969/73	1972/76		1972	1973	1974	1975	1976
IBRD	141.0	603.5	745.0	IBRD	145.0	175.0	140.0	140.0	145.0
IDA				IDA					
TOTAL	141.0	603.5	745.0	TOTAL	145.0	175.0	140.0	140.0	145.0
NO	7	17	22	NO	4	5	4	4	5

P & B 07/13/71