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Loan Committee - 1971 - Volume 12

LOAN COMMITTEE

1971

12



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Loan Committee - 1971 - Volume 12

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LOAN COMMITTEE

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SEP 05 2014

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LC/M/71-1

January 26, 1971

Minutes of Loan Committee Meeting held at
4:30 p.m. on Monday, December 28, 1970 in
the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. A. Broches
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. B. Cheek
Mr. R.H. Demuth

Mr. W. Diamond
Mr. K.G. Gabriel
Mr. G. Kalmanoff
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. G.M. Street
Mr. E.P. Wright
Mr. D. Pearce, Secretary

In Attendance:

Mr. R.P. Armstrong
Mr. J. Coudol
Mr. S.S. El-Fishawy
Mr. D. Hartwich
Mr. C. Hassan
Mr. M.L. Hoffman
Mr. T.M. Jones

Mr. M.S. Joshi
Mr. O. Maiss
Mr. G. Mehlem
Mr. F. Mendoza
Mr. H. Pollan
Mr. D.S. Roessner
Mr. W. Wapenhans

B. Morocco - BNDE

1. The Committee considered a memorandum dated December 22, 1970 from the Europe, Middle East and North Africa Department entitled "Morocco - Proposed Fifth Loan to Banque Nationale pour le Developpement Economique (BNDE)" (LC/O/70-130), which recommended that the Government

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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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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)

and BNDE be invited to negotiate a \$25 million loan to help finance part of BNDE's foreign exchange requirements through the end of 1972. The main issue for discussion was BNDE's lending rate and its effect on BNDE's ability to raise resources and on industrial investment in Morocco.

2. The Committee noted that, before the proposed loan was presented to the Executive Directors for approval, the Government and BNDE would be required to agree (a) that BNDE's lending rate be increased from 7 per cent to 9 per cent, (b) that the Government's subsidy to BNDE under the January 22, 1960 convention be discontinued on new borrowings and (c) that a procedure and timetable for the study and introduction of a selective system of incentives to encourage priority industrial investments be agreed during negotiations. The Committee also noted that, pending the adoption of the investment incentive scheme, the Bank would be prepared to accept, for a limited interim period, direct interest rate subsidies by the Government to BNDE's borrowers executing priority projects to mitigate the effects of the lending rate increase and ensure a smooth transition from the old system to the new.

3. The Chairman, while endorsing the Department's recommendations on BNDE's lending rate, questioned whether the "institutional" argument cited in its memorandum - that a 9 per cent lending rate would enable BNDE to diversify its sources of funds and thus reduce its excessive dependence on the Bank for capital and on the Government subsidy for income - would be sufficiently persuasive to the Moroccans. BNDE was probably not too concerned by the threat to its autonomy implied by its already excessive dependence on the Bank and the Government, and the Government was unlikely to agree that BNDE's lending rate should necessarily reflect, or approximate, international interest rate levels. While the Bank's concern on both points should be conveyed to the Moroccans, the Chairman continued, the main thrust of its case should be the conventional macro-economic argument that interest rates should reflect the opportunity cost of capital. A secondary argument was the increasing cost to the Government of its continued subsidy of BNDE's low lending rate, although the possible substitution of interim rebates to certain borrowers for the subsidy to BNDE would weaken this point.

4. The Europe, Middle East and North Africa Department stated that, in its view, the principal advantage of the resource diversification and dependency arguments adumbrated in its memorandum was that, if necessary because of Moroccan inaction, they could justify, more easily than the general economic argument, a Bank initiative to reduce future lending to BNDE. The Chairman commented that, if the Bank reduced its lending to BNDE, the Government would probably only increase its support, at least until the burden in relation to other demands on its budget became too high. For this reason, discussions with the Moroccans should deal with the cost to the Government of its subsidy of BNDE.

5. Turning to the general question of interest rates, the Chairman said that it was not clear why, in view of the history of discussions with the Moroccans on this issue and the fact that the April, 1970 economic mission, as part of its annual review, had been charged with initiating a study of the interest rate structure, the Bank was so reluctant to advance the economic case for increasing BNDE's lending rate. It was evident from the draft appraisal report that BNDE, the principal source of long term capital in Morocco and the main supplier of financing for imported equipment, could, with some interim adjustments, sustain a satisfactory volume of operations with a 9 per cent lending rate.

6. The Committee was told that the recent economic mission had found that the influence of interest rates on the overall level of investment and economic activity in Morocco was apparently marginal. Private investment decisions were primarily affected by market opportunities, the efficiency of Government administration and/or the availability of entrepreneurial talent and experience. While it was difficult to measure the responsiveness of investment decisions to long-term interest rates independently of a whole range of other incentives, such as accelerated depreciation, import exemptions etc., it was nevertheless clear that Moroccan investors were neither particularly aware of, nor very much influenced by, marginal changes in interest rates. In short, there was no 'prima facie' case, on economic performance grounds, to press for a general increase in long-term interest rates, except within the context of a reconsideration of the Government's whole package of investment incentives.

7. The Chairman, summarizing, said that he was still concerned about the effectiveness of the Bank's proposed approach. In his view, the case for increasing BNDE's rate rested essentially on the basic economic argument that the structure and level of interest rates and incentives, particularly in a developing country like Morocco, should be such as to encourage a rational allocation of scarce investment resources. However, the proposed system of selective incentives linked to priority project categories would at least establish, more clearly than the present general interest rate subsidy, the amounts and selective criteria for such incentives.

8. The Committee approved the Europe, Middle East and North Africa Department's recommendation that the Government and BNDE be invited to negotiate a proposed \$25 million loan, on the terms and conditions set forth in paragraphs 73-76 of the draft appraisal report and paragraph 17 of the memorandum.

LOAN COMMITTEE

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LM/M/71-3

January 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Congo (Brazzaville) - Compagnie des Potasses du Congo" (Loan No. 480-COB) held at 11:00 a.m. on Monday, January 11, 1971 in Conference Room B.

David Pearce
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
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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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)

January 26, 1971

Minutes of Special Loan Meeting to consider "Congo (Brazzaville) - Compagnie des Potasses du Congo" (Loan No. 480-COB) held at 11:00 a.m. on Monday, January 11, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Fuchs, Cheek, Delaume, El Darwish and Pearce (Secretary).
2. Issue: The meeting had been called to consider a memorandum dated January 8, 1971 from Messrs. Delaume, Thalwitz and El Darwish to Mr. Chauffournier, which outlined the Bank's position for a forthcoming meeting with the President of the Compagnie des Potasses du Congo (CPC) to review the project's technical, financial and legal status.
3. Discussion: The meeting noted that:
 - (a) Since the December 14 Special Loan Meeting (cf. LM/M/70-49 dated December 23, 1970), CPC's President had written to Mr. McNamara requesting Bank approval - before an extraordinary shareholders' meeting to be held later in January - of (i) an increase in CPC's capital from \$10 million to \$43 million and (ii) the conversion into shares of stock of \$21 million shareholders' advances.
 - (b) The Bank's continued restraint in not exercising its right, based on several technical violations of the loan agreement, to premature its loan now further strengthened its case for demanding, as a minimum, a waiver by the shareholders of the "force majeure" clause (i.e. the political risk).
 - (c) If the "force majeure" clause were eliminated, the Bank could consider in principle approving the proposed capital increase and conversion of shareholders' advances. If it were not, and the Bank delayed or withheld its approval, CPC would be reduced to bankruptcy - in which case the Bank could premature its loan after 30 days' notice.
4. Decision: The Chairman said that the Bank should exert maximum pressure to secure a waiver of the "force majeure" clause, if necessary including withholding its approval of CPC's proposed capital increase and conversion of shareholders' advances. It should also refuse to consider extending the amortization period of its loan.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Cheek
Fuchs/El Darwish
Delaume

cc: Loan Committee
Participants

LOAN COMMITTEE

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LC/A/71-2

January 26, 1971

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Friday, January 29, 1971 at 3:00 p.m. in the Board Room.

AGENDA

Senegal - Request for Bank Assistance in Financing an Urban Site and Services Project

The Committee will consider the attached memorandum of January 29, 1971 from the Western Africa Department, entitled "Senegal - Request for Bank Assistance in Financing an Urban Site and Services Project" (LC/0/71-10).

David Pearce
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)

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LC/0/71-10

January 26, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

SENEGAL: Request for Bank Assistance in Financing
an Urban Site and Services Project

I. INTRODUCTION

1. The Government of Senegal has asked the Bank if it would consider assisting in the financing of an urban development project designed to accommodate a part of the low-income sector of Senegal's growing urban population. It includes the clearing and plotting of land, installation of drainage, sewerage and water systems, roads and the provision of collective sanitary facilities. The proposed project represents an innovative and realistic approach to a major problem confronting most low-income developing countries. Therefore, it should be noted at the outset that it will have implications for other countries.

2. In the past few years a small number of planners and architects have been involved in developing this type of realistic solution for a part of the urban development problem of such countries. Senegal is one of the first actually seeking such a solution, and appears to be a very suitable environment for initiating this type of project. Its government is convinced that conventional approaches are inadequate and has developed what seems to be a viable alternative supported by urban and regional development policies and programs. The purpose of this memorandum is to obtain agreement from the Loan Committee that in principle it approves of Bank Group financing for this type of project and that, accordingly, it authorizes further exploration of the Senegal project proposed below (paragraph 11).

II. BACKGROUND

Senegal's Urban Condition

3. In mid-1969 the population of Senegal was estimated to be 3.8 million people, with 18 percent of this total, some 680,000, residing in the Dakar metropolitan area. The next largest cities are the six regional capitals, which in total have a population of 360,000. While the national

population is increasing at about 2.2 percent a year, its urban component is growing at 4.5 percent, and Dakar alone at 6 to 7 percent. Although our information on other Senegalese cities is quite limited, it is estimated that about half of the nation's annual urban population increase is due to migration from rural areas. In the case of Dakar, about 60 percent of its annual population increase is due to this migration.

4. Even though between one-third to one-fourth of the labor force in the Dakar metropolitan area is estimated to be unemployed, migration from the rural areas continues. To a considerable extent this is due to the fact that employment opportunities still appear attractive to rural inhabitants, as the Dakar area is responsible for almost one half of Senegal's GDP and has a per capita GDP 4.5 times greater than the remainder of the country.

5. The Government has adopted a policy aimed at reducing regional disparities, which includes giving priority to the rural sector in the Third Four-Year Plan (1969-1973) and the development of regional capital cities. The Regional Development Directorate, in the Ministry of Planning and Industry, is drawing up plans and programs for the regions and cities of Senegal to serve as tools for investment selection, coordination and evaluation. The Bank Group is giving its support to the policy of agricultural and regional diversification and has projects under consideration for rice development in the south and in the north, as well as a project of land settlement in the eastern part of the country.

6. As it is extremely difficult to attract industry outside the Dakar area, the Government is trying to promote local industry in the less developed regions by using local agricultural products as inputs. While these efforts may in the long run reduce Dakar's rate of growth and geographically distribute wealth more equitably, the capital area will continue to grow. For some time it is expected to be the most economic location for many new industrial and commercial activities in Senegal and it will probably almost double its population, to some 1.3 million people, by 1980. Consequently, large public investments are needed in the Dakar area.

7. Senegal, similar to most low-income developing nations, has been unable to stay abreast of the need for infrastructure and housing created in its rapidly growing cities. In Dakar the rural migrants, and a growing number of the local born, must reside in rapidly expanding illegal shacktowns ("bidonvilles") and in privately "developed" settlements. In both cases development is quite ad hoc and haphazard. Dwellings cover 70-90 percent of the land creating very high population densities. There are no sewerage, drainage, or water facilities.

Circulation systems are comprised of paths that evolve without a view to the rational development of the whole settlement or its relation to the greater urban system. Despite these wretched conditions, shelter is not a free good. Most families pay rent for their illegal shelters and in the privately "developed" settlements land is quite expensive.^{1/} Moreover, the inhabitants also pay the price of ill health and severe discomfort.

8. Typical of the low-income developing countries, Senegal has attempted to solve this problem by providing urban infrastructure and housing at standards realized in cities of the economically developed Western countries. Capital is committed to types of facilities and construction and management procedures that are too expensive and too slow to either result in the magnitude of output necessary to approach the need, or to market facilities at prices within the means of the majority of the needy.^{2/} As a consequence, public facilities serve only a small part of urban areas and publicly built housing shelters only a few, and not the poor. For instance in Dakar, the two public housing corporations built less than 2,000 units a year while three times as many would be required to accommodate the annual population growth.

The Parcelles Assainies Scheme

9. During the Second Four-Year Plan period (1965-69), convinced that a new approach was necessary, the Government included in its development plan for Dakar a scheme to provide a tolerable standard of urban services for the low-income sector of the city's population, which at that same time minimizes the costs of urban development. The scheme, called "Parcelles Assainies," consists of clearing land for settlement and equipping it with a level of utilities, services and community facilities more within the means of the users and the Government. In designing these settlements, a considerable effort was made to maximize the use of each unit of facility and obtain economies in construction and maintenance. In these planned modular settlements

^{1/} Rent for a one-room shack in a bidonville is CFAF 2,000-4,000 (US\$7.20-14.40 equivalent) per month in Dakar, and about CFAF 1,500 (US\$5.40) per month in suburban Pikine. (The minimum wage rate of those employed in the modern sector is about CFAF 11,000 per month.) While the legal title for a 200 m² lot would cost about CFAF 10,000 (US\$36), lots are "sold" without legal formalities for CFAF 40,000 (US\$144).

^{2/} Monthly rents in the lowest priced public housing range from CFAF 8,000-20,000 (US\$29-72).

space is also reserved for commerce, small industry and crafts, and recreation. On their parcels of land, guided by some minimum specifications, settlers are allowed to build whatever housing is within their means. Standards of both housing and public investments are to be upgraded over time parallel with increasing incomes.^{1/}

10. During the Second Four-Year Plan (1965-69), the Government completed a Parcelles Assainies pilot project in Pikine, a suburb of Dakar. Approximately 4,000 parcels of land (120 ha) were prepared and subsequently settled by some 4,000 households (1 household of 9-10 persons per parcel). Included in this pilot project were the clearing and plotting of land, preparation for rain drainage, installation of sewerage and water systems, unpaved roads, and the provision of collective water fountains and hygienic blocks (consisting of lavatories, baths and waste disposals), on the basis of one per 100 families. The cost of this undertaking was CFAF 2.5 million per hectare (US\$9,000 equivalent). The following community facilities were also constructed at an additional cost of CFAF 2.5 million per hectare: 20 primary classrooms, 1 health clinic, 1 market place, 1 police station, 1 sports field, several mosques. The land was government owned and its preparation was carried out by military engineers. The settlers involved were given some technical assistance, but no financial assistance, in constructing their own housing.

The Project

11. The Government now wishes to undertake a larger scale Parcelles Assainies program, not only in the Dakar area, but in the other major urban centers of Senegal. The program has been included in the Third Four-Year Development Plan and the identified project areas are located on the periphery of eight cities: Dakar, the capital; Rufisque-Bargny, its satellite city; and St. Louis, Ziguinchor, Thies, Kaolack, Diourbel, and Tambacounda, the six regional capitals. In the Dakar metropolitan area 360 ha are proposed for development, and in the rest of the country, 200 ha. Such a program would accommodate some 100,000 people in Dakar and some 60,000 in the rest of the country, at a total cost of approximately US\$10 million, of which the Dakar program would represent US\$6.5 million.

^{1/} Observations in Senegal indicate that the quality of this type of housing improves over time as the owners' incomes increase. In other low-income countries migrants have also exhibited this behavior: e.g., Seoul, Korea; Santiago, Chile; Lima, Peru; Ankara, Turkey.

III. ANALYSIS OF BENEFITS

Economic and Social Benefits

12. The Government has recognized the impossibility of providing housing for the large low-income sector of the urban population.^{1/} However, by providing basic urban infrastructure for settlement and encouraging self-help housing it will mobilize personal savings in housing. This not only represents tangible private savings, but allows the Government to forego investment in housing, while at the same time development of labor intensive building materials industries is stimulated.

13. Considerable savings will also accrue to society by Government obtaining control over the physical development of the urban area now. At present, development is occurring without urban infrastructure on an ad hoc basis scattered randomly within the metropolitan area. The costs of installing infrastructure through existing slum settlements at a future date will be considerably higher than at the present time. There will be additional expense in clearing land for drainage, water and sewerage facilities and road works. This cost will result from the removal of existing constructions and compensation for property and relocation. The haphazard patterns of development are likely to cause a less efficient layout of infrastructure also adding to the cost of improving an area at a future date. Moreover, in the future, when the Government wishes to add community facilities, such as schools, fire stations and open space for recreation, due to the increased value of land and investments in property, expenditures for space will be considerably higher. Thus, society will not be able to recapture the advantages it has now for providing or reserving land for community facilities.

14. If the development on the periphery of the central city is allowed to continue on an ad hoc basis, the random pattern of settlement (often referred to as "leap-frogging") will lead to considerably higher costs in providing public facilities. This results from the linking of facilities across unused or under-utilized land between randomly located population concentrations. When development is orderly and contiguous, costs of infrastructures are less. This same rationale, of course, applies to the provision of services, such as transportation.

^{1/} In the Dakar metropolitan area this sector amounts to 30-50 percent of the population.

15. The Parcelles Assainies scheme obviously brings with it improvements in the quality of life of the settlers - better facilities, services, and better health. The latter, if not the other two factors as well, should have a positive effect on the productivity of the labor force. The level of service provided is also better related to the consumers' desired or possible allocation of income than more costly housing schemes.

16. The program will also aid in realizing considerable social benefits. Stress due to confronting a new physical environment and social changes brought about in the move from a more traditional rural environment to a less traditional urban one has been recognized by behavioral scientists as a major problem for the individual involved. By providing perceptible links with familiar social and physical environments, and reducing the problem of finding adequate shelter in the city, this stress will be reduced. Some consideration of this condition by the designers of Parcelles Assainies is apparent in the inclusion of the traditional community assembly facilities as integral parts of the planned settlements, and in the provision of space for 9-10 persons per parcel, which allows extended families to locate together.

Financial and Institutional Aspects

17. The authorities responsible for the project will be the Directorate of Urban Planning and Housing in the Ministry of Public Works, Urban Planning and Transportation, assisted by the Directorate of Public Works for supervision of the work. Subject to appraisal, it is proposed that the Parcelles Assainies will be managed and maintained by the Office d'Habitations à Loyer Modéré (OHLM), a government agency that builds and manages what is best characterized as moderate-income, not low-income, housing.

18. The major constraint to implementing the program is the financing of land preparation and that of drainage, sewerage, and water systems, including the associated collective facilities (public water fountains and hygienic blocks). Bank assistance has been requested for this purpose. The foreign component of the cost of this type of project is low, therefore Bank participation would imply substantial local cost financing, which can also be justified on country grounds for Senegal.

19. Local public contribution will consist of the compensations for land acquisition and the provision of social facilities, such as health and education. Private contributions will come from the payment of fees for operating costs and capital costs, which will take the form of rents or lease rights on the land and user charges for water, and possibly electricity.

20. Due to cost increases, government expenditures for land to be used, and the involvement of private firms in land preparation rather than the military, it is estimated that expenditures for the national Parcelles Assainies program would be in the order of CFAF 5 million per hectare (US\$18,000 equivalent). This would represent US\$600 per household at a relatively low density of 30 households per hectare (300 persons per ha). This does not include the cost of the additional community facilities, referred to in paragraph 10.

21. Since the people settling on the Parcelles Assainies are the poorer sector of the urban population, the Government is proposing to subsidize part of the cost of land preparation and infrastructure. In order to assure preference for location in Parcelles Assainies over squatting, some subsidy may be necessary. However, careful consideration will have to be given to this as initial calculations indicate that in the case of the proposed Dakar operation the project may be financially viable.^{1/}

IV. REASONS FOR BANK INVOLVEMENT

22. With most urban areas of low-income countries in the foreseeable future continuing to grow rapidly in size and population, reduction of economic and social costs of this growth is a major goal. The Parcelles Assainies type of program offers a means of approaching this goal, and Senegal appears to offer suitable conditions for initiating such an approach. Through supporting this project the Bank can build the institutions necessary for an ongoing program to deal with the problem in Senegal while concurrently demonstrating to other countries what appears to be a viable approach to a common problem.

23. This project offers the Bank a very tangible avenue for involvement in the issue of the "quality of life" in low-income countries. A substantial percentage of the urban population will obtain a considerably higher level of welfare, particularly if the project is the precursor to a continuing program. Moreover, this enables a continuous upgrading of living conditions without costly urban renewal surgery.

^{1/} For example: Assuming the cost of CFAF 5 million/ha, repayment over a 15-year period at 10 percent interest would be CFAF 1,100/month per parcel for 50 parcels/ha and CFAF 1,900/month for 30 parcels/ha. The cost of operation and maintenance has been estimated at some CFAF 1,300/month per parcel. Thus the total cost would be CFAF 2,400 to 3,200 depending upon densities. This would be some 25 to 30 percent of the minimum wage of those working in the modern sector and some 30-40 percent of the lowest rent for OHIM housing.

24. The 1969-73 Parcelles Assainies program will have a considerable impact on the development of Senegal's major urban centers and their inhabitants. Involvement in the proposed project can also serve the Bank as a useful vehicle for coordinating its involvement in other urban projects, such as industrial estates and public utilities. We shall need to consider relationships among these plans and projects in Senegal (paragraph 25).

V. BANK LENDING PROGRAM

25. Total lending proposed for Senegal in the period 1971-75 is estimated at about \$70 million. Urban development is mentioned as a project possibility in the Country Program Paper but the Parcelles Assainies project has not been introduced as an identified operation in the lending program because of the special character of this type of operation and the uncertainty of possible Bank Group financing. If included, and on the assumption that the Bank Group would contribute up to 75 percent of project cost, the Parcelles Assainies project would increase the lending program with about \$7.5 million in case all project areas would be financed, or with about \$5 million if only the Dakar area were to be selected. This would mean that at least 30 percent of the program would remain concentrated in agriculture, 25 percent in transportation, that power and education would account each for roughly 15 percent while the remaining 15 percent of the program would be industry, urban development - which includes lending for public utilities - and communications.

VI. RECOMMENDATIONS

26. It is recommended by the Special Projects Department, and I agree, that the Bank should indicate to the Government of Senegal that it is prepared in principle to consider participating in financing the Parcelles Assainies project, provided that further investigation shows the investment to be economically justified, and that an understanding can be reached on the exact scope of the project and its institutional and financial aspects.

27. If this recommendation is accepted, the next step would be to send a mission to Senegal to discuss the project with the Government and to carry out a detailed review of all available materials in order to fill gaps in information and resolve identified issues. At this time, the following appear to be the major issues:

- 1) Government's program to undertake Parcelles Assainies in the 8 designated urban areas should be reviewed to determine what cities should be included in the project along with Dakar;
 - 2) Respective responsibilities of the central and municipal governments and of concessionaires and other agencies to implement and operate the project should be determined, together with corresponding fiscal resources and revenues;
 - 3) Recovery of investment capital and operating expenditures as well as the nature and level of subsidies, if needed, should be investigated;
 - 4) Land tenure, an important component of the project, should be carefully studied;
 - 5) The target population for the Parcelles Assainies should be carefully defined;
 - 6) Government's priorities and its rationale for investment in various housing development types (public housing for middle and moderate income and Parcelles Assainies for low income) should be reviewed;
 - 7) The capability of the building materials industry to produce adequate supplies for auto-construction and the ability of the people to obtain these materials should be investigated;
 - 8) Standards for infrastructure and the nature and timing of social facilities and services to be supplied by the Government should be reviewed.
28. A field study should also be undertaken to compare the conditions obtained in the Parcelles Assainies pilot project and the bidonvilles.
29. Based on the findings of this mission, we should decide whether we can proceed with the appraisal of the project or whether further preparation is necessary. Meanwhile, the project should be provisionally included in the lending program for FY 1972 with an appraisal in calendar 1971.

Bruce M. Cheek
Deputy Director

Population: 3.7 m
GNP Per Cap: \$190

IVa. SENEGAL - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year				Total	Total		
		1971	1972	1973	1974	1975	1976	1964-68	1969-73
Agricultural Credit II	IDA			5.0					
Rice Development I	IDA	4.5							
Rice Development II - Delta	IDA			4.0					
Agric. Devt. - Terres Neuves I	IDA	1.2							
Land Settlement - Terres Neuves	IDA					5.0			
Livestock	IDA			1.5					
Vegetable Development	IDA					3.0			
Communications	IDA		2.0						
DFC	IDA						3.0		
Education I	IDA	5.0							
Education II	IDA					5.0			
Industrial Estate	IBRD				2.5				
Power I	IBRD		6.0						
Power II	IBRD					5.0			
Airport	IBRD				4.0				
Highways Maintenance	IDA			6.0					
Port	IDA				2.0				
Casamance River Navigation	IDA				2.0				
Railways II	IBRD		6.1						
Drainage & Sewerage - Dakar	IDA		3.0						
		IBRD	12.1		6.5	5.0		4.0	15.6
		IDA	10.7	5.0	16.5	4.0	13.0	9.0	40.3
		Total	10.7	17.1	16.5	10.5	18.0	3.0	55.9
		No.	3	4	4	4	1	2	13

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/71-5

January 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Jamaica - Second Education Project" held at 3:30 p.m. on Friday, January 15, 1971 in Mr. Knapp's office.

David Pearce
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)

January 26, 1971

Minutes of Special Loan Meeting to consider "Jamaica - Second Education Project" held at 3:30 p.m. on Friday, January 15, 1971 in Mr. Knapp's office.

1. Present: Messrs. Knapp (Chairman), Cope, Ballantine, Gutierrez, Wyss, Sung and Pearce (Secretary).
2. Issue: The meeting had been called to consider a memorandum dated January 15, 1971 from Mr. Gutierrez to the Chairman, which recommended that the term of a proposed \$13.5 million loan to Jamaica for a second education project be 25 years, including a grace period of 10 years, rather than 20 years, including a grace period of 5 years, as originally recommended (cf. LC/O/71-1 dated January 4, 1971).
3. Discussion: The meeting noted that:
 - (a) The terms of loans for education, which normally were relatively long - 25 or 30 years with 10 years grace was a common pattern - were largely determined by country considerations. In addition, the flow of benefits from education projects typically began only after an extended period.
 - (b) The first education loan and the recent family planning loan to Jamaica had carried terms of 20 years, with 5 years grace.
 - (c) Jamaica's creditworthiness position was strong but its economy displayed some imbalances, including substantial unemployment. Its per capita GNP was substantially lower than the only other countries to whom education loans had been extended for a 20 year term (Spain and Greece).
4. Decision: The Chairman decided that, partly in compensation for the harder 20 year terms of the first education and recent family planning loans, the proposed second education loan should be for 25 years, including a grace period of 10 years. However, the Jamaicans should be told that the Bank considered Jamaica a fully creditworthy country and that the extended terms for the second education loan did not establish a precedent.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Gutierrez
Wyss

cc: Loan Committee
Participants

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/71-4

January 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Ireland - Industrial Credit Company, Ltd. (ICC)" - held at 3:00 p.m. on Friday, January 15, 1971 in Conference Room A.

David Pearce
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)

LM/M/71-4

January 26, 1971

Minutes of Special Loan Meeting to consider "Ireland - Industrial Credit Company, Ltd. (ICC)" - held at 3:00 p.m. on Friday, January 15, 1971 in Conference Room A.

1. Present: Messrs. Knapp (Chairman), Cope, Benjenk, Diamond, Nurick, Cancio, Guastafson, Upper, Awunyo and Pearce (Secretary).
2. Issue: The meeting had been called to consider, in connection with a proposed \$10 million loan to the Industrial Credit Company, Ltd. (ICC), Ireland, (cf. LC/0/70-131 dated December 23, 1970), arrangements for protecting ICC against foreign exchange risks. ✓
3. Discussion: The meeting noted that:
 - (a) In lending to a development finance company, the Bank required assurances that the borrower would be adequately protected against foreign exchange risks. The latter were normally assumed either by the company's sub-borrowers or by the government/central bank of the country concerned.
 - (b) In this case, the Irish Government, although willing to assume the exchange risk for the proposed \$10 million loan to ICC, was apparently reluctant to seek Parliamentary approval of enabling legislation at this time. In the circumstances, the Irish negotiators had suggested that the loan be made to the Government for relending to ICC - a procedure which would not necessitate legislation.
 - (c) However, the Bank preferred to follow its normal policy of lending directly to the development finance company and the Irish negotiators had been asked to pursue the matter further in Dublin.
4. Decision: The Chairman, noting that the issue now rested with the Irish, agreed that the Bank should await the Government's reply regarding how it proposed legally to assume the exchange risk.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Benjenk/Upper
Diamond/Gustafson

cc: Loan Committee
Participants

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/71-2

January 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Gabon - Proposed Owendo-Booue Railway Project" held at 3:00 p.m. on Monday, January 4, 1971 in Conference Room B.

David Pearce
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)

January 26, 1971

Minutes of Special Loan Meeting to discuss "Gabon - Proposed Owendo-Booue Railway Project" held at 3:00 p.m. on Monday, January 4, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Broches, Baum, Chadenet, Chaufournier, Gabriel, Cheek, Geolot, Delaune, Jaycox, Thalwitz, MacTaggart, Pouliquen, Siret and Pearce (Secretary).
2. Issue: The meeting had been called to review the financial aspects of the proposed Owendo-Booue railway project, comprising the first 330 km stage of a proposed 560 km railway between Owendo, the sea port of Libreville, and Mekambo, close to rich iron ore reserves. ✓
3. Discussion: The meeting noted that:
 - (a) Although the main objective of the proposed railway would be to link the sea port at Owendo to the iron ore reserves at Mekambo, the Gabonese planned to proceed with construction of the Owendo-Booue first stage before mine exploitation at Mekambo was certain. This first stage would open up large forest reserves at Booue to logging exploitation and, in the judgement of the Gabonese, would facilitate and advance the decision of SOMIFER, the concessionnaire, to open the Mekambo mine. ✓
 - (b) The Bank's original position had been that, without mining prospects, a railway from Owendo to Booue would not be viable. Moreover, its own analyses of the Owendo-Booue first stage indicated that, if timber only were carried, road/river rather than railway transport would be the optimum mode. However, it was extremely unlikely that the Mekambo reserves would remain unexploited during the next 25 years, i.e. during the economic life of the proposed railway, and the Gabonese proposal to proceed with the first stage, on the assumption that the mine would be operative in the foreseeable future, was therefore probably justified.
 - (c) Financial analysis of the proposed railway project indicated that tax proceeds from logging operations and railway tariffs could generate sufficient funds to defray its capital and operating costs, subject to substantial increases in permit fees and area taxes, a fixed element of logging costs. Specifically, permit fees should be increased from the present rate of a maximum of about \$4 per hectare to \$25 per hectare. ✓

- (d) The Bank had suggested that logging permits should be let by international competitive bidding or auction, but the Gabonese proposed to let them on a negotiated basis and this would be acceptable. In any event, Bank field appraisal of the project would be conditional upon the finalization of appropriately priced long-term logging contracts covering 500,000 hectares within the railway's zone of influence.
- (e) The Gabonese proposal to proceed with the railway's first stage now should not affect the negotiated price/tax package for iron ore later, which would have to cover total railway costs attributable to carriage of the ore. However, this could not be made a condition of a Bank loan for the extension of the Owendo-Booue railway.

4. Decision: The Chairman agreed that the Bank's present position, including suggested conditions for long-term logging contracts and recommendations on an iron ore tariff package, should be conveyed to the President of Gabon substantially on the lines of a draft letter circulated at the meeting.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Geolot
Delaume
Thalwitz
MacTaggart

cc: Loan Committee
Participants

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

January 22, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Philippines - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 22, 1971 from the East Asia and Pacific Department, entitled "Philippines - Highway Project" (LC/0/71-9).
2. Comments, if any, should be sent to reach Mr. Wang (ext. 4046) by 5:00 p.m. on Wednesday, January 27.
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.

David Pearce
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)

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SEP 05 2014

LC/0/71-9

WBG ARCHIVES

January 22, 1971

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

PHILIPPINES: Highway Project

1. Attached is an Appraisal Report on the above project (No. PTR-68), dated November 30, 1970, for a proposed Bank loan to the Government of the Philippines.
2. Negotiations have recently been completed for a loan of US \$14.3 million for a rice processing project, which is expected to be presented to the Executive Directors on January 26. The proposed highway loan would be for approximately US \$8 million and would be the first for highways. These two loans would bring the Bank's total lending in the country to about US \$239 million, net of cancellations. Of the 13 loans previously made by the Bank, four were for power, three for private industry through PDCP, two for rural credit, and one each for port dredging, water supply, education and irrigation. As of December 31, 1970, the net amount of loans held by the Bank was US \$189.5 million and the undisbursed amount was US \$72.6 million.

Background

3. The Bank's lending program was described in the Country Program Paper which was reviewed by Mr. McNamara in August 1970 and a copy of the most recent version is attached. It concentrates our assistance on priority infrastructure investments in agriculture, transport, power and water supply - sectors which have been relatively neglected by the Government in the past.
4. The Philippine authorities have made commendable efforts to implement the standby agreement negotiated with the IMF early in 1970 and the external situation, in particular, has markedly improved. During the first eleven months of 1970, the trade deficit was reduced to \$5 million, as compared with \$263 million in 1969. The level of international reserves increased by over \$100 million despite a heavy debt service burden in 1970, involving the repayment of some \$514 million of public and private debt. Measures were also taken to improve the domestic monetary and fiscal situation. New budget authorizations were reduced, with the result that there was an overall budget surplus of ₱61 million in the second half of 1969/70, compared with a large overall budget deficit of ₱867 million in the first half of 1969/70. In addition, steps were also taken to improve and strengthen performance in the field of public sector development. An IMF mission is now in the Philippines to discuss progress under the standby agreement and to consider the further requirements of monetary and fiscal policy for the year ahead.
5. In October 1970, the Philippine Congress approved a bill, which was signed into law as Republic Act No. 6142 in November, authorizing the Government to incur new foreign debt to finance development projects. One of the purposes

of this Act, as originally drafted by the Government in consultation with the Bank, was to authorize the Government to waive existing laws in the Philippines which restrict international competition and provide for the grant of excessive preferences to local suppliers. The Act finally passed by Congress authorizes the President to waive restrictions on international competitive bidding but it contains mandatory preference provisions for procurement of goods which do not conform with the Bank's policies in this respect. However, the problem will not arise in connection with this project since construction will be on the basis of civil works contracts.

6. The new law also sets a ceiling on the Government's external borrowing and guarantee operations in the form of a debt service ratio of 20% of the average annual foreign exchange receipts (inclusive of borrowings) of the three years preceding the year in which the debt is incurred. The ratio of debt service on existing public and private foreign debt already exceeds 20% in FY 1970/71 and therefore no additional loans which would create debt service payments this fiscal year can be contracted. However, interest and commitment charges on the proposed loan will not arise until FY 1972; and the Government's and our estimates indicate that debt service on this loan can be accommodated for this and subsequent years. The introduction of a debt limitation clause in the Act should prove beneficial in the long run particularly in view of the lack of restraint shown by the Government in previous years in contracting foreign debt.

The Project

7. The proposed project is an outcome of the UNDP Transport Survey of the Philippines, for which the Bank was the Executing Agency. The Survey was carried out by consultants in 1968/69. As part of the Survey, the consultants also completed feasibility studies for several priority roads, on the basis of which three roads - two in Luzon and one in Mindanao - were selected by the Government for detailed engineering as a project for Bank consideration. However, during the appraisal of the project in July, the mission was advised that construction of the two roads in Luzon were to be financed from the proceeds of a loan contracted with Japan in 1969 to reconstruct sections of the Japan-Philippine Friendship Highway project, a north-south route from Aparri in northern Luzon to Davao in Mindanao. Due to inadequate communications between the government agencies concerned, this had not been previously brought to the Bank's attention. In these circumstances it was agreed that the Bank would finance construction only of the road in Mindanao, but that, in view of its earlier commitment in this respect, it would also finance retroactively the detailed engineering on all three roads.

8. The proposed project would consist of the following components:

- a. Construction of the Cotabato-Digos road of about 160 km in Mindanao;
- b. Consultants' services for:
 - i. construction supervision of the Cotabato-Digos road;
 - ii. detailed engineering of this road and the two roads in Luzon referred to above;
 - iii. detailed engineering of about 700 km of roads to be selected from item (c) below;

- c. Feasibility studies of about 1,000 km of roads; and
- d. Technical assistance to the Bureau of Public Highways (BPH) for operational improvements.

9. The proposed loan would cover the foreign exchange costs of road construction, consultants' services and contingencies totalling US \$6.8 million (para. 4.09). In addition, we propose that the loan include an amount to cover interest and commitment fees during construction (April 1971 to December 1974), estimated at US \$1.3 million. This corresponds roughly with the period when, according to our projections, debt service will continue to make heavy demands on the Philippines' foreign exchange earnings. The effect of such capitalization would be to increase the amount of the proposed loan to about US \$8 million.

10. The foreign exchange component of road construction is estimated at US \$3.4 million (60%) or US \$2.7 million (45%) depending on whether the work is done by foreign or local contractors (para. 4.11). In the latter event, we propose that any foreign exchange savings be cancelled and the disbursement percentage for road construction be readjusted accordingly. There is not a strong case for Bank financing of local currency expenditures in the Philippines and it would be difficult to justify the use of these savings for this purpose. The peso cost of the project would amount to US \$5.5 - \$6.2 million depending on whether the road construction is to be executed by foreign or local contractors. An export tax which was authorized by Congress last year specifically provides for the allocation of 25 percent of the proceeds to internationally financed projects. Local currency expenditures for the project are expected to be financed from the export tax revenues (para. 3.12). In the circumstances we do not expect that problems of peso financing will arise as they did in the case of some of the previous Bank-financed projects.

11. The Bank expects to be working closely with UNDP on this project which includes feasibility studies for additional priority roads and technical assistance to improve the operations of the Bureau of Public Highways (BPH), the project execution agency. The Government has applied to UNDP for financial assistance on a priority basis for both these items and has requested that the Bank act as the Executing Agency. UNDP will decide on its response to this application shortly. We expect that the feasibility studies and the technical assistance to BPH will get started at about the same time as the construction element of the project, about mid-1971.

12. The foreign exchange cost of US \$2.5 million for consultants' services includes US \$750,000 for retroactive financing to February 1970 of detailed engineering of the project road in Mindanao and the two roads in Luzon, approximately US \$600,000 for supervision of construction and a further US \$1.2 million for detailed engineering of about 700 km of highway to be selected from the feasibility studies proposed for UNDP financing.

13. The Cotabato-Digos road is the only east-west link in central Mindanao, one of the richest agricultural areas in the Philippines. On the basis of savings in vehicle operating costs the rate of return for the road construction is estimated at 18%. The project has high priority and although its scope has been considerably reduced from what was originally envisaged, it should facilitate further investments in the highway sector. The road construction would take about three years, the feasibility studies and subsequent detailed engineering, about two years and the technical assistance to BPH about two years. It is

proposed that the loan should have a term of 24 years including a grace period of four years.

14. Reference is made in the appraisal report to Public Works Act of 1969/70 (R.A. 5979) which excludes the employment of foreign consultants in the preparatory work of government-funded projects unless they associate with local firms on a 50-50 basis (paras. 4.13 and 6.01). An opinion has subsequently been received from the Secretary of Justice to the effect that restrictions under R.A. 5979 can be waived under R.A. 6142. Area and Transportation Projects Department agree that as one of the conditions of loan effectiveness the Bank should require that this restriction and the restrictions on international competitive bidding referred to in paragraph 5 above will, in fact, be waived under the authority of R.A. 6142.

Recommendation

15. I agree with the conclusions and recommendations of the Appraisal Report and, as paragraph 14 above supersedes paragraph 6.01 of the Appraisal Report, I recommend that the Bank invite the Government to send representatives to Washington to negotiate a loan of about US \$8 million. I also recommend that the Bank be prepared to act as the Executing Agency for the UNDP-assisted feasibility studies and technical assistance referred to in paragraph 11 above.

Raymond J. Goodman
Director

Attachments

Population: 34.7 m
GNP Per Cap: \$180

IVa. PHILIPPINES - 5 YEAR LENDING PROGRAM

		(\$ millions)								
		Fiscal Year					Total	Total		
		1971	1972	1973	1974	1975	1976	1964-68	1969-73	
Livestock I	IBRD		5.0							
Livestock II	IBRD						7.0			
Agricultural Credit III	IBRD			15.0						
Agricultural Credit IV	IBRD					20.0				
Irrigation II	IBRD				13.0					
Irrigation III	IBRD					35.0				
Irrigation IV	IBRD						10.0			
Rice Processing I	IBRD	14.3								
Rice Processing II	IBRD					20.0				
Fisheries	IBRD				5.0					
DFC - PDCP IV	IBRD		20.0							
DFC - PDCP V	IBRD				20.0					
DFC - PDCP VI	IBRD						20.0			
Education II	IBRD		10.0							
Education III	IBRD					10.0				
Industry - Unidentified	IBRD						20.0			
Power V	IBRD		15.0							
Power VI	IBRD				20.0					
Tourism	IBRD				10.0					
Highways I	IBRD	8.0 ^{1/}								
Highways II	IBRD			35.0						
Ports II	IBRD			10.0						
Ports III	IBRD					15.0				
Water Supply II	IBRD			20.0						
	IBRD	22.3	50.0	80.0	68.0	100.0	57.0	68.2	223.8	
No.		2	4	4	5	5	4	5	13	

P.&B. 11/17/70

1/ Revised by East Asia & Pacific
Department, January 12, 1971

LOAN COMMITTEE

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WBG ARCHIVES

January 21, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Technical and Agricultural Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 21, 1971 from the South America Department, entitled "Brazil - Proposed Bank Loan for Technical and Agricultural Education Project" (LC/0/71-8).
2. Comments, if any, should be sent to reach Mr. Roberto M. Fernandes (ext. 4056) by 5:00 p.m. on Monday, January 25.
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.

David Pearce
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
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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)

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CONFIDENTIAL

LC/O/71-8
January 21, 1971

LOAN COMMITTEE

Memorandum from South America Department

BRAZIL: Proposed Bank Loan for Technical
and Agricultural Education Project

1. Attached is Appraisal Report No. PE26 recommending a Bank Loan of \$8.4 million to assist in the financing of the building and equipment for six post secondary centers for high level technicians, eight agricultural secondary schools and two industrial secondary schools. The proposed loan would be the first for education in Brazil.

The Lending Program

2. The proposed loan would be the first to be made to Brazil as part of the current fiscal year's lending program which comprises six projects. The draft appraisal report for the Salto Osorio Hydroelectric Project is currently being reviewed. Appraisal reports are currently being prepared for all the other projects scheduled for the fiscal year. The five-year lending program (fiscal years 1971-75) is attached.

The Economy

3. The recent economic report on Brazil (WH-203) issued on November 4, 1970 indicates that in the last three years the Brazilian economy sustained a rapid growth rate while the country's international liquidity position has been strengthened. Prospects for continued rapid growth are bright. In the seventies Brazil should be able to sustain an average growth rate of at least 6-7 percent p.a. while improving its external debt structure. No liquidity difficulties are foreseen for the next few years. Brazil continues to be creditworthy for substantial amounts of Bank lending.

The Project

4. The project would be the Bank's first investment in Brazil's education sector. It is designed to increase the quality and output of technical (agricultural and industrial) education at the secondary and post-secondary levels. While the entire gamut of the Brazilian educational system urgently requires improvement, it was felt that the contribution of the Bank would be most effective if focussed on a specific critical area. Other areas are already receiving substantial assistance from UNDP and USAID.

5. Total cost of the project is estimated at \$21.0 million equivalent, of which the Bank would contribute \$8.4 million or 40 percent. The foreign exchange component of the project is \$3.4 million. The 40 percent cost sharing is recommended on "country" grounds discussed in paragraph 38 of the program paper on Brazil (November 9, 1970) and in order to make a significant contribution to the project.

6. The project consists of buildings and equipment for the establishment of one new agricultural secondary school and five new operational engineers centers and the expansion of seven agricultural secondary schools, two industrial secondary schools and one operational engineers center. Also included is a small component of technical assistance (specialists' services and overseas fellowships). Total new enrollment would be around 8,300 students.

7. The project implementation period would be $1\frac{1}{2}$ years (including $2\frac{1}{2}$ years for construction). The Appraisal Report recommends that the proposed Bank Loan have a maturity of 30 years, including a ten-year grace period.

8. The loan would be made to the Government of Brazil. Of the 16 schools included in the project, one agricultural "colegio" would be built and administered by the Sao Paulo State Government and two by the University of Santa Maria. The loan agreement would include a covenant requiring the Federal Government to conclude with the Sao Paulo State Government and the University of Santa Maria arrangements satisfactory to the Bank to implement parts of the project under their jurisdiction before disbursements can be made for them.

9. Contracts for civil works, equipment and furniture would be awarded after international competitive bidding and a 15 percent margin of preference for domestic producers would apply in case of furniture and equipment. In the Marimondo loan (677BR) we agreed to the inclusion of port improvement and merchant marine charges (adding about 3 percent to CIF prices) as cost for purposes of bid comparison. The subject is under review and I propose to make further recommendations on it in connection with the Salto Osorio Power Project to be submitted to the Loan Committee next week.

Recommendation

10. I recommend that the Bank inform the Government of Brazil that it is prepared to negotiate a loan of \$8.4 million under the terms and conditions set forth in the attached appraisal report.

Attachments.

Gerald Alter
Director

Population: 93.3 m
GNP Per Cap: \$286

BRAZIL - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		1971	1972	Fiscal Year		1975	1976	Total	Total
				1973	1974			1964-68	1969-73
Land Settlement I	IBRD		10.0						
Agricultural Credit I	IBRD		20.0						
Land Settlement II	IBRD				30.0				
Agricultural Credit II	IBRD					30.0			
Agricultural Research in NE	IBRD			10.0					
Livestock II	IBRD						60.0		
DFC - Industrial Finance I	IBRD		12.5						
DFC - BNB II	IBRD			35.0					
DFC - Industrial Finance II	IBRD				50.0				
DFC - BNB III	IBRD					40.0			
DFC - Industrial Finance III	IBRD						60.0		
Education I	IBRD	8.4							
Education II	IBRD			20.0					
Iron Ore - MBR	IBRD	50.0							
Steel - USIMINAS	IBRD		40.0						
Steel - COSIPA	IBRD		50.0						
Steel - CSN	IBRD		70.0						
Iron Ore - North	IBRD				50.0				
Power - Salto Osorio	IBRD	70.0							
Power - Sao Simao	IBRD		75.0						
Power - Itumbiara	IBRD				75.0				
Power - Agua Vermelha	IBRD					75.0			
Power - Unidentified	IBRD						75.0		
Highways III	IBRD		100.0						
Highways IV	IBRD			100.0					
Sao Paulo Beltway	IBRD			60.0					
Highways V	IBRD					100.0			
Highways VI	IBRD						100.0		
Ports I - Santos	IBRD	50.0							
Ports II - Recife	IBRD		10.0						
Ports III - Rio	IBRD			15.0					
Railways I - MBR Link	IBRD	45.0							
Railways II	IBRD		50.0						
Railways III	IBRD				50.0				
Transportation Unidentified	IBRD				75.0				
Transportation Unidentified	IBRD					75.0			
Water Supply - Sao Paulo	IBRD	37.0							
	IBRD	250.4	437.5	240.0	330.0	320.0	295.0	291.1	1180.8
No.		6	10	6	6	5	4	10	28

LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

January 20, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Fiji - First Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of January 20, 1971 from the East Asia and Pacific Department, entitled "Fiji - First Highway Project" (LC/0/71-7).
2. Comments, if any, should be sent to reach Mr. Gould (ext. 4049) by 5:00 p.m. on Monday, January 25.
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.

David Pearce
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)
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LC/0/71-7

SEP 05 2014

January 20, 1971

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LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

Fiji: First Highway Project

1. Attached is an Appraisal Report entitled "Appraisal of a First Highway Project: Fiji" (PTR-71) dated December 31, 1970 recommending a loan of \$11.8 million to the Government of Fiji.

Background

2. Fiji achieved its independence on October 10, 1970 and now has dominion status within the British Commonwealth. A parliamentary system of government has been established and the first post-independence elections are scheduled for November 1971. Fiji formally applied for membership in the Fund, Bank and IDA in November 1970, and it is expected that membership procedures will have been completed by May 1971. Presentation of the proposed loan to the Executive Directors will, of course, be contingent on Fiji's having become a member of the Bank.

3. The Bank's lending program (copy attached) was described in the Country Program Paper which was reviewed by Mr. McNamara in September. It provides for four loans amounting to \$24.8 million in priority sectors of the economy; two for highway projects and one each for irrigation and tourism development. This would be our first loan for a project in Fiji.

4. A Bank economic mission reviewed the current economic situation last June and reported that the overall economic performance of Fiji has been satisfactory. Fiji has entered independence on a firmer economic base than many new countries; it has a relatively high per capita GNP (US \$410), good general education and a sound administrative system. GNP has been growing at an average annual rate of 5 percent over the last five years and a burgeoning tourism industry and some agricultural diversification has tended to reduce the economy's dependence on sugar. Balance of payments problems have been avoided, due in part to rapidly growing receipts from tourism, and this equilibrium should not be difficult to maintain. Foreign borrowing has been minimal and the debt service ratio is expected to be less than 5 percent in 1975. Fiji can be considered creditworthy for borrowing on Bank terms.

5. Fiji's highway network totals about 1,550 miles, of which only 96 miles of main road and 17 miles of secondary road are paved. A UNDP transport team completed a comprehensive survey of the transport sector in 1968 which brought out the priority need for construction of the Suva-Nandi road which is located in the main island of Viti Levu. A British consulting firm, Rendel, Palmer and Tritton (RPT), prepared the feasibility study for this road, which generally confirmed its economic priority, and completed the detailed engineering in December 1970.

The Project

6. The proposed project provides for construction to two-lane paved standards - of 67 miles out of the 130-mile gravel road between Suva, the capital, and Nandi, the site of the international airport; consulting services for detailed engineering of the entire Suva-Nandi highway and for supervision of project construction; and technical assistance to the Ministry of Communications, Works and Tourism (MCWT) in highway maintenance and economic planning. The Government had originally requested the Bank to finance the construction of the entire Suva-Nandi road, but at the CPP review with Mr. McNamara in September it was decided that the Bank under this project would finance the construction of the two end sections, but not the central portion for which the economic rate of return is presently marginal. The Government has agreed that construction of this central section be deferred, but has requested the Bank to consider financing this section in three to four years. Provision has been made for this in our lending program.

7. The two end sections of the road to be constructed under this project are the 26-mile link between Suva and Deumba and the 41-mile section between Nandi and Korotongo. The traffic on these two sections is 65 percent higher than on the middle section, which mainly carries through traffic, and the project would contribute to the development of agriculture and tourism in the areas contiguous to construction. At Suva, additional facilities for traffic distribution between the project road and the city will be required by 1980. This problem is currently being studied by consultants and during negotiations we would obtain assurances that the Government would discuss the consultants' proposals with the Bank and carry out approved proposals in accordance with a timetable to be agreed between the Government and the Bank.

8. The total cost of the project is estimated to be US \$16.8 million, including a foreign exchange component of about \$11.9 million, which represents about 70 percent of total project cost. The cost estimates for road construction were prepared by RPT on the basis of completed detailed engineering and include the usual contingency allowances for variations in the physical quantities of construction and price escalation. A further 10 percent "uncertainty" contingency allowance has been added as there is no history of major road contracts in Fiji and to take into account the possibility that contractors may wish to safeguard themselves against such uncertain factors as the application of import restriction or taxes, difficulties in repatriation of profits, etc. If the bid evaluations show that these problems have not materialized, the 10 percent contingency allowance provided for in the Bank loan would be cancelled.

9. The proposed Bank loan of \$11.8 million to the Government would cover the foreign exchange costs of construction of the 67-miles of the Suva-Nandi highway and consultants' services for project supervision. It would also provide \$600,000 for retroactive financing of the foreign exchange costs of the detailed engineering of the entire Suva-Nandi highway incurred between November 1969 and December 1970. The Government has requested assistance from the Commonwealth Secretariat for the US \$53,000 required to finance

the foreign exchange costs of a transportation economist for a two-year period to assist MCWT in project planning and is expected to seek a grant of US \$66,000 from the UNDP to cover the foreign exchange costs of highway maintenance consultants. The Government would provide the balance of project costs amounting to \$4.4 million from funds which have been allocated for this in its development budget.

10. MCWT is responsible for all public works, post and telecommunications, tourism, marine transportation and aviation in Fiji, and would be the executing authority for this project. MCWT has proved to be a fairly effective organization and no major reorganization is considered necessary at this time. The department is adequately staffed and new recruits are gradually replacing older permanent staff so that no problems of discontinuity are likely to be created by the attainment of independence.

11. MCWT does not presently have the capacity to handle the economic evaluation of transport projects and the transportation economist (para. 9) would advise MCWT on the methods of determining the priority, size and location of future transportation projects. The appraisal report notes that highway maintenance is a potential problem in Fiji as expenditure per mile on highway maintenance has been declining at a time when vehicle usage is growing. The project provides for services of maintenance consultants to assist the Government in preparing a five-year maintenance program. During negotiations, we would obtain assurances that, pending the completion of the maintenance program establishing appropriate budgetary allocations for this purpose, highway maintenance expenditures would not be allowed to fall below 1969 levels.

12. The Fiji Independence Act, 1970, provides new procedures for Government's acquisition of land for public purposes. If agreement with individual landowners cannot be reached, the Government has the legal authority to take possession of the land. Development work can begin at the time of possession, but the Government must apply to the Supreme Court for a Court Order upholding the Government's right of acquisition. The landowners affected by the proposed highway project are being notified of the Government's intention to acquire their land and the Government expects that by June 1971 all land required for project construction would have been obtained. The appraisal report recommends that all land required for project construction be obtained before presenting this loan to the Executive Directors (para. 4.12). As there would be four or five months between the time of Board presentation and the commencement of project construction, I would suggest that the loan be presented to the Executive Directors even if there are still minor procedural problems in obtaining project land which can be expected to be resolved before project construction begins. We plan to keep this matter under careful review and Projects Department has agreed that their present recommendation in this matter could be reconsidered subsequently in the light of further information expected during the next several months.

13. The two construction contracts would be awarded on the basis of international competitive bidding and it is expected that these would be won by foreign contractors as there are no local contractors capable of undertaking work of this nature. Contracts for a 36-month period could be

awarded during the third quarter calendar 1971 and a further 6-month period should be allowed for final payments and resolution of any claims; a four-year construction period would therefore be necessary. Given this construction period and the economic life of the project road, it is recommended that the proposed Bank loan have a term of 24 years including four years of grace.

14. The project would result in considerable savings in vehicle operating costs and on this basis the overall economic return on the project is estimated to be about 18 percent over a 20-year period; 17 percent for the Suva-Deumba section and 19 percent for the Nandi-Korotongo section. Sensitivity analyses indicate that the project remains economically justified after allowing for a considerable range of possible variations in construction costs, traffic growth and vehicle operating cost savings. The project would also provide considerable additional indirect benefits to the tourism and agriculture sectors but these benefits have not been quantified.

Recommendation

15. With the reservation noted in paragraph 12, I agree with the conclusions and recommendations of the appraisal report. I recommend that the Government be invited to send representatives to Washington to negotiate a loan of \$11.8 million repayable over 24 years including a four-year grace period.

Attachments.

Population 0.5m
Per Cap. GNP: US\$410

Attachment 1

FIJI - PAST AND PROPOSED LENDING THROUGH FY 1976
(\$ million)
Fiscal Years

		1971	1972	1973	1974	1975	1976	Total 1964-68	Total 1969-73	Total 1972-76
Highway I	IBRD	11.8	-	-	-	-	-	-	11.8	-
Highway II	IBRD	-	-	-	-	-	8.0	-	-	8.0
Irrigation	IBRD	-	-	2.0	-	-	-	-	2.0	2.0
Tourism	IBRD	-	-	3.0	-	-	-	-	3.0	3.0
		11.8	-	5.0	-	-	8.0	-	16.8	13.0
No.		1	-	2	-	-	1	-	3	3

IBRD Loans Outstanding

Including undisbursed	11.8	11.8	16.8	16.8	16.8	24.6	-
Excluding undisbursed	-	3.1	7.5	12.7	15.5	17.3	-

IBRD Loan Disbursements

Proposed Loans	3.1	4.4	5.2	2.8	1.8	-	7.5	17.3
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East Asia and Pacific Department
January 13, 1971.

LOAN COMMITTEE

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LC/A/71-1/1

January 20, 1971

NOTICE OF MEETING

The Meeting of the Loan Committee, originally scheduled for Tuesday, January 19, 1971, will now be held on Friday, January 22, 1971 at 2:00 p.m. in the Board Room.

AGENDA

Tunisia

The Committee will consider the memorandum of January 13, 1971 from the Europe, Middle East and North Africa Department, entitled "Tunisia - Proposed Credit for a Population Project" (LC/0/71-4).

David Pearce
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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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

LOAN COMMITTEE

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SEP 05 2014

January 19, 1971

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Dominican Republic - Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 19, 1971 from the Central America and Caribbean Department, entitled "Dominican Republic - Proposed IDA Credit for Livestock Development" (LC/O/71-6).
2. Comments, if any, should be sent to reach Mr. Roger Nelson (ext. 2473) by 5:00 p.m. on Thursday, January 21.
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.

David Pearce
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
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Executive Vice President (IFC)
Vice President (IFC)

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LC/O/71-6

January 19, 1971

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

DOMINICAN REPUBLIC - Proposed IDA Credit for Livestock Development

1. Introduction: Attached for consideration by the Loan Committee is Appraisal Report No. PA 71 entitled "Livestock Development Project, Dominican Republic", which recommends an IDA credit of \$5.0 million to the Government of the Dominican Republic to finance a program of credit to beef and dairy farmers to be administered by an agency of the Central Bank.
2. The proposed credit would be the second by IDA to the Dominican Republic, the first being a \$4 million credit for an Education Project, which was approved by the Executive Directors on November 24, 1970. This credit has not been signed as yet because of a delay in the appointment of a project director acceptable to the Association, which is a condition of signing. The nominee for project director on whom the Bank had agreed has withdrawn and a new nominee is now being selected by the Government. The only loan made by the Bank was for \$25 million on December 1969 to Falconbridge Dominicana, C. por A., for the power component of a ferronickel project which is progressing satisfactorily, \$10.5 million having been disbursed up to the end of December 1970.
3. The Five-Year Lending Program (FY1970-75) is attached. The first Country Program Review on the Dominican Republic will be held with Mr. McNamara early in March.
4. Economic Situation: A report on the "Current Economic Position and Prospects of the Dominican Republic" (WH-176b) was circulated to the Executive Directors on April 12, 1968. This report concluded that performance of the public sector and external debt management appeared to be generally satisfactory, but the balance of payments was precarious and very limited capacity existed to service external debt on conventional terms. After reviewing the report, the Economic Committee on January 17, 1968, concluded that the country qualified for IDA assistance on the grounds of satisfactory economic performance, as well as poverty and limited credit-worthiness. An economic mission which visited the country in October 1970, confirmed the above conclusions. The results of the mission's review were summarized in an updating memorandum which was attached to the President's Report and Recommendation for the Education Project.
5. Because of balance of payments problems and a shortage of foreign exchange reserves, delays have occurred in payments of service on external debt, particularly to the United Kingdom and the United States. Rescheduling of the outstanding British debt has now been completed on a basis satisfactory to the United Kingdom. A satisfactory understanding has recently been worked out regarding payment of the arrearages on U.S. debt, according to U.S. Treasury staff. In view of past experience, however, we plan during the negotiations to emphasize the importance of fulfilling these

understandings and to closely follow the Dominican Republic's progress in doing so.

6. The Project: The project would consist principally of improving about 260 beef and dairy ranches through credit and technical services, and its total cost, including incremental working capital, is estimated at \$9 million, of which \$2.4 million (27 percent) would be the foreign exchange component. The proposal set out in the Appraisal Report is that IDA finance 55 percent of total project costs, the Central Bank 20 percent, participating commercial banks (including branches of five U.S./Canadian banks, which currently hold about half of the outstanding commercial bank loans to the private sector) together with the government-owned Agricultural Bank 8 percent and the ranchers themselves 17 percent (equivalent to 20 percent of on-ranch investments). Under this arrangement for sharing the costs, over half the IDA credit would be used for financing local costs.

7. The Government, which would be the recipient of the IDA credit and would bear the foreign exchange risk, would pass the credit on to the Central Bank's Economic Development Investment Fund (FIDE) at an interest rate of 4 percent, FIDE would rediscount in full at 5 percent loans extended to farmers by participating banks, and the participating banks would lend at 9 percent, thus enjoying a spread of 4 percent to cover credit risks and costs of administration, which would include the employment of livestock technicians to assist in drawing up farm plans and in supervising use of the credit (two of the commercial banks already have such technicians, and other participating banks would be expected to recruit them). Additional technical support would be provided by a Livestock Project Division (LPD) to be set up in the Central Bank under an experienced Project Director. It is unlikely that a suitable man can be recruited locally for this job, and in the event that a foreign expert is appointed, the Appraisal Report (paragraph 3.16) envisages there being also a Dominican counterpart (described as Project Coordinator) who would be trained to resume full responsibility for the project in two or three years' time.

8. Issues: I would like to draw attention to the following aspects of the project, particularly in view of the recent history of discussions in the Board regarding similar projects:

- (a) the spread of 4 percent allowed to participating banks and their limited financial contribution - essentially working capital only;
- (b) the amount of total project costs to be borne by IDA, involving a relatively high proportion of local cost financing;
- (c) the use of the credit to finance the medium and larger farmers, while the Inter-American Development Bank will be financing the small and lower-medium farmers in the same areas (Appraisal Report, paragraph 2.15, and Annex 2, paragraph 34).

9. On the first point, the view of the appraisal mission is that it would be extremely difficult to interest the commercial banks in participating in the project with any lower spread or greater financial contribution than that now proposed, and the alternative of channelling all the credit through the government-owned Agricultural Bank was not one that they felt able to recommend. The commercial banks stated that they would have difficulty justifying the use of their own funds for long-term livestock loans due to the very high reserve requirements of the Central Bank. There is little tradition in the Dominican Republic for commercial banks directly to lend their own funds on a medium and long-term basis; instead, reserve requirements are very high and the Central Bank uses a portion of the resulting reserves for rediscounting loans through FIDE. Nevertheless, it is difficult to accept the combination of the large spread and low financial participation particularly in the case of foreign banks. I therefore recommend, with the agreement of the Agricultural Projects Department, that the possibilities of reducing the spread without reducing the rate to the ultimate borrower and of increasing the participation of the commercial banks be explored further during negotiations.

10. A related issue, which is likely to be brought up by the Central Bank during negotiations, is the rate at which IDA funds should be passed on by the Government to the Central Bank. The appraisal report recommends a rate of interest of 4 percent a year, but the Central Bank would like to have this reduced to 3 percent. In my view, we should only be prepared to agree to the lower figure if the Central Bank can show that it needs additional funds for the efficient implementation of the project; the Agriculture Projects Department agrees on this approach.

11. IDA's share of total project costs would be higher than usual for comparable projects in the Western Hemisphere because IDA would be financing a relatively large amount of local costs. This can be justified, however, on project grounds in view of the high priority of the project and on country grounds in view of progress being made in mobilizing additional public savings.

12. The average size of sub-loans envisaged for this project is rather over \$20,000. This does not seem unreasonable as the smaller ranchers are now being aided by the current IDB loan and are expected to be aided by a further loan which has been requested from IDB. In order to prevent unnecessary duplication of effort the Central Bank has suggested that US\$10,000 be the ceiling on IDB sub-loans in the areas covered by the IDA project. The Central Bank intends to restrict lending through its channels to commercial enterprises and would prefer to apply its present minimum US\$10,000 loan size to the IDA Project also.

While the IDA credit would be concentrated on upper medium and large farmers, this appears justifiable since they generally are more likely to utilize the funds effectively and IDB funds are expected to continue to be available to meet the needs of smaller farmers in the project area.

Recommendation

13. I recommend that the Government of the Dominican Republic be invited to negotiate an IDA credit of \$5 million for the proposed livestock development project on the conditions proposed in the appraisal report, subject to changes which may result from the discussions mentioned in paragraphs 9 and 10 above.

Attachment

Edgar Gutierrez
Director

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IVa. DOMINICAN REPUBLIC - 5 YEAR LENDING PROGRAM

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Irrigation I - Yaque del Norte	IDA			6.0*					
Irrigation II - Yaque del Norte	IDA				6.0				
Livestock/Dairy Farming I	IDA		5.0						
Livestock/Dairy Farming II	IDA					5.0			
DFC - FIDE	IDA			5.0					
DFC - FIDE/Financiera Dominica	IBRD						2.5		
" " " "	IDA						2.5		
Education I	IDA		4.0						
Education II	IDA					5.0			
Industry - Mining	IBRD	25.0							
Tourism	IDA				5.0				
Unallocated	IBRD						3.0		

* This project is not included in the Agriculture Project Department's recommended program for 1972 because of Manpower restraints; a substantial delay has also occurred in completing the necessary feasibility study.

LOAN COMMITTEE

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January 18, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Somalia - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 18, 1971 from the Eastern Africa Department, entitled "Somalia - Education Project" (LC/0/71-5).
2. Comments, if any, should be sent to reach Mr. Roeloffs (ext. 3553) by 5:00 p.m. on Wednesday, January 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.

David Pearce
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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Vice President (IFC)

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LC/0/71-5

January 18, 1971

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

SOMALIA - Education Project

1. Educational facilities in Somalia are extremely limited. Only about 7% of children go to school and very few of them go beyond elementary school. Standards are low and few teachers are qualified. The Government is, however, under less popular pressure than in many other African countries to expand education rapidly and is thus free to lay its plans carefully and take due account of budgetary constraints. The Government's policy is to provide for only a gradual expansion in the proportion of the relevant age groups attending primary and secondary schools, to emphasize improving the quality of education through an increase in the number of qualified teachers and more equipment, and to provide industrial and agricultural training suited to the needs of the country. The present project would contribute to the fulfillment of these objectives.

2. In April, 1970, the Government submitted to the Association an education project prepared with help from UNESCO. An IDA/FAO mission appraised the proposed project in August/September 1970. The Appraisal Report entitled "An Education Project in Somalia" (PE-23 of December 7, 1970) is attached. It recommends that, subject to the conditions set forth in paragraphs 6.01-6.02, the proposed project is suitable as a basis for an IDA credit of \$3.3 million.

3. Past IDA operations in Somalia have been limited to two credits, totalling \$8.5 million, for a road project and a credit of \$550,000 for port engineering and accounting assistance. In addition to the proposed education project it may be possible to complete a second highway project in FY71, for which financing from the African Development Bank will also be required. The amount of this credit was expected to be \$7.0 million as shown in the Lending Program. This amount may have to be increased in the light of appraisal to about \$8.0 million. Financing of the construction of a new port at Mogadiscio is planned in FY72 by an IDA credit of \$7.5 million and a FED grant of \$7.5 million. The 1972-76 Lending Program for Somalia is attached.

The Project

4. The proposed project is designed to improve the quality of education, reduce wastage and achieve economies through consolidating existing institutions. It would assist teacher training, secondary education, technical education and agricultural training and help major reforms currently being carried out by the Somali Government

in all these fields. The project would include (a) extension to the National Teacher Education Center (NTEC) so as to provide Somalia with facilities for training teachers for elementary and intermediate schools (at present NTEC provides only training for secondary teachers); (b) extensions to 12 secondary schools for science laboratories, workshops, commercial and home economics rooms and libraries to accommodate a new diversified curriculum being developed by the Government to replace the current overly academic curriculum; (c) extensions to 2 technical schools to accommodate four-year courses in mechanical, electrical and automotive trades and telecommunications at one school, and building construction and civil engineering at the other; and (d) 8 agricultural mobile training units which would be used to provide short courses, using audiovisual aids, in subjects such as crop and animal production processes, farm mechanic skills and the use of fertilizer. In addition, the project would provide for technical assistance for project implementation and teacher training.

5. The project requires a heavy input of technical assistance in project planning and implementation. Part of this need is to be covered through the provision of 17 man-years of technical assistance in the proposed project. This includes, among other items, sufficient technical assistance to cover the needs of the project during the period of about one year required for architectural preparation and tendering. Technical assistance will thereafter also be required in (a) teacher training and curriculum development; (b) technical education and skilled worker training; and (c) agricultural training. The Government has submitted requests for the above items to the UNDP and has also asked a number of bilateral sources whether they would be willing to provide assistance. However, informal contacts with UNDP indicate that approval of the requested technical assistance may have to wait until January 1972. This is considerably later than was expected at the time of appraisal. In addition to the covenants recommended in paragraphs 6.01-6.02 of the draft appraisal report, we therefore propose with the concurrence of the Education Projects Department to provide in the Credit Agreement that the award of contracts for the construction of the technical education facilities, NTEC extensions, and for the purchase of agricultural mobile units would require the prior demonstration to the satisfaction of the Association that adequate provision for technical assistance had been arranged for the facility in question.

6. A project unit would be established within the Ministry of Education to administer the project. The establishment of this unit and the appointment of a project director, a project architect and adequate supporting staff would be a condition of effectiveness of the proposed credit.

7. The proposed project is estimated to cost about US\$3.7 million equivalent. The estimated foreign exchange component is US\$2.6 million. The credit would finance US\$3.3 million equivalent or 90% of the total estimated cost of the project, whichever is the lower.

Economic Situation

8. Somalia is one of the poorest countries in Africa, with an average per capita income roughly estimated to be only \$50-60 a year. The economy is largely undeveloped and is based almost wholly on agriculture, principally the production of livestock. Living conditions for the largely nomadic population are harsh, and social services, including education, are very limited.

9. An economic mission from the Bank visited Somalia in May/June 1970 to review recent developments and assess prospects for the future. Its report has recently been discussed with the Government and is due to be distributed to the Executive Directors within the next few weeks. The mission concluded that while there is no immediate prospect of a dramatic improvement in Somalia's economic position, there is potential for faster development in various sectors of the economy - particularly agriculture. To realize this potential, however, Government will need to concentrate its scarce administrative and financial resources on a limited number of projects. There will also have to be a continued flow of external financial assistance combined with technical assistance in project preparation and project management.

10. Faced from Independence with a crippling financial constraint, Somalia has had to rely on external sources not only for the whole of its development budget but also to finance a large part of its recurrent budget. It is to Somalia's credit that much progress has been made towards reducing budgetary deficits, and it now looks possible that the Government will be able to eliminate its recurrent budget deficit within two to three years provided the present tough and pragmatic policies are continued.

11. Assuming utmost stringency, the financial position of Government should allow sufficient expansion in recurrent expenditure to support the development effort as a whole over the period 1971-75. But Somalia will still have to rely on external sources of capital to finance virtually the whole of its development program, including local costs. For this reason the proposed credit would be for 90% of project cost and would include \$700,000 of local expenditure.

Recommendation

12. I recommend that the Association invite representatives of the Somali Democratic Republic to negotiate a development credit of \$3.3 million equivalent substantially on the terms and conditions set forth in paragraph 6.01-6.02 of the Appraisal Report, with the additional provision described in paragraph 5 above.

Michael L. Lejeune
Director

Population: 2.8 million
 Per Capita Income: \$50 - \$60

Attachment 1

SOMALIA - ACTUAL AND PROPOSED LENDING THROUGH FY 1976

		(\$ millions)											Total	Total	Total	
		Through 1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1964-68	1969-73	1972-76
Livestock I	IDA									3.0						
General Agriculture	IDA									2.0						
Livestock II	IDA										3.0					
Irrigation	IDA										5.0					
Agriculture - Unidentified	IDA												6.0			
Road Project I	IDA		6.2													
Road Project Supplementary	IDA				2.3											
Road Project II	IDA							7.0								
Port of Mogadiscio I	IDA					0.6										
Port of Mogadiscio II	IDA								7.5 ^{1/}							
DFC	IDA											1.0				
Education I	IDA							3.0								
Education II	IDA											3.0				
IDA Total		N11	6.2	-	2.3	0.6	-	10.0	7.5	5.0	8.0	4.0	6.0	8.5	23.1	30.5
No.			1		1	1		2	1	2	2	2	1	2	6	8
IDA Credits Outstanding																
- including undisbursed		N11	6.2	6.2	8.5	9.1	9.1	19.1	26.6	31.6	39.6	43.6	49.6			
- excluding undisbursed		N11	N11	N11	N11	2.3	5.5	9.1	12.0	17.5	24.0	31.0	35.5			

^{1/} assuming 7.5 from FED

Eastern Africa Department
 September 4, 1970

LOAN COMMITTEE

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LM/M/71-1

January 14, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Jamaica - Second Education Project" held at 3:30 p.m. on Thursday, January 7, 1971 in Conference Room A.

David Pearce
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)

January 14, 1971

Minutes of Special Loan Meeting to consider "Jamaica - Second Education Project" held at 3:30 p.m. on Thursday, January 7, 1971 in Conference Room A.

1. Present: Messrs. Knapp (Chairman), Cope, Demuth, Baum, Gabriel, Hoffman, Calika, E.P. Wright, Burt, Wyss, Clyde, Feldman, Sung and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Central America and Caribbean Department's memorandum of January 4, 1971 to the Loan Committee (LC/O/71-1) and the accompanying draft appraisal report, which recommended that the Jamaican Government be invited to negotiate a \$12 million loan for a second education project. The main issue for discussion was the project's technical assistance element amounting to \$0.9 million, of which the proposed loan would finance 80 per cent, i.e. \$0.7 million, representing the estimated foreign exchange component. ✓

3. Discussion: The meeting noted that:

- (a) While the technical assistance component of the proposed project - 3.9 per cent of total project costs - was somewhat higher than the average of Bank/IDA financed education projects to date - about 3 per cent - its content and amount, which took into account extensive bilateral technical assistance already made available, particularly by Canada, would be flexible. If additional assistance were obtained for specific items, the corresponding loan proceeds could be reallocated to related project purposes or be cancelled.
- (b) Most technical assistance items were essential to the execution of the project and were thus appropriate for financing from the proposed loan. The proposed manpower survey, however, while necessary for the preparation of a proposed third education project, could be separated from this project and be financed from other sources, including UNDP. In this event, however, the Bank would not necessarily be the Executing Agency. This alternative would be considered during negotiations.
- (c) Most of the expertise required for the project would probably have to be recruited from abroad but, even if some personnel were available in Jamaica, the disbursement percentage for expenditures in this category recommended in the draft appraisal report would remain the same, i.e. equivalent to the estimated total foreign exchange component, irrespective of the source of recruitment. However, the estimated foreign exchange component appeared rather high (80 per cent) and would be verified. [The Education Projects Department subsequently confirmed that the 80 per cent estimated foreign exchange component was reasonable.]

4. Decision: The Chairman authorized the Central America and Caribbean Department to invite negotiators for the proposed \$12 million loan on the terms and conditions set forth in the draft appraisal report, except for the amendments proposed in paragraphs 7, 8 and 11 of the Department's memorandum and paragraph 3(b) above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Baum
Calika
Wyss

cc: Loan Committee
Participants

LOAN COMMITTEE

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LC/A/71-1

January 13, 1971

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Tuesday, January 19, 1971 at 4:00 p.m. in the Board Room.

AGENDA

Tunisia

The Committee will consider the attached memorandum of January 13, 1971 from the Europe, Middle East and North Africa Department, entitled "Tunisia - Proposed Credit for a Population Project" (LC/0/71-4).

David Pearce
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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Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

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LC/O/71-4

January 13, 1971

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department

TUNISIA - Proposed Credit for a Population Project

Introduction

1. Attached for consideration of the Loan Committee is appraisal report No. PP-4 dated December 24, 1970, concerning a proposed credit to the Government of Tunisia for a population project. The report recommends an IDA credit of \$4.8 million to finance the foreign exchange element of the project, the total cost of which is \$7.7 million.

2. A summary description of previous Bank/IDA lending to Tunisia, of the current lending program (attached) and of the economy was given in the memorandum regarding the gas pipeline project, circulated to the Loan Committee on November 30, 1970 (LC/O/70-121). The proposed credit would be the sixth accorded to Tunisia (in addition to nine previous Bank loans) and would bring the total of IDA lending to the country to \$44.6 million and of Bank/IDA operations to \$143.8 million.

3. The present project would be the Bank Group's second operation in the field of population and the first one financed by IDA.

Background

4. After nearly six years of existence, Tunisia's official family planning program appears largely ineffectual. Despite a generally favorable climate for family planning ideas, strong political support and adequate budgetary resources, the program reaches yearly only 2.5 percent of the eligible women in the fertile age group and the 1969 number of 21,300 new acceptors compares with 28,000 in Jamaica and 35,000 in Singapore for the same year, countries with a little less than one-half of Tunisia's population. The poor performance is not a result of inadequate demand for family planning services, but is rather attributable to shortcomings and constraints on the supply side, particularly with regard to organization and staffing patterns, administrative procedures and overcrowding of the urban maternity hospitals.

5. In December 1968 the Minister of Planning and National Economy requested the Bank Group's assistance in improving the performance of the Tunisian family planning efforts and in March 1969 the first outline of a possible project was discussed with the Government. Since then, the scope and total cost of the project have substantially increased. Furthermore, profound government changes took place in Tunisia. To ascertain the views of the new Government on the project as now contemplated before presenting it to the Loan Committee, a mission visited Tunisia in early December 1970.

6. The mission reported that the Government has made family planning one of its major policy objectives and wishes to proceed quickly with the physical investments described in the appraisal report. The Government also confirmed that it wants the Association's help in progressively defining and implementing a more efficient family planning program. It agreed to the project as conceived in the appraisal report, but proposed to the mission certain modifications relating particularly to the organization of the family planning program (creation of an Institute of Family Planning; cf. par. 17), the prime responsibility for supplying management consulting services (National Institute of Productivity rather than a foreign firm, cf. para. 10 and 11), the scheduling of the construction program (cf. para. 15), and the delegation of functional responsibilities from medical to paramedical personnel (cf. para. 19).

The Project

7. The purpose of the proposed project is to help the Tunisian Government to increase the effectiveness and capacity of its family planning program through the provision of consultant services and through the building of four maternity hospitals, four small rural maternity centers, 25 maternal and child health (MCH) centers, paramedical training facilities and a post-graduate school for advanced midwifery training.

Consulting services

8. Consulting services would be provided for (i) management and organization of the family planning program and planning of its future expansion, (ii) expansion of a midwifery training program, and (iii) independent evaluation of the overall progress of the program. In addition, consulting services would be furnished for the final design of the project facilities and supervision of their construction.

9. Although representing only 2.7 percent of the total cost of the project, the management consultants will be essential to the success of the project. They will design and recommend a system which

would ensure an optimum use of the resources at the disposal of the family planning services and help in the implementation of such a system after it has been approved by the Ministry of Health and IDA. To ensure proper execution of the consultant studies the Association would, in addition to normal supervision, reserve the right to re-orient in agreement with the Government the work of the consultants, should this prove necessary. The consultants will also be expected to prepare the feasibility study for a second project which will be necessary in 3 or 4 years to enable the Government to attain its goal of reaching more than one-third of all fertile women by 1980.

10. The appraisal mission originally envisaged that the management consulting services would be provided by a foreign firm having prime responsibility in association with the Tunisian National Institute of Productivity (NIP). Considering that there would be considerable merit in resorting to a local organization for this task, the Ministry of Health proposed to the recent mission that NIP, which has a new Director of high professional standing, assume prime responsibility for these services, in association with a foreign firm. This arrangement is considered acceptable to IDA.

11. If NIP is assigned the major role in the proposed joint venture, the cost estimates of the appraisal report will probably have to be revised, decreasing the foreign exchange component of the consulting services, increasing the local currency component and, possibly, adjusting the total cost. During negotiations, we will probably be asked to consider financing part of the local currency cost pertaining to the services of the National Institute of Productivity. I recommend that we be prepared to finance a reasonable portion of such local costs to avoid penalizing the use of local consultants. The exact amount involved, which will in any case be small, will be specified during negotiations. The appraisal report, which recommends financing of foreign exchange only, would be modified on this point.

12. The appraisal report recommends that the appointment of a management consulting firm and issuance of its terms of reference should be a condition of effectiveness of the proposed credit. In view of the importance of these items for the success of the project, the departments concerned concur that we should endeavour to agree on the selection of consultants and the establishment of their terms of reference during negotiations.

13. The Ministry of Health employs local architects who have made the preliminary drawings on which the description of the project facilities (Annex 8 of the appraisal report) as well as the cost estimates are based. These preliminary drawings will be reviewed during negotiations. Architects acceptable to the Association will prepare the final drawings, which will require IDA approval, and supervise the construction of the facilities.

Physical facilities

14. The Government gives high priority to the four urban maternity hospitals, and the appraisal report describes in some detail their layout and organization. The total cost of these hospitals is expected to be almost twice that of the MCH centers. However, the appraisal report points out that 85-90 percent of the 55,000 new acceptors, which are expected from the project, will be attributable to the 25 MCH centers, and only 10-15 percent to the postpartum program associated with the maternity hospitals. It may thus seem that the cost-effectiveness of the MCH centers by far exceeds that of the maternity hospitals. Such a comparison is not appropriate, however. The two components are indivisible and cannot be regarded as independent alternatives since the maternity hospitals are indispensable for providing the requisite supporting gynecological services to the MCH centers, in addition to supplying in-service training opportunities for family planning personnel. The geographic locations of the 25 MCH centers, which are based on proposals made by the Government, will be reviewed during negotiations. It may then prove desirable to retain some flexibility in determining the locations to take into account any further information which might become available during the initial phase of project implementation.

15. The Government has requested a more even spread of the construction program between 1971 and 1974 than is envisaged in the appraisal report (Annex 5-10) in order to achieve a more convenient disbursement schedule for local capital cost. This would result in delaying the completion of some facilities by 6 to 9 months, but would alleviate potential staffing problems and is thus considered acceptable.

Organization of the family planning program

16. The appraisal report sets forth certain recommendations on policies and organization, to be agreed upon during negotiations. They include such measures as centralization of the MCH administration to achieve better personnel utilization, the provision of family planning services on a continuous basis in rural areas through including a midwife residence in the MCH centers, payment of a salary supplement to midwives in rural areas to ensure adequate staffing, and the delegation of routine functions from medical to para-medical personnel.

17. During the recent mission, the Government responded favorably to these recommendations. Moreover, the mission was informed that the Government was actively contemplating the creation of an autonomous public Institute of Family Planning (IFP). Details of the Government's plans were not available at the time of the mission's visit. The

establishment of such an Institute would confer greater administrative flexibility and financial autonomy on the family planning services, and thus facilitate the solution of existing problems with regard to salary and personnel administration. The Government promised to submit to the Association the proposed statutes of IFP and to agree on a suitable organization and implementation schedule. To the extent that the Government's plans have materialized sufficiently at the time of negotiations we would, instead of asking for centralization of the MHC administration as recommended in para. 7.01 (1) of the appraisal report, require that the proposed statutes, organization and implementation of the IFP be satisfactory to the Association.

18. It may be expected, however, that the creation of IFP will take some time since it involves decisions on several complex issues and a lengthy administrative and legislative process. Insistence on the creation of IFP should therefore not be allowed to hold up approval of the project and if, at the time of negotiations, its establishment is not likely to take place within the near future, it would be sufficient for the implementation of the project to require only the centralization of the MCH administration as originally envisaged in the appraisal report.

19. The present family planning program relies heavily on gynecologists and obstetricians, and the Government is aware of the constraining effects of this arrangement, given the scarcity of such personnel. The appraisal report recommends that specific functional responsibilities be transferred from physicians to midwives (para. 7.01 (4)). However, the Government would prefer to overcome this limiting factor through increasing the use of other kinds of doctors, particularly pediatricians at the MCH centers, who are now only marginally involved in family planning activities. It was agreed that this question would be discussed further during negotiations. In any case, the Government will be expected to maintain an adequate staffing not only in the family planning facilities to be financed by the proposed project, but also in the already existing ones (para. 7.01 (2)).

20. As regards the economic benefits of the project, the appraisal report compares project costs with, firstly, public savings (accruing to averted births) on education, public health, youth and sports and unemployment programs, and, secondly, private benefits in the form of savings on child support. With a discount rate of 10 percent, this methodology leads to a benefit-cost ratio of 4.6:1. This result has been arrived at on the basis of very conservative assumptions and does not take into account important but unquantifiable social and additional

economic benefits.

21. In accordance with the procedure adopted for the Jamaica population project (690-JM), the economic analysis contained in Annex 7 of the appraisal report would not be included in the grey cover version, while the socio-economic analysis contained in the report itself would be maintained (para. 6.01 to 6.08).

Recommendation

22. I recommend that the Association invite the Government of Tunisia to negotiate a credit of \$4.8 million along the lines and on such conditions as proposed in chapter 7 of the appraisal report and in this memorandum.

M.P. Benjenk
Director

Attachment

Population: 4.9 m
GNP Per Cap: \$230

IVa. TUNISIA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1971	1972	1973	1974	1975	1976	1964-68	1969-73
Agricultural Credit I	IBRD	4.0							
" "	IDA	3.0							
Agricultural Credit II	IBRD				15.0				
Irrigation	IBRD			5.0					
Fisheries	IBRD		2.0						
DFC - SNI IV	IBRD		10.0						
DFC - SNI V	IBRD				10.0				
DFC - SNI VI	IBRD						10.0		
Education III	IDA			9.0					
Education IV	IDA					10.0			
Phosphate Mining	IBRD		5.0						
" "	IDA		5.0						
Family Planning	IDA	4.0							
Power	IBRD			10.0					
Road Construction I	IBRD	18.0							
Road Construction II	IDA						15.0		
Pipeline	IBRD	7.5							
Railroads II	IBRD			10.0					
Water Supply III	IBRD			4.0					
" "	IDA			4.0					
Water Supply IV	IBRD					5.0			
" "	IDA					5.0			
Sewerage & Tourism Infrastructure I	IDA		7.0						
Sewerage & Tourism Infrastructure II	IBRD				10.0				
	IBRD	29.5	17.0	29.0	35.0	5.0	10.0	34.0	118.2
	IDA	7.0	12.0	13.0		15.0	15.0	19.0	51.0
	Total	36.5	29.0	42.0	35.0	20.0	25.0	53.0	169.3
	No.	4	4	5	3	2	2	5	19

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FROM: The President

January 11, 1971

ZAMBIA - HYDROELECTRIC POWER PROJECT

1. On July 29, 1970, the Bank signed a Loan Agreement (Loan No. 701-ZA) with the Kariba North Bank Company Ltd. (KNBC) and a Guarantee Agreement with the Government of Zambia providing for a loan of \$40 million equivalent to finance the then estimated foreign exchange costs of a 600 MW hydroelectric station (Kariba North) on the north bank of the Zambezi river at Kariba. The loan became effective on January 7, 1971. As discussed in paragraph 7 below, the bids received resulted in substantially higher estimates for the total and foreign exchange cost of the project than those on which the July 1970 loan decision was based. This memorandum is to inform Executive Directors of the position and the action being taken or proposed.
2. The Kariba North project would substantially complete the Kariba hydroelectric scheme with which the Bank has been associated since 1956, when Loan No. 145-RN of \$80 million helped to finance the first stage of the project, consisting of a dam on the Zambezi river, a 705 MW power station (Kariba South) on the south bank, and a transmission system interconnecting existing generating stations and load centers in Northern and Southern Rhodesia. That loan was made to the Federal Power Board of Rhodesia and Nyasaland, and guaranteed by the Governments of the Federation and the United Kingdom. Following the dissolution of the Federation of Rhodesia and Nyasaland in 1963, Loan No. 145-RN was assumed by the Central African Power Corporation (CAPC), a jointly owned corporation of Northern and Southern Rhodesia, each of which assumed the guarantee of half the amount of the loan. The United Kingdom guarantee of the whole amount of the loan remained in force.
3. In October 1964, the Bank made a loan (No. 392-RNS) of \$7.7 million to the CAPC to assist in financing a second transmission line between Kariba South and the copperbelt in Northern Rhodesia as well as the expansion of sub-stations. That loan was also guaranteed as to half each by Northern and Southern Rhodesia, with the guarantee of the United Kingdom for the whole amount. The Republic of Zambia, on independence in October 1964, assumed the responsibilities of Northern Rhodesia in respect of the guarantees for Loans Nos. 145-RN and 392-RNS.

Distribution:

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

4. Until 1965, it had been expected that the Kariba project would be completed under the aegis of the CAPC, which would have borrowed from the Bank to finance the foreign exchange costs of Kariba North and financed the local costs from its own resources. The Bank loan would have been guaranteed as to half each by Zambia and Southern Rhodesia, with the United Kingdom also guaranteeing the half to be guaranteed by Southern Rhodesia. The Unilateral Declaration of Independence (UDI) by Southern Rhodesia in November 1965 made this course impracticable for the reasons set out in detail in my Report and Recommendation to the Executive Directors on a Proposed Loan to the Kariba North Bank Company (Report No. R70-124 dated June 24, 1970).

5. The financial arrangements for the Kariba North project that were finally worked out after delicate and complex negotiations between the Bank, the United Kingdom and Zambia were designed to be as similar as possible in effect to those that would have existed in the absence of UDI. Under these arrangements, the North Bank station would be owned by the borrower under Bank Loan No. 701-ZA, KNBC, a newly created Zambian company. CAPC has agreed to act as the agent of KNBC for the construction of the station and to lease and operate the station thereafter as part of the CAPC system. CAPC would provide the finance for local currency costs out of its own resources in the form of a loan to KNBC and pay rental to KNBC for the lease of the North Bank station sufficient to cover KNBC's debt service.

6. When Bank Loan No. 701-ZA was presented to the Executive Directors, the estimated cost of the North Bank project, based on detailed estimates by the joint consultants, Sir Alexander Gibb & Partners and Merz & McLellan, prepared in April 1970, was approximately \$47.7 million. Interest during construction was estimated at \$9.4 million, making a total of \$57.1 million. The financing was to be provided through the Bank loan of \$40 million, to cover the estimated foreign exchange costs, and the CAPC loan in Kwacha equivalent to \$17.1 million. Both loans included interest during construction. In order that Zambia should not incur a greater liability with respect to the Bank loans for the Kariba project than she would have incurred in the absence of UDI, the Bank, with the concurrence of the United Kingdom, agreed to release Zambia from liabilities as guarantor of Loans 145-RN and 392-RNS, in an amount comparable to half the liability to be assumed by Zambia in connection with Loan 701-ZA.

7. Bids have now been received for civil works, turbines, generators, transformers and cranes. The lowest evaluated bids are substantially in excess of the prices included in the April 1970 cost estimate on which the financing plan was based. A revised cost estimate based on the lowest evaluated bids and on revised costs for switchgear, cables, bus bars and miscellaneous items for which bids have not yet been obtained shows the total cost of the project is now expected to be about \$66.5 million, 39.5 percent higher than the April cost estimate. When interest during construction is added, the total becomes \$77.6 million. A comparison with the April 1970 estimate shows the following increase in foreign and local costs as between civil works and plant equipment:

Estimated Cost - US\$ millions

	<u>FOREIGN EXCHANGE</u>			<u>LOCAL COSTS</u>			<u>TOTAL</u>		
	<u>April</u>	<u>Present</u>	<u>% Increase</u>	<u>April</u>	<u>Present</u>	<u>% Increase</u>	<u>April</u>	<u>Present</u>	<u>% Increase</u>
Civil Works	15.44	20.83	34.9	11.86	19.96	68.3	27.30	40.79	49.4
Mechanical and Electrical Plant and Equipment	<u>18.16</u>	<u>23.09</u>	27.1	<u>2.24</u>	<u>2.65</u>	18.4	<u>20.40</u>	<u>25.74</u>	26.2
Project Total	33.60	43.92	30.7	14.10	22.61	60.4	47.70	66.53	39.5
Interest during Construction	<u>6.40</u>	<u>7.08</u>		<u>2.95</u>	<u>3.99</u>		<u>9.35</u>	<u>11.07</u>	
Total Funds Required	40.00	51.00	27.5	17.05	26.60	56.0	57.05	77.60	36.0

8. At the request of the Zambian Government, a Bank mission met with representatives of Zambia, CAPC, KNBC and the consultants in Lusaka at the end of November to discuss the reasons for the increase in estimated costs, to consider whether the project should still go forward as planned, and, if so, to consider how additional financing could be provided. The mission also consulted with the United Kingdom, as well as with the Commonwealth Development Corporation and Commonwealth Development Finance Company, both of whom are creditors of the CAPC under the financing arrangements for the first stage of the Kariba project.

9. The mission found that the difference between the April 1970 estimate and the estimate now revised in the light of the bidding resulted from -

- (a) a rapid, worldwide increase in costs of civil works and plant and equipment of the types required for the project which had taken place during the past year and which, as far as can now be seen, is likely to continue; and
- (b) the concern of bidders to protect themselves against the uncertainties inherent in the unsettled political situation in Central Africa, perhaps particularly acute in their minds in the case of a project situated on the Zambian-Southern Rhodesian border.

It is now evident that the April 1970 estimates did not make adequate allowance for the impact of these two factors.

10. Careful consideration has been given to the possibility of reducing the estimated costs as they now stand. The tendering procedures followed in obtaining bids were strictly in accordance with the Bank's guidelines.

All parties concerned agree that there is no case for retendering and that retendering is in any event most unlikely to result in lower bids. Indeed the time required for retendering would itself give rise to additional costs to the CAPC system due to the consequential delay in the commissioning of the North Bank station. In preparing the revised estimates the joint consultants have examined thoroughly the possibility of reducing costs through modifications in design and specifications, but concluded that no significant reduction was possible. We must, therefore, accept the fact of increased costs.

11. I do not consider that the basic merits of the Kariba North project have been prejudiced by the increase in estimated cost. As compared with an estimated cost per KW installed of \$79.50 quoted in Appraisal Report PU-44 dated June 23, 1970, the revised estimate is \$111, still a very low figure for a hydroelectric installation. The cost per kWh when the combined output of the North and South Bank stations reaches an annual average of 8,500 GWh, estimated earlier at about 1.74 US mills, would still be no more than 2 US mills, again an extremely low figure.

12. The mission found that the Zambian Government, KNBC and CAPC also remain convinced that the Kariba North project should go ahead as planned on the grounds that it remains extremely attractive from both the financial and economic points of view and that any alternative proposal would be more expensive and otherwise less satisfactory. The bids that have been received will remain valid only until the middle of January. KNBC is therefore anxious to enter into contracts for the project so that construction can begin as soon as possible.

13. To meet the increase in estimated local and foreign costs, Zambia wishes KNBC to obtain additional funds under arrangements that would preserve, as nearly as possible, the balance between Zambia and Southern Rhodesia reflected in the original financing. To cover the local cost increase CAPC is prepared to increase its Kwacha loan to KNBC by about \$9.6 million equivalent and KNBC, with the support of the Zambian Government, has requested the Bank to increase its loan to cover the increase in foreign costs. At the same time, in order to enable KNBC to proceed with the award of contracts, the Zambian Government has given KNBC an assurance that, if a loan is not available from the Bank or a similar source, it will supply any funds needed to complete the project on appropriate terms. It naturally trusts that this standby commitment, given in these special circumstances, will not prejudice KNBC's application for a supplementary Bank loan.

14. I have no doubt that, had we been faced with the costs of the Kariba North project as they are now estimated, I would have submitted to you in July 1970 a loan proposal for approximately \$52 million, rather than \$40 million, as being the amount required to satisfy the basic purpose of our lending. This was to conclude arrangements acceptable to all parties involved for financing Kariba North under conditions that would enable the project to be completed so far as possible in accordance with the situation that would have prevailed in the absence of UDI and would readily permit the restoration of that situation if more normal conditions should return in Southern Rhodesia.

15. I have considered carefully whether the Bank should respond sympathetically to a Zambian request for an increase in Loan No. 701-ZA. I have concluded that the Bank should be prepared to regard this situation as a special case. The considerations involved extend far beyond the question of finance, and the Bank's role in this instance extends far beyond that of a lender. Without the Bank as catalyst in the complex financial and other relationships among Zambia, the United Kingdom and Southern Rhodesia, I do not believe that agreement could have been reached on viable arrangements for the construction of the Kariba North station and the satisfactory operation of the whole Kariba complex, matters which are vital to the economic life of Zambia. In the new situation which we now confront, it is my judgment that the Bank's willingness to finance the full foreign exchange costs of the project would make an important contribution to the future stability of the Kariba situation. I accordingly intend in due course to present to the Executive Directors appropriate proposals to lend an additional amount of some \$11 million for the Kariba North project in order to finance the full foreign exchange requirements.

Robert S. McNamara

LOAN COMMITTEE

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January 8, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Korea - Development Finance Corporation

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 8, 1971 from the East Asia and Pacific Department, entitled "Korea - Proposed \$30 Million Loan for the Korea Development Finance Corporation" (LC/0/71-3).
2. Comments, if any, should be sent to reach Mr. Baig (ext. 2387) by 5:00 p.m. on Tuesday, January 12.
3. It is planned then, if the Committee approves, to inform the Government and representatives of KDFC that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
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
Directors of the Projects Departments
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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
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Vice President (IFC)

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LC/0/71-3

January 8, 1971

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

Korea - Proposed \$30 million Loan for the
Korea Development Finance Corporation

1. Attached is a report (DB-76) dated December 28, 1970, recommending a third loan of \$30 million to the Korea Development Finance Corporation (KDFC).
2. The attached five-year lending program gives priority to projects in transportation and agriculture as these sectors have been neglected in the past and are not attractive to conventional foreign capital sources. The industrial sector, the driving force in Korea's economic growth, relies heavily for its financing requirements on private commercial funds. Some assistance by the Bank to the industrial sector through lending to KDFC has been considered appropriate. The lending program shows an amount of \$25 million in FY 1971 for a third loan to KDFC: however, this was based on a conservative estimate of KDFC's requirements for financing imports during the next two years, and the appraisal mission has recommended a loan of \$30 million.
3. Of KDFC's total paid-in capital of Won 1.5 billion (\$4.7 million), 15% is held by Korean commercial banks (predominantly Government owned), 15% by Korean insurance companies and 31% by other Korean private investors. Foreign investors hold 25% of the total paid-in capital, and IFC about 14% (\$650,000). The Government granted KDFC a long-term low interest loan equivalent to \$6.4 million. Including two earlier Bank loans of \$5 million and \$20 million, reserves and retained earnings, KDFC's resources totalled the equivalent of about \$43.3 million as of October 31, 1970.
4. The \$5 million loan was made in January 1968 in conjunction with a \$5 million loan from U.S. AID. KDFC made its first sub-loans in July 1968. The \$20 million loan was made in June 1969, when it was apparent that by September of that year the first Bank loan would be fully committed. Of the second Bank loan \$17.0 million was committed as of the end of December 1970; the balance is expected to be committed by the end of February 1971. The rapid growth of KDFC's business volume is attributed to the increasing experience and efficiency of KDFC as a financing institution, to the steady increase in the average size of its loans, and also to the restrictions imposed by the Government on the inflow of foreign commercial loans. While KDFC has been able to utilize Bank funds faster than expected, utilization of the AID loan has been unexpectedly slow. AID funds are tied and the Agency's

procurement procedures are cumbersome and time consuming. The slow rate of utilization of their loan has led AID to reduce its loan by \$2 million; a small part of the remaining \$3 million was still uncommitted at the end of December 1970, the deadline for commitments under the AID loan, and will presumably be cancelled.

5. KDFC expects in 1971 and 1972 to finance imports of over \$40 million. In addition to the proposed third Bank loan, KDFC will receive a \$5 million loan from Caterpillar Far East Limited, restricted to purchases of Caterpillar equipment by KDFC borrowers; a remaining gap of about \$5 million would have to be filled from other sources. This should not present an undue problem for KDFC, and with the approval of the Government, KDFC is seeking loans from such sources as Kreditanstalt fuer Wiederaufbau (KfW), the Asian Development Bank and the Overseas Economic Cooperation Fund of Japan. If these efforts are successful, the present heavy reliance by KDFC on Bank funds for its foreign exchange operations would diminish. As of September 30, 1970, KDFC's outstanding debt to the Bank represents about 28% of the Company's equity and outstanding long-term borrowing; this proportion would rise to about 58% at the end of 1971 and 61% at the end of 1972. Based on the past relationship between local and foreign lending and on the projects in KDFC's pipeline, KDFC's uncommitted local currency resources, which amounted to Won 2.1 billion as of October 31, 1970, supplemented by repayments and retained earnings, should be sufficient to meet requirements up to the end of 1972. KDFC is planning to increase its capital through share issues in early 1972 and again in 1973. It should do so earlier. The capital contribution of the original subscribers forms only a small proportion of the large inputs of relatively cheap money by the Government and the Bank, and should be increased. During negotiations we would reach an understanding with KDFC on its plans for raising additional Won resources and its efforts to diversify the sources of its foreign exchange funds.

6. In addition to the funds it has lent, KDFC has made an important qualitative contribution to Korean industry by improving project evaluation standards and introducing sound development banking practices in Korea. KDFC is well organized, efficiently managed and its professional staff is competent. KDFC's President and its directors have shown good judgment in their investment decisions and KDFC's portfolio is sound. The Company maintains a high standard of appraisal, and this, combined with the high quality of its Board and management, justifies an increase in the "free limit". It is proposed to raise the limit from the present \$300,000 to \$500,000, with a limit on the aggregate amount to be used for projects below the free limit equivalent to 25% of the proposed loan (\$7.5 million). Out of a total of 55 projects only 2 projects, involving KDFC investment of \$400,000, have encountered problems, and they are likely to be resolved.

7. Cooperation between the KDFC and the Government is close. While the Government refrains from interfering in KDFC's operational decisions, it looks to KDFC and its management to raise standards and promote new ideas in the field of industrial finance. KDFC is taking the lead, with the support of the Government, in sponsoring the establishment of a new institution which would serve as a financial intermediary in both the money and capital markets. IFC has been invited to participate in the new institution.

8. An economic mission has recently returned from Korea and is writing its report, which should be ready early in 1971. A brief summary of the mission's preliminary findings appeared in my memorandum to the Loan Committee dated November 6, 1970 (LC/O/70 - 115) on a live-stock project. Manufacturing is the fastest growing sector of the Korean economy. Its growth in real terms during 1965-69 was 22% annually, and its share in GNP was 26% in 1969. Exports of manufactured goods are increasing at close to 50% per year. Textiles, machinery, processed foods, chemicals and plywood industries, which have received KDFC assistance, are the most important manufactured exports. The Government's policies to deal with problems of inflation and an increasing external debt burden are considered appropriate. The Government has observed the ceilings imposed in recent Standby Agreements by the IMF on additional short- and medium-term debt. Consequently the structure of Korea's external debt has improved slightly during the last two years. The Government has also limited drastically the scope for domestic credit expansion which has been excessive in 1968 and 1969. Debt service payments for this year are expected to absorb 20% of foreign exchange earnings and are not likely to decrease significantly in the near future. However, the continued dynamic performance of the economy should enable Korea to incur and service reasonable amounts of additional long-term debt.

9. I agree with the recommendations of the appraisal report and propose that the Government of Korea and KDFC be invited to send representatives to Washington to negotiate a third loan to KDFC in an amount equivalent to \$30 million.

Attachment

Raymond J. Goodman
Director

CONFIDENTIAL

KOREA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1971	1972	1973	1974	1975	1976	1964-68	1969-73
Agricultural Credit I	IDA		10.0						
Agricultural Credit II	IDA				15.0				
Deep-sea Fisheries	IDA		8.0						
Seed Production	IBRD		8.0						
Irrigation - Southwest	IBRD		20.0						
Irrigation II - Yong San Gang	IBRD				25.0				
Livestock I	IDA	6.0							
Livestock II	IBRD				10.0				
DFC - KDFC III	IBRD	25.0							
DFC - KDFC IV	IBRD			20.0					
DFC - KDFC V	IBRD					20.0			
Education II	IDA			15.0					
Education III	IDA					15.0			
Thermal Power I	IBRD			12.5					
Thermal Power II	IBRD				50.0				
Highways I	IBRD	45.0							
Highways II	IBRD			25.0					
Highways III	IBRD					25.0			
Port Expansion - Pusan	IBRD								
Railways IV	IBRD		20.0						
Railways V	IBRD					25.0			

IBRD	70.0	48.0	77.5	85.0	70.0	5.0	300.5
IDA	6.0	18.0	15.0	15.0	15.0	11.0	72.3
Total	<u>76.0</u>	<u>66.0</u>	<u>92.5</u>	<u>100.0</u>	<u>85.0</u>	<u>16.0</u>	<u>372.8</u>
No.	3	5	5	4	4	2	18

LOAN COMMITTEE

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SEP 05 2014

January 5, 1971

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Mauritius - Tea Development Authority Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 5, 1971 from the Eastern Africa Department, entitled "Mauritius - Mauritius Tea Development Authority Project" (LC/0/71-2).
2. Comments, if any, should be sent to reach Mr. John M. Malone (ext. 4901) by 1:00 p.m. on Friday, January 8.
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.

David Pearce
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)

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LC/0/71-2

January 5, 1971

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

Mauritius: Mauritius Tea Development Authority Project

1. The Mauritius Government has requested an IDA credit to finance further development of its tea industry. The proposed Tea Development Authority Project would be the Bank Group's first operation in Mauritius since independence in 1968; the Bank made a loan of US\$7 million for power in 1964, (355-MAS), with the guarantee of the United Kingdom.

2. The project was prepared by the Government with assistance from PMEA and appraised in May/June 1970. The appraisal report entitled "Mauritius Tea Development Authority" (PA-70) dated December 22, 1970, is attached. It recommends that, subject to the conditions set forth in Chapter IX, the project is suitable for an IDA credit of US\$5.2 million equivalent.

The Lending Program

3. At the Mauritius country program review by Mr. McNamara on November 30, 1970, it was decided to limit Bank Group lending operations during the next 24 months to a net program of two IDA credits and a gross working program of three projects, including the proposed tea project, and an average of one project a year thereafter. The lending program will be revised accordingly, for the approval of Mr. Knapp, immediately following an operational mission to Mauritius scheduled for January.

The Economy

4. The report of the economic mission that visited Mauritius in May/June 1970 will be considered by the Economic Committee in January. The mission's main conclusions are as follows.

5. The fundamental economic problems of Mauritius are the consequence of rapid population growth and the overwhelming dependence on sugar. These problems have been compounded by the low rate of growth of the economy: in the 1950's population rose faster than GDP, and there was barely perceptible improvement in per capita income in the 1960's.

6. The population growth rate has already been reduced to about 1.7 percent and the Government is giving increasing support to family

planning, but the high rate of 3.2 percent which prevailed in the 1950's has left a legacy of unemployment and dependency problems for this generation. These problems would be alleviated by a higher GDP growth rate, especially if labor-intensive investments could be emphasized. Increasing the GDP growth rate is difficult because sugar has very limited growth prospects, and is vulnerable to changes in preferential marketing arrangements. There is no speedy solution but the Government has adopted the only practicable policy of increasing sugar yields without increasing total output, thereby freeing land for other crops, and diversifying the economy away from sugar. The proposed project is consistent with that policy. Outside agriculture, the main prospects are tourism, which is promising, and manufacturing, for which Mauritius can provide ample good quality labor. To encourage manufacturing, the Government has established a tax-free zone with generous investment incentives.

7. Given the scarcity of capable planning staff and limited administrative capacity, the Government is unlikely to be able to carry through a public investment program of more than an average of about \$12.5 million a year over the next five years; that is a total public investment program of about \$62.5 million for FY1972-1976. At the best, local resources would not be able to finance more than a quarter of this amount, since tax revenues are already 22 percent of GDP and the generation of public savings is primarily dependent on the future growth rate of GDP.

8. If external finance is to make an adequate contribution to the Mauritius development plan, it follows that donors will have to finance on the average at least three-quarters of the cost of projects, even assuming that all projects are eligible for external assistance. This implies the need for some financing of local expenditure if Mauritius is to carry out a balanced program, since a number of projects, particularly in education and agriculture, have low direct foreign exchange requirements.

9. Service payments on external public debt contracted up to December 1969 are expected to reach about 6 percent of export earnings in 1975, but then fall in subsequent years below 3 percent. While the debt service ratio is not high in itself, limited growth prospects, the uncertain nature of future export earnings, and poverty all argue for support on IDA terms.

The Project

10. The project would be the second phase of Mauritius' smallholder tea development program, and would add 5,600 acres of smallholder tea to 3,800 acres planted during the first phase of smallholder development, 1963-1970. The project development would cover 3 years of planting and 3 years of maintenance, beginning in 1971.

11. The Mauritius Tea Development Authority (MTDA) would manage the project, and purchase, own and operate the facilities and equipment required for planting and maintaining the 5,600 acres of tea. MTDA would engage consultants for the design of the two project tea factories and

engage managing agents for supervising the construction of the factories and subsequently for operating them, and for marketing all tea from MTDA smallholdings. The Mauritius Cooperative Central Bank (MCCB) would provide seasonal agricultural credit to smallholders leasing tea established by MTDA under the project.

12. The MTDA would be established by law and all Crown Land required for the project would be deeded to it by the Government before Board presentation. IDA approval of the form of lease of blocks of land to cooperatives, of sub-lease by cooperatives to smallholders and of a new agreement governing the operation and finance of the existing tea factory would be conditions of effectiveness. The recently enacted MTDA Bill provides for a satisfactory level of representation on MTDA's Board and it will therefore no longer be necessary to obtain an assurance during negotiations regarding prior consultation on appointments to the Board as recommended in paragraph 6.01 of the appraisal report. While numerous, the other assurances to be obtained during negotiations are necessary and should not present any undue difficulties.

13. Project costs are estimated at US\$7 million, of which US\$1.4 million would be for the construction of two tea factories; about US\$1.6 million for creating, staffing and equipping MTDA; and about US\$4 million for farm development (tea plantings). Direct investments in the tea factories, MTDA offices, stores, equipment, and tea plantings account for nearly 90 percent of the project costs. The proposed IDA credit would finance US\$5.2 million (three-fourths of total project costs) representing the estimated foreign exchange component of US\$2.4 million (34 percent of total costs) and US\$2.9 million (63 percent of local costs). Government would provide the remaining US\$1.7 million (one-fourth of total costs).

14. Following discussions with the appraisal mission in Mauritius last June, the Government expected that the proceeds of the IDA credit, together with its own contribution to the project, could be made available to MTDA as an interest-bearing loan. Cash flow projections made after the mission returned to headquarters revealed, however, that MTDA could not meet fixed debt charges consisting of both interest and principal repayments on loan capital over and above operating costs and pay an adequate price for green tea to assure grower participation. It was, therefore, decided that, to the fullest possible extent, the financial benefits should be passed to the tea growers. Thus the proceeds of the proposed credit and the Government's contribution should be allocated to and retained by MTDA as quasi-equity, i.e. without fixed interest or repayment. MTDA would set its buying price each year at a level that would enable it to pay to Government the equivalent of 5¢/lb. of green tea after allowing for reserves. It is estimated that, through this payment, the Government would in effect recover its own contribution to project costs, without interest, by about 1985, after payment of debt service on the proposed IDA credit. The precise form of the Government contribution to MTDA will be subject to further discussion with the Government before and during negotiations.

15. The project would create 4,100 new jobs, reducing Government relief expenditure, and would generate gross foreign exchange earnings of US\$3 million a year at maturity. The economic rate of return is estimated at about 15 percent, considerably higher than any present alternative investment possibility in agriculture. The annual net cash income of a tenant tea grower during the first four years of his tenancy would average a fully employed laborer's income of Rs 1,500 a year, and would increase thereafter to more than Rs 2,000 per annum at maturity, after taking account of the new cess to be levied by MTDA to cover its operating costs and an expected reduction in producer prices in face of the downward trend in world tea prices.

Retroactive Financing

16. After obtaining the approval of the Deputy Chairman of the Loan Committee, we informed the Government that we were prepared to recommend to the Executive Directors retroactive financing beginning January 1, 1971 up to a total amount of US\$150,000 to cover down payments on vital land-clearing equipment, salaries of three expatriate management staff and purchase of essential materials and supplies for nursery development.

Recommendation

17. I recommend that the Government of Mauritius be invited to send representatives to negotiate a proposed credit of US\$5.2 million equivalent, for the Mauritius Tea Development Authority Project, substantially on the terms and conditions set forth in Chapter IX of the appraisal report, except that no assurance would be obtained regarding prior consultation on appointments to MTDA's Board, as explained above.

Michael L. Lejeune
Director
Eastern Africa Department

Attachment

LOAN COMMITTEE

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January 4, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Jamaica - Second Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 4, 1971 from the Central America and Caribbean Department, entitled "Jamaica - Proposed Loan for Second Education Project" (LC/0/71-1).
2. Comments, if any, should be sent to reach Mr. Wyss (ext. 4761) by 5:00 p.m. on Wednesday, January 6.
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.

David Pearce
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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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/71-1

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January 4, 1971

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

JAMAICA - Proposed Loan for Second Education Project

Introduction

1. Attached for consideration by the Loan Committee is Appraisal Report No. PE-24, entitled "Jamaica, Second Education Project," which recommends a Bank loan of \$12.3 million to Jamaica to help finance the further expansion of secondary and vocational education and teacher training.
2. The Bank has so far made seven loans to Jamaica totalling \$46.4 million (net of cancellations): \$5.5 million for highways (1965), \$20.8 million for power (1966), \$9.5 million for education (1966), \$11.2 million for telecommunications (1967 - cancelled at the Borrower's request and pre-paid in full during the same year), \$5 million for water supply (1969), \$2 million for population (1970) and \$3.7 million for agricultural credit approved by the Board on December 22. The power project is completed, the highway project after an extended delay is now well advanced, and the water supply project and the design work on buildings for the population project have both commenced. Progress under the first education project is discussed below in paragraph 5.
3. The proposed loan is the second to be made in FY 1971. A DFC project, scheduled for appraisal in February 1971, should lead to a loan in FY 1971. The Five-Year Lending Program (FY 1970-75) is attached.

Economic Situation

4. An economic mission returned from Jamaica in early November. Its report is likely to support the conclusions of the 1968 economic mission that the performance of the economy has been satisfactory, that prospects for attaining faster growth rates of output in the next few years seem quite good, and that, with the expected continuation of sound economic and fiscal policies, Jamaica should be considered creditworthy for further external borrowing on conventional terms. External public debt is still light and the service on external public debt in 1969/70 amounted to about \$14 million or 3.4 percent of exports of goods and services, net of investment income payments.

The Project

5. The proposed second education project follows on naturally from the first, which helped the Government with its 1966-1980 Education Development Plan by providing 50 junior secondary schools and facilities for teacher and

technician training. Physical progress on this project has been satisfactory after an initial delay and the project should be completed by the end of 1971. However, costs will be close to 50 percent above the appraisal mission's estimates because of increases in the cost of labor and materials, site problems and more elaborate school designs. Special attention has been given to costs in appraising the new project.

6. The proposed project would support further the strategy contained in the Education Development Plan. It is designed to bring educational output into a better balance with the manpower needs of Jamaica's economy. About 19,300 new places will be added to the education system. Of these new places, about 50 percent are at the second cycle secondary level and, as a result of the new curricula, this output would be better prepared for higher studies, employment or on-the-job training. The proposed project would also include nearly 9,000 new places in junior secondary schools to help in reducing the ineffective "senior departments" of primary schools. In addition, teacher training, improved education services, more vocational training and technical assistance have been included in the project to ensure an adequate teacher supply, improvement in teaching quality, increased supply of craftsmen and a satisfactory project implementation.

7. The Canadian International Development Agency (CIDA), which is also assisting Jamaica in the education field, had indicated to the Government and the Bank its interest in providing some of the facilities included in the proposed project. After extended discussions between the three parties, it has been agreed in principle that CIDA will provide financing for the construction and equipment of the extension at the College of Arts, Science and Technology (CAST) which will include facilities to train technical teachers required for the comprehensive schools. CIDA's previous experience in other education projects in Jamaica suggests that construction by Canadian contractors with Canadian materials would probably be 20-30 percent more expensive than procurement on an international competitive basis. Since CIDA's terms would be much softer than the Bank's (repayment over 30 years including 7 years of grace with interest at 3 percent and no commitment charge) CIDA financing would work out roughly 25 percent cheaper in spite of the higher construction costs. For this reason, Area Department and Education Projects Department both considered it appropriate that CIDA should join in financing part of the project. The extension at CAST is, however, an integral component of the proposed Bank project, and the Bank should obtain undertakings from both the Jamaican Government and from CIDA that it will be completed on time.

8. Including the part of the project to be financed by CIDA, which has a foreign exchange component of slightly above \$200,000, the total project cost, including contingencies, but excluding interest and other charges on the proposed loan during construction, is estimated at \$23.9 million. I propose that the Bank should make a loan of \$12.0 million, which would cover the estimated foreign exchange component (\$11.1 million), except for the items to be financed by CIDA, plus interest and other charges during construction. The loan would include approximately \$1.2 million for furniture to be procured on the basis of international competitive bidding with local manufacturers being given a preferential margin of up to 15 percent or the actual duty, whichever is lower. The local furniture industry, which is fairly well developed, should

be able to win most of these orders, and accordingly the amount included for furniture equals the estimated foreign exchange component of locally supplied furniture (around 40 percent).

9. The architectural designs prepared for the schools in the first education project would be used, wherever feasible, for similar schools included in the proposed project. The cost estimates reflect these arrangements. Moreover, the experience of the first education project suggests the need for a strengthening of the project implementation unit. The unit forms part of the Ministry of Education and its director is an experienced Jamaican administrator. He will be assisted by a qualified and experienced project architect, a quantity surveyor and an equipment specialist, all of whom would be appointed after consultation with the Bank. With these arrangements, control of costs should be more effective than under the first project.

10. The proposed project contains an important technical assistance element with a total cost of \$0.9 million. In addition to the technical support of the project unit, specialists are included for a manpower survey, for improving ITV services and for assistance in developing training programs for the comprehensive schools. The technical assistance program also comprises fellowships for training of Jamaicans abroad. The program has taken into account extensive bilateral technical assistance already made available, particularly by CIDA. In view of the special expertise required by the proposed specialists, the appraisal report assumes that virtually all of the experts would have to be recruited from abroad, and the foreign exchange component for expenditures on technical assistance is put as high as 80 percent. It may be somewhat lower than this if it turns out that some of the experts required are available in Jamaica, but I recommend that the percentage of expenditures in this category to be financed under the proposed loan be kept at 80 percent irrespective of whether the experts are recruited locally or abroad. This could involve a very small amount of local cost financing.

11. The appraisal report recommends that the proposed loan be extended for a period of 25 years including a grace period of 10 years. These are the terms normally granted for education projects of the type now proposed for Jamaica. On country grounds, the terms of the first education loan to Jamaica were reduced to 20 years including a period of grace of 5 years. The same terms were applied to the recent family planning project. I recommend that the proposed loan should be for a period of 20 years including 5 years of grace.

Recommendation

12. I recommend that the Government of Jamaica be invited to negotiate a loan of \$12.0 million for the proposed second education project, on the terms and conditions set forth in the appraisal report, except for the amendments proposed in paragraphs 7, 8 and 11.

E. Peter Wright
Deputy Director

Attachments

Population: 1.9 m
GNP Per Cap: \$460

JAMAICA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit I	IBRD		4.0						
Agricultural Credit II	IBRD					5.0			
DFC I	IBRD		4.0						
DFC II	IBRD				6.0				
DFC III	IBRD						6.0		
Education II	IBRD		10.0						
Education III	IBRD				8.0				
Population I	IBRD	2.0							
Population II	IBRD						2.0		
Power II	IBRD					10.0			
Urban Development - Hellshire	IBRD			5.0					
Airport Expansion	IBRD			10.0					
Highway II	IBRD				10.0				
Highway III	IBRD						15.0		
Sewerage - Kingston	IBRD			5.0					
Water Supply II - Unidentified	IBRD				5.0				

IBRD	<u>2.0</u>	<u>13.0</u>	<u>20.0</u>	<u>29.0</u>	<u>15.0</u>	<u>23.0</u>	<u>48.2</u>	<u>74.0</u>
No.	1	3	3	4	2	3	4	12