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Loan Committee - 1971 - Volume 11

LOAN COMMITTEE

1971

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LOAN COMMITTEE

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LM/M/71-8

February 11, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Mekong Basin - Pilot Projects" held on January 7 and 13, 1971, at 10:30 a.m. and 9:30 a.m. respectively 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)

February 11, 1971

Minutes of Special Loan Meeting to consider "Mekong Basin - Pilot Projects" held on January 7 and 13, 1971 at 10:30 a.m. and 9:30 a.m. respectively in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Demuth, Shoaib, Chadenet, Baum, Gabriel, Goodman, Sadove, Sella, E. Clark, Dunkerley, Gibbs, Kirmani and Pearce (Secretary).

2. Issue: The meeting had been called to consider a draft memorandum to Executive Directors representing donor countries on arrangements for, and the Bank's role in, the preparation and financing of pilot projects in the Mekong Basin Plan.

3. Discussion: In reviewing the draft memorandum, supplemented by oral presentations by the Special Projects Department, the January 7 meeting noted that the pilot project approach developed by the Bank and the Mekong Secretariat had been strongly endorsed by the Mekong Committee's Advisory Board and by the November 9-16 Seminar held in Bangkok. Another meeting with the Mekong Committee would be held in February, followed by meetings with donor countries, at which the Bank would be expected (i) to report on the progress of the pilot project program, (ii) to indicate how far it was prepared to assist in the management and administration of these projects, (iii) to comment on the possible amount of its own financial contribution.

4. The meeting was told that the Bank's review of the Mekong studies had concentrated on the region's potential for agricultural development and also for hydro-electric power generation, industry and transportation. Pilot projects and projects in the sub-basins would provide the foundation for subsequent mainstream developments. One basic difficulty would be to reconcile the short-term aims of individual riparian states with long-term regional development plans.

5. The Chairman said that, while the regional aspect of the pilot project approach would obviously facilitate the transfer of information and experience and permit economies of expertise, recruitment and management, its main significance was political: (i) the cooperative effort of the last 13 years could not be wasted, (ii) the Bank's proposed intervention, in effect a rescue operation, would allow a new start with small projects, and (iii) some donor countries were reluctant, on political grounds, to support national projects.

6. The Chairman said that the financial framework for the pilot project program should ideally comprise a fund of untied grant contributions which the Bank would administer and in which it would participate. UNDP should be asked to finance the program's technical assistance and pre-investment component.

7. At the January 13 meeting, Mr. Shoaib reported that UNDP was prepared to consider in principle financing the technical assistance. However, its funds for non-country program projects amounted to only \$2.5 million annually and although the \$2 million Mekong technical assistance requirement could be spread over 2 years, UNDP had suggested that the Bank and the Asian Development Bank should both help finance this amount. The Chairman suggested that a UNDP contribution of \$1 million be matched by the United States and Japan plus a Bank/IDA grant if necessary.

8. Apropos the \$50 million project construction fund, the Chairman said that donor countries should be asked to contribute the \$25 million required in foreign exchange in the form of untied grants, to be administered by the Bank. If this could be achieved, the case for a Bank grant - the President had ruled out IDA financing and Thailand was the only creditworthy country for a loan - would be strong. While its amount could be considered later, 10 per cent of the foreign exchange cost, i.e. \$2.5 million, would be appropriate. The question of the Asian Development Bank's legal capacity to make a grant should be checked.

9. Decision: The Chairman said that the Departments concerned should proceed with arrangements for securing the \$2 million technical assistance/pre-investment funds. The memorandum to the Executive Directors should be redrafted by the Departments concerned to take account of the discussion above, without however making any explicit statement of what form the Bank Group's contribution to the construction fund might take.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Baum
Sella
Dunkerley

cc: Loan Committee
Participants

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LM/M/71-9

February 11, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Brazil - Salto Osorio Hydroelectric Project" held at 10:00 a.m. on Wednesday, February 3, 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
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Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

February 11, 1971

Minutes of Special Loan Meeting to consider "Brazil - Salto Osorio Hydroelectric Project" held at 10:00 a.m. on Wednesday, February 3, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Baum, Gabriel, Nurick, Wiese, F.H. Howell, Cancio, S.S. Husain, Bloor and Pearce (Secretary).
2. Issue: The meeting had been called to consider the South America Department's memorandum of January 29 to the Loan Committee (LC/0/71-11), which recommended that the Brazilian Government and Eletrosul (Centrais Electrica do Sul do Brasil, S.A.) be invited to negotiate a \$70 million loan for the proposed 700 MW Salto Osorio Hydroelectric Plant. The only issue for discussion concerned procurement procedures: whether, for purposes of bid comparison, the Bank should continue to define the c.i.f. landed cost of imported goods as inclusive of certain special port and merchant marine improvement charges or whether these should be considered analogous to import duties, for which the 15 per cent margin of preference to be accorded to domestic manufacturers would be substituted.
3. Discussion: The meeting noted that:
 - (a) The principal question to be considered was whether these port improvement and merchant marine renovation taxes were legitimate port user charges or protective levies analogous to import duties.
 - (b) In response to questions raised by Directors during their consideration of a loan for the Marimbondo Hydroelectric Project (Loan No. 677-BR) on May 19, 1970, a Transportation Projects Department memorandum, circulated on August 7, 1970 (SecM70-377), had concluded that both taxes were distinct from import duties and could be regarded as user charges. The basis for this conclusion had been that both were levied on a variety of traffic using the ports, not just on imports. [The merchant marine tax was levied on coastal shipping as well as imports and the port improvement tax was levied on all shipping, although the rate for imports was substantially higher than that for exports and coastal shipping.]
 - (c) However, the Bank had recently learned that this information, supplied by the Brazilian Government, was incorrect. The Brazilians had earlier abolished the port improvement tax on exports and increased the merchant marine tax on the freight value of imports from 15 per cent to 20 per cent.

4. Decision: The Chairman, recalling the questions which this issue had raised among Directors previously, said that, in his view, these charges, which now more clearly contained an element of import protection, should be excluded from the definition of c.i.f. landed costs in Brazil. The Brazilians, whose manufacturers would be allowed a 15 per cent preference margin in international competitive bidding, should be so informed during negotiations of the proposed loan.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Baum
Howell
Nurick/Cancio
Wiese/Husain

cc: Loan Committee
Participants

LOAN COMMITTEE

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LM/M/71-10

February 11, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Ceylon - Mahaweli Ganga Development Project" (Loan No. 653-CE and Credit 174-CE) held at 11:30 a.m. on Wednesday, February 3, 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
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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)

February 11, 1971

Minutes of Special Loan Meeting to consider "Ceylon - Mahaweli Ganga Development Project" (Loan No. 653-CE and Credit 174-CE) held at 11:30 a.m. on Wednesday, February 3, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Cargill, Chadenet, Evans, Gabriel, Nurick, Votaw, Wapenhans, Sella, Roulet, Golan and Pearce (Secretary).

2. Issue: The meeting had been called to consider Mr. Cargill's memorandum of January 29, 1971 to the Chairman and draft letters to the new Ceylonese Government on the subject of water charges.

3. Discussion: The meeting noted that:

- (a) The Government's commitment, under Section 4.11 of the Credit Agreement, to collect water charges in the project area at a rate of not less than 40 rupees per acre of cultivated land, upon completion of the comprehensive water charges study included in Part B(III) of the project, was a genuinely sensitive issue. It had specifically promised in the recent general election campaign not to introduce water charges in irrigation project areas and was unable to reverse its position at this time.
- (b) Ceylon was currently facing the worst economic crisis in its history and Bank/IMF efforts to help the Government with its very serious problems might be hampered if the Bank/IDA adopted a 'hard' approach to water charges - a relatively unimportant question under present circumstances. On the other hand, the Bank/IDA and the Government were jointly concerned that the project's original objectives, and hence its contribution to Ceylon's economic development, should be achieved.
- (c) A compromise was thus desirable and the immediate task was to negotiate a revised covenant (Section 4.11) and project description (Part B(III) which, from the Bank/IDA standpoint, would retain the substance of the original agreement and be legally enforceable and, from the Government's standpoint, would be politically acceptable.

4. The meeting considered in some detail (a) a policy statement approved by the Ceylonese Cabinet Planning Sub-Committee on December 9, 1970, which the Agriculture Projects Department questioned because it did not refer to the project beneficiaries (i.e. farmers) and (b) a draft revision of Section 4.11 of the Credit Agreement which the Legal Department feared

could be interpreted differently by the Bank/IDA and the Government; it did not specify from whom water charges would be recovered and the Ceylonese had objected to alternative references to 'farmers in the project area.' The Chairman was also concerned that both the original, and draft revision of, Section 4.11 omitted reference to the recovery of capital, as well as operation and maintenance costs. The Agriculture Projects Department explained that the 40 rupees per acre specified in the original provision was a minimum water charge, pending the findings of the comprehensive study, and included operation, maintenance and a substantial proportion of capital costs without interest over the life of the project.

5. The Chairman, noting that Section 4.11 of the Credit Agreement, should also refer to capital costs, suggested that as its first position the Bank/IDA should seek agreement on a revised wording as follows... 'to ensure the recovery of the cost of operation and maintenance of the project and, having due regard to farmers' incentives and capacity to pay, a reasonable/appropriate proportion of capital costs.'

6. Decision: The Chairman, noting that a revised Section 4.11 would require the Directors' approval and that the new terminal date for effectiveness of the loan and credit agreements was February 28, 1971, said that (i) Mr. Roulet, during his visit to Colombo the following week, should negotiate a revised provision generally on the basis of paragraph 5 above, (ii) the revised provision should then be presented to the Directors for their approval, and (iii) letters on other matters should be exchanged thereafter.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Cargill
Nurick/Sella
Evans/Wapenhans

cc: Loan Committee
Participants

LOAN COMMITTEE

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February 9, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Senegal - Terres Neuves Resettlement Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 9, 1971 from the Western Africa Department, entitled "Senegal - Proposed "Terres Neuves" Resettlement Project" (LC/0/71-17).
2. Comments, if any, should be sent to reach Mr. Roger Adams (ext. 4736) by 5:00 p.m. on Thursday, February 11.
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

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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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LC/0/71-17

February 9, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

SENEGAL: Proposed "Terres Neuves" Resettlement Project

I - BACKGROUND

1. At the end of 1968 a report prepared by the Government and entitled "Terres Neuves" Project was submitted to the Bank. The basic idea of the project, which the Government considers of high priority, is to promote settlement of good land located in the southeastern part of the country by people coming mainly from the overcrowded groundnut basin (especially from the Thiès and Fatick areas), thus achieving both development of an area with potential for diversified agriculture and better land use through decongestion in the departure areas. Subsequently a French financed feasibility study was carried out by a consultant (SATEC) based on terms of reference provided by the Bank.

2. The proposed credit of US\$1.25 million would be the second Bank Group operation for agriculture in Senegal. An agricultural credit project (IBRD loan of US\$3.5 million (584-SE) and IDA credit of US\$6.0 million (140-SE) combined) to promote productivity in groundnut and millet cultivation was financed in February 1969. This project has not been successful since groundnut production has fallen due primarily to poor weather conditions but also to organizational problems, inadequate producer prices and poor yield response to fertilizers.

Some measures to correct the situation have been taken and additional ones are currently being discussed within the Government. Senegal has applied to the European Development Fund for emergency assistance, on account of natural disaster, which would directly benefit producers. The Government has agreed that the Bank will be kept closely informed of developments. During negotiations it is planned to discuss the Government's groundnut policy with the Senegalese delegation in order to reach an understanding prior to presentation of the proposed project to the Executive Directors. The Bank Group envisages a review of its financing of the Groundnut Sector to adapt it to the changed conditions.

This would in particular involve cancelling the above - mentioned \$3.5 million loan which is unlikely to be disbursed under the circumstances. We plan to propose this step to the Executive Directors at the time of presentation of the Terres Neuves and Casamance Rice projects.

II - THE ECONOMY

3. A report on "Current Economic Situation and Prospects of Senegal" (AW-15a) was circulated to the Executive Directors on June 10, 1970.

4. Senegal's economy is heavily dependent on agriculture and livestock, which contributes directly about one third of GDP and employs some 70% of the active population. Cash crop production consists primarily of groundnuts; in raw or processed form, groundnuts account for over 70% of exports and variations in output have thus a substantial impact on the economy, including public finance and the balance of payments. Over the last three years, production has substantially decreased, as a result of bad weather conditions as well as low producer prices and organizational and marketing difficulties. This has depressed overall economic growth as well as the balance of payments, while the public finance situation, benefiting from the recent sharp increase in world market prices for groundnuts, has improved. After some hesitation, Government is now seriously stimulating agricultural diversification, mainly for cotton and rice in the south and southeastern part of the country, where climatic conditions are much better than in the traditional groundnut regions. Increased emphasis on agricultural development is evident in the 1969-73 Development Plan, which puts high priority on rural investments.

5. Agricultural diversification however is by its very nature a slow process, unlikely to yield quick results and groundnut production will have to remain for quite some time the mainstay of the Senegalese economy. If adequate measures are taken to bring about a rebound in groundnut production past unsatisfactory economic growth could gradually improve.

6. Fiscal performance is reasonably good; despite a substantial fall in imports since independence (Senegal's major tax source), government revenues have slightly increased, averaging a high 20% of GDP. Nevertheless, continuous - albeit not excessive - growth of current expenditures had reduced budgetary savings to virtually zero in 1968/69 so that an increasing part of public investments had to be financed by running down treasury revenues. Although the budgetary situation has slightly improved in 1969/70 and some further increases in public savings can be expected during the coming years, Senegal will not be able to contribute on average more than 20-25% towards the costs of foreign financed development projects which - primarily for projects in the rural sector - will not be sufficient to cover all local cost. Foreign lenders should therefore be prepared to undertake significant local cost financing, particularly in the case of projects with a low foreign cost component.

7. The attached five-year lending program was reviewed in June 1970. It includes two further proposals for IDA credits during the current fiscal year. One of the projects under consideration deals with education improvement while the other relates to rice development in the Casamance region. Both projects were respectively appraised in October and November 1970 and consideration by Executive Directors is scheduled for April and May 1971. Five projects are being prepared for financing in FY 1972. The lending program reflects the need for a net capital inflow to finance agricultural and related projects which should constitute the basis for renewed economic growth.

III - THE PROJECT

8. An appraisal report on the project (PA-73) is attached. It concludes that the US\$1.7 million project is suitable for an IDA credit of US\$1.25 million, provided assurances are obtained from the Government and steps taken as set out in paragraphs 9.01 and 9.02.

9. The project consists of:

- (a) surveying the project area in detail including any needed aerial photography;
- (b) creating, staffing and equipping a statutory cooperation "La Société des Terres Neuves" (STN), to carry out the project;
- (c) constructing feeder roads, warehouses and wells;
- (d) recruiting, and transporting to the project area, 300 farm families and settling these families in six villages to be located and developed under the project;
- (e) providing extension services both to projects settlers and farmers already established in the project area;
- (f) providing seasonal and medium term credit to settlers and established farmers by means of a revolving fund operated by STN;
- (g) providing a central pool of equipment for hire to project farmers; and
- (h) conducting the studies needed to determine the size, scope and operation of subsequent phases of the settlement program.

10. The project would be the first phase of a program for assisting the migration of farmers from the overpopulated groundnut basin into suitable areas of Eastern Senegal. It would involve the settlement of 300 families and provision of extension and credit services to them and to about 250 families already established in the project area. Each settler family would be allotted 10 ha. which would be cultivated in accordance with agreed farm plans prepared by STN. The project would be completed in 10 years but the bulk of development would take place within the first 6 years. The proposed project is smaller than the Government's initial request which was for a project for settling 1,000

families over a 5-year period. It was considered preferable to limit the size of this first project in order to create optimum conditions for testing out of systems and methods and thus prepare the ground for future extensions.

11. Project costs are estimated to total US\$1.7 million during the 10 years needed to bring all projects farm into full production. Project costs during the proposed 6-year period for disbursement of the IDA credit are US\$1.54 million excluding import duties and sales taxes. A further US\$150,000 would be required during the subsequent 4-year period and this cost would be met by the Government. IDA would finance US\$1.25 million (approximately 81% of project cost in the IDA credit disbursement period of 71% of the cost over the 10-year development period) representing the estimated foreign exchange component of US\$890,000 and US\$360,000 of local cost.

12. In view of the pacesetting nature of the project, the Government considered it preferable for the time being to entrust management to a new entity rather than to the existing national organizations which are inefficient and are currently being reorganized. The Government has agreed to create a statutory corporation, "Société des Terres Neuves" for this purpose. Since experience required to manage the project activities is not readily available in Senegal, technical assistance would be obtained from an experienced expatriate organization. Government has expressed its intention to approach CFDT for this purpose. Since Government policy in Senegal aims at reducing dependence on expatriate personnel, the contract between STN and the organization providing technical assistance will call for a limited number of expatriates and for intensive training of counterparts who will take over management of the project after the fourth year of operation.

13. Some project activities will have to take place before signature of the IDA credit. It is proposed that they be financed retroactively. These items would be topographic and soils surveys involving expenditures of about US\$14,000 and wells and feeder roads for villages to be constructed in 1971 costing about US\$60,000.

14. "Bread for the World", an agency of The Evangelical Church in Germany, has expressed an interest in participating in the IDA credit to the extent of at least \$50,000. The funds supplied by "Bread" would be available for local expenditure, and would increase by the extent of the participation the amount of the credit which could be used for such expenditure. The funds would be made available under a formal agreement between "Bread" and IDA. Further discussions with the Senegalese Government and Bread are taking place.

IV - RECOMMENDATION

15. I recommend that the Association invite the Government of Senegal to negotiate a credit of US\$1.25 million for the proposed resettlement project. Negotiation would be in accord with conditions presented in paragraphs 9.01 and 9.02 of the appraisal report.

Roger Chaufournier
Director

Attachment

IVa. SENEGAL - 5 YEAR LENDING PROGRAM

[illegible]

LOAN COMMITTEE

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LC/M/71-2

February 8, 1971

Minutes of Loan Committee Meeting held at
2:00 p.m. on Friday, January 22, 1971 in
the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. V. Chang
Mr. R.H. Demuth
Mr. B. de Vries
Mr. S.S. El-Fishawy

Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. K. Kanagaratnam
Mr. M.L. Lejeune
Mr. C.G. Melmoth
Mr. A. Stevenson
Mr. G.K. Wiese
Mr. David Pearce (Secretary)

In Attendance:

Mr. J.R. Burfield
Mr. G.A. de Lusignan
Mr. W. Diamond
Mr. N.C. Faltas

Mr. S. Julin
Mr. K.S. Krishnaswamy
Mr. D. Miller
Mr. D.S. Roessner
Mr. G.C. Zaidan

B. Tunisia - Population

1. The Committee considered a memorandum dated January 13, 1971 from the Europe, Middle East and North Africa Department entitled "Tunisia - Proposed Credit for a Population Project" (LC/0/71-4) and the accompanying draft appraisal report (PP-4(a) dated December 24, 1970), which recommended that IDA invite the Tunisian Government to negotiate a \$4.8 million credit to finance the estimated foreign exchange component of a \$7.7 million

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Committee:

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Directors of the Area Departments
Deputy Director, Projects
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Executive Vice President (IFC)
Vice President (IFC)

population project - the Bank Group's second operation in this field and the first to be financed by IDA.

2. The Committee noted that the project was similar to the Jamaican population project (Loan No. 690-JM), except that it was larger and, owing to the ineffectiveness of Tunisia's national family planning program hitherto, its technical assistance component was relatively high (3.7 per cent of total project cost).

3. The Committee considered: (i) whether the proposed project, the effects of which would be small in relation to its costs, would contribute to the overall effectiveness of Tunisia's national family planning program, and (ii) whether, since neither the Jamaican nor the proposed Tunisian population projects promised more than limited and distant effects, the Bank's objective in financing population projects in general was clear. Regarding (i) the Committee noted that:

- (a) While the project's direct effects on population would be small and inevitably long-term - resulting in a Tunisian population and labor force respectively 3.2 per cent and 1.6 per cent smaller than otherwise by the year 2000 - its cost-benefit ratio was low and its non-quantifiable social and economic benefits, such as improved health and welfare, would be substantial.
- (b) The project would contribute more broadly to the effectiveness of the national family planning program through its technical assistance component, institutions and "demonstration effect."
- (c) The project's costs were high because they were all allocated to family planning. However, they included a large health component, which it was difficult to separate.

Regarding (ii), the Committee was told that the Bank Group's non-financial contribution to population projects would be as important as its finance. While the reduction of births directly attributable to the Bank Group's population projects would be small, there would be a considerable indirect effect, partly through the training of personnel, and partly through the "demonstration" effects of the projects. These indirect benefits were thus the appropriate primary focus of Bank/IDA lending policy in this field rather than the obviously marginal direct effects of individual projects.

4. Noting that negotiations might be long and difficult, the Europe, Middle East and North Africa Department drew attention to the following:

- (a) Depending on the status of the Government's plans at the time of negotiations, the Tunisians would be required either to centralize the administration of maternal and child health (MCH) centers as recommended in para. 7.01 of the appraisal report, or to establish the proposed Institute of Family Planning with statutes and organization satisfactory to IDA.
- (b) The Tunisians would be required to agree on a specific schedule for using more doctors in the family planning program and for delegating some functions to para-medical personnel - the latter was an important aspect of the project.
- (c) While the Tunisians would be required to justify the location of the hospitals and clinics, the credit documents would be less precise than usual on this point, to permit flexibility.

5. The Committee noted further the Chairman's recommendation that the nomination of a Project Administrator should be a condition of effectiveness of the credit.

6. The Committee approved the Europe, Middle East and North Africa Department's recommendation that the Government be invited to negotiate a proposed \$4.8 million credit, on the terms and conditions set forth in chapter 7 of the appraisal report and its memorandum.

C. Adjournment

7. The meeting adjourned at 2:55 p.m.

Secretary's Department
February 8, 1971

LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

February 5, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Consultant Services East Pakistan Agriculture and Water Program

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 5, 1971 from the South Asia Department, entitled "Pakistan - Development Credit for Consultant Services East Pakistan Agriculture and Water Program" (LC/0/71-16).
2. Comments, if any, should be sent to reach Mr. John H. Stewart (ext. 2779) by 5:00 p.m. on Wednesday, February 10.
3. It is planned then, if the Committee approves, to inform the Governments of Pakistan, East Pakistan and representatives of EPWAPDA 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
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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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LC/0/71-16

February 5, 1971

LOAN COMMITTEE

Memorandum from the South Asia Department

PAKISTAN: Development Credit for Consultant Services
East Pakistan Agriculture and Water Program

Introduction

1. Attached for consideration by the Committee is a report "Appraisal of Consultant Services, Agriculture and Water Development, East Pakistan" (No. PS-5, dated January 27, 1971). The Government of Pakistan has requested an IDA credit of US \$2.5 million and a United Nations Development Program grant of US \$2.5 million whereby these two institutions would jointly finance the foreign exchange costs of a US \$6.1 million project consisting of specific studies within the framework of the Action Program for East Pakistan's Agriculture and Water Development, and of consultant services to be provided to the East Pakistan Water and Power Development Authority (EPWAPDA). IDA (the Special Projects Department) would act as Executing Agency for the UNDP.
2. To date, the Association has made thirty-eight development credits to Pakistan, totalling US \$501.2 million (net of cancellations); the Bank has made thirty-one loans to Pakistan for a total of US \$633.4 million (also net of cancellations). A detailed account of the status of our proposed lending program to Pakistan for this fiscal year is included in this Department's memorandum to the Loan Committee on the subject of a proposed development credit for the Second Foodgrain Storage Project in East Pakistan which was circulated on February 1 (LC/0/71-13).

Background

3. In July 1970, the Bank presented to members of the Pakistan Consortium a report (PS-2a) proposing an Action Program consisting of a series of high-priority projects and studies intended to secure and sustain a better rate of growth of agricultural production in Pakistan's Eastern Province. In that context, the urgent need has been stressed for increased technical assistance to the principal agencies involved in these programs: the East Pakistan Planning and Development Department, the Agriculture Department and EPWAPDA.

The Proposed Project

4. The proposed project, which would be carried out over a period of two years, consists of two major components: specific agriculture and water studies included in the Action Program, particularly flood control and water studies, agriculture studies and the comprehensive evaluation of the agriculture and water program, at a total cost of US \$1.73 million; and the provision of general consultant services to EPWAPDA, at a total cost of US \$4.33 million.

5. The two components of the Project are closely interrelated: the program of agriculture and water studies will set the stage for long-term agriculture and water development programming by EPWAPDA and other agencies of the Government of Pakistan; the provision of general consultant services to EPWAPDA would strengthen the EPWAPDA organization and - through training of EPWAPDA staff - provide the expertise and experience for improved investment program formulation, project planning and implementation.

Agriculture and Water Studies

6. This part of the proposed Project primarily consists of studies which complement studies financed by bilateral agencies which form part of the Action Program. In addition to reviewing the flood control and water studies, a Flood Consulting Panel of international experts and its supporting staff will focus on an optimum investment strategy in the water field. The work proposed for this Panel is urgently needed to focus the most appropriate research tools and technical know-how on coordinating the various flood control, hydrologic and regional studies already underway. The agriculture studies will complement the regional water control studies, review the programs of the various agricultural institutions, and advance the preparation of some specific projects in key areas of agricultural development.

7. Some of the studies (for example, the flood control and regional studies) will take up to five years to complete. These are being financed bilaterally. Other studies will be completed in a shorter period. Throughout the next five years, however, a number of already identified projects will be executed, and planning of further stages of water and agriculture development will have to be initiated. It will be important to evaluate components of the Action Program in the light of increasing knowledge gained by the progressive completion of the program of studies. This review will also take into account overall resource constraints.

8. EPWAPDA would be the executing authority for the flood control and water studies, the Agriculture Department for the agriculture studies, and the Planning Department for the comprehensive program evaluation. The Government of East Pakistan would ensure overall study coordination through a Committee, which would be assisted by consultants selected for the task of comprehensive program evaluation.

9. The financing proposed at this time provides for the work to be undertaken in the next two years. Further assistance will be required subsequently to complete the program.

General Consultants to EPWAPDA

10. The other major component of the proposed Project consists of the provision of resident consultants, home-office back-up and short-term experts to EPWAPDA to strengthen the Authority's capabilities for investment program

formulation, project preparation and project implementation. Assistance to EPWAPDA is critically important in view of the key role EPWAPDA will have to play in the successful implementation of the Action Program.

11. The provision of consultant services to EPWAPDA is a continuation of consultant services - though with substantial modifications - provided under an earlier US \$2 million IDA Credit (Credit 136-PAK, signed on January 13, 1969) and a UNDP grant of US \$1.97 million for which the Association is the Executing Agency. On the whole, there has been an improvement in EPWAPDA's work but the experience of the past two years has identified the key areas of EPWAPDA's organization that are in need of continued consultant assistance. However, the performance of the consultants to date has not been entirely satisfactory. Improvements are called for. Under the proposed credit there would be new management teams, both in Dacca and at headquarters; moreover, the General Consultants would be better integrated into the EPWAPDA organization, with emphasis on on-the-job training of EPWAPDA personnel, so that the consultants would act less as advisers and more as members of teams of economists, engineers and agriculturalists.

12. Under the first IDA/UNDP project (No. 136-PAK), the UNDP financed the foreign exchange cost of consultants to the Power Wing of EPWAPDA; the Power Wing will also continue to need consultant support, but it is likely that the necessary funds will now be provided by Canada. The proposed credit would provide funds for consultant services for the next two years; there is expected to be a continuing need for such services, and it will be necessary to review the situation in 1972.

United Nations Development Program

13. The UNDP has agreed in principle - subject to formal approval by its Governing Council - to provide US \$2.5 million towards the foreign exchange cost of the proposed Project. Formal approval, however, is not likely to take place before early June, 1971. Unless the UNDP agree to start disbursement prior to formal Governing Council approval (under the "PRE-PROJECT ACTIVITY" mechanism), I propose that IDA disburses the full foreign exchange costs of the proposed Project until formal UNDP approval has been obtained, whereafter IDA disbursements would be suspended until disbursements from the UNDP catch up with those from IDA. Thereafter, disbursements will take place *pari passu*.

Recommendations

14. I concur with the recommendations of the Appraisal Report, and recommend that we invite representatives of the Government of Pakistan, the Government of East Pakistan and EPWAPDA to negotiate a credit of US \$2.5 million substantially in accordance with the conditions proposed in the Appraisal Report.

I. P. M. Cargill
Director
South Asia Department

Attachment

Population: 120 m.
GDP Per Cap.: 90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Tubewells - ADC	IDA	14.0							
Irrigation - Chandpur	IDA	13.0							
Irrigation - Dacca Southwest	IDA	0.8							
Irrigation - Project Eng.	IDA	2.4							
Irrigation - Dacca Southwest	IDA		34.0						
Irrigation - Karnaphuli	IDA			10.0					
Irrigation - Muhuri	IDA				7.0				
Irrigation - Bellachi	IDA				5.0				
Irrigation - Chandpur North	IDA				10.0				
Irrigation - Little Feni	IDA					10.0			
Irrigation - Barisal I	IDA					20.0			
Irrigation - Pabna	IDA						18.0		
Irrigation - Comilla	IDA						15.0		
Food Grain Storage II	IDA		5.0						
Tubewells EP/APDA I	IDA			8.0					
Tubewells EP/APDA II	IDA					25.0			
EP Tea Prod. & Processing	IDA		6.0						
EP/APDA Consultants II	IDA		2.0						
EP/APDA Consultants III	IDA				2.0				
EP/APDA Consultants IV	IDA						2.0		
EP Rural Infrastructure	IDA		10.0						
Seed Multip. & Dist.	IDA		5.0						
EP/APDA I Tubewells	IDA		20.0						
EP Education Unidentified	IDA			7.0					
EP Small Industries I	IDA	3.0							
EP Highways II	IDA			12.5					
EP Highways III	IDA				13.5				
EP Railways	IDA			8.0					
IBRD									
IDA		33.2	82.0	45.5	37.5	55.0	35.0		190.2
Total		<u>33.2</u>	<u>82.0</u>	<u>45.5</u>	<u>37.5</u>	<u>55.0</u>	<u>35.0</u>	<u>95.3</u>	<u>190.2</u>

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

(\$ millions)

(\$ millions)									
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
SCARP V	IDA			5.0					
SCARP VI	IDA				12.0				
Tubewells - Dipalpur	IDA					15.0			
WP Education - Eng. Colleges	IDA	8.0							
WP Education Unidentified I	IDA				8.0				
WP Education Unidentified II	IDA						5.0		
WP Fertilizer Plant II	IBRD			30.0					
WAPDA Power Distribution	IDA		23.0						
WP Power V - KESC	IBRD		10.0						
WP Highways III	IDA			20.0					
WP Highways IV	IDA					20.0			
Port Eng. - Karachi	IDA	1.0							
Port Constr. III - Karachi	IDA			15.0					
Port Constr. IV - Karachi	IDA					20.0			
Sui Northern Gas III	IBRD	19.2							
Sui Northern Gas IV	IBRD				5.0				
Sui Northern Gas V	IBRD					5.0			
Water Supply II - Lahore	IDA		5.0						

IBRD	19.2	10.0	30.0	5.0	5.0			178.7
IDA	9.0	28.0	40.0	20.0	55.0	5.0		97.0
Total	<u>28.2</u>	<u>38.0</u>	<u>70.0</u>	<u>25.0</u>	<u>60.0</u>	<u>5.0</u>	<u>81.3</u>	<u>275.7</u>
No.	3	3	4	3	4	1	6	18

IVa. PAKISTAN - EAST & WEST - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
		(\$ millions)							
Agric. Credit ADB IV	IDA			15.0					
Agric. Credit ADB V	IDA				30.0				
Agric. Credit ADB VI	IDA						30.0		
	EP			<u>7.0</u>	<u>15.0</u>		<u>15.0</u>		
	WP			<u>8.0</u>	<u>15.0</u>		<u>15.0</u>		
Telecommunications II	IDA		<u>15.0</u>						
	EP		<u>3.0</u>						
	WP		<u>12.0</u>						
DFC - PICIC IX	IBRD		30.0						
DFC - PICIC X	IBRD				40.0				
DFC - PICIC XI	IBRD						40.0		
DFC - IDBP I	IDA	20.0							
DFC - IDBP II	IDA			10.0					
DFC - IDBP III	IDA						20.0		
	EP	<u>10.0</u>	<u>15.0</u>	<u>5.0</u>	<u>22.0</u>		<u>30.0</u>		
	WP	<u>10.0</u>	<u>15.0</u>	<u>5.0</u>	<u>18.0</u>		<u>30.0</u>		
East & West	IBRD		30.0		40.0		40.0		110.0
	IDA	35.0		25.0	30.0		50.0		136.0
	Total	<u>35.0</u>	<u>30.0</u>	<u>25.0</u>	<u>70.0</u>		<u>90.0</u>	<u>314.7</u>	<u>246.0</u>
	No.	2	1	2	2		3	13	10

P & B

RL/17/70

IBRD	19.2	40.0	30.0	45.0	5.0	40.0	162.0	288.7
IDA	77.2	110.0	110.5	87.5	110.0	90.0	332.3	433.2
Total	96.4	150.0	140.5	132.5	115.0	130.0	494.3	721.9
No.	10	11	11	10	7	7	25	51

Note: the IDA lending program
is to be adjusted to --
the IBRD lending program
is to be adjusted to --

70.0; 50.0 80.0 80.0 80.0 80.0
30.0 ----- 120.0 -----

LOAN COMMITTEE

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February 5, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Chad - Second Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 5, 1971 from the Western Africa Department, entitled "Chad - Proposed Credit for Second Education Project" (LC/0/71-15).
2. Comments, if any, should be sent to reach Mr. Thalwitz (ext. 4741) by 5:00 p.m. on Wednesday, February 10.
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

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Committee:

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

Copies for Information:

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

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LOAN COMMITTEE

LC/0/71-15

Memorandum from the Western Africa Department February 5, 1971

CHAD - Proposed Credit for Second Education Project

1. The attached Appraisal Report (No. PE-27) dated January 28, 1971 proposes a \$2.2 million development credit to the Republic of Chad for a second education project (total cost including taxes: \$2.8 million) which would complement the first education project partly financed by the \$1.8 million credit No. 126-CD of August 29, 1968. I concur with this proposal.
2. The 1968 education project included only two of the three items requested by the Government in 1967, namely the establishment of a teacher training college and that of an agricultural training center. The third item, an extension of the existing technical school in Fort Archambault, had to be deferred pending additional studies. The proposed project would include among other items the construction and equipment of the school, but would locate it in Fort Lamy.
3. The proposed project would be our third operation in Chad. A \$4.1 million credit for highway maintenance and the abovementioned \$1.8 million credit for education were both signed in August 1968. On both projects, execution has been lagging. Lack of security throughout the road network and slow equipment delivery have delayed the highway maintenance project on which only \$117,000 has been disbursed. Execution of the education project has suffered from lack of experience and from administrative problems; disbursements amount to only \$18,000; however, initial difficulties have been overcome, and we now expect satisfactory execution. The closing date, however, will have to be extended by about 18 months. We also expect a cost overrun on the teacher training college at Moundou which, according to calculations of the Government, could be up to \$470,000. However, the designs are being changed to reduce cost. During negotiations, we will thoroughly discuss the questions involved and then consider whether to recommend an increase in the proposed credit.
4. The five-year lending program is attached. A \$1.0 million credit for livestock is expected to be presented to the Executive Directors either late in FY 71 or early in FY 72. Aside from this possibility, no project is scheduled for FY 72, but preparation work is underway in agriculture, transportation and telecommunications. A third education project is scheduled for FY 75.
5. Your particular attention is invited to the following questions;
 - the link with the education project of 1968 (see paragraphs 2, 14, 16 and 21);
 - the proposal to finance about 88 percent of local costs exclusive of taxes (see paragraph 12);

- the possibility of including other items and consequently of substantial increases in the credit during negotiations (see paragraphs 3, 19 and 20).

The Economy

6. The economic mission which visited Chad in March/April 1969 wrote a green cover report entitled "The Economy of Chad" (November 1969). This report is being updated on the basis of a follow-up mission in November 1970, and will be issued before Board presentation. The main conclusions of the report are as follows.
7. Chad is the largest land-locked country of Africa. Its natural resources are very scarce. Only in the southern one-tenth of the country, south of the Chari River, are soils really suitable and rainfall sufficient for settled agriculture. It is there that all cotton is grown. In the rest of the country where livestock-raising is the main activity, subsistence absorbs practically all resources. Extremely high transportation costs are particularly burdensome for foreign trade.
8. In addition to these natural handicaps, Chad is now beset by serious political strife between populations north and south of the Chari River, which are approximately equal in numbers. In the South, the population is mainly animistic or christian. In the North, the Moslem religion and Arab influences predominate. This probably explains why the northern population was not receptive to French education and influence. As a consequence, the Government has been controlled since independence (1960) by Southerners. Despite some concessions, the northern population felt oppressed and subjected to excessive taxes on livestock, which it has tried to evade.
9. Tension between the two groups increased until it erupted in open rebellion in 1969. Since then, the Government has been trying, with French help, to control the rebellion. Military operations reached their peak in early 1970. Since July 1970 the situation has been improving; negotiations between the Government and the leaders of the organized rebellion are under way, and some results have already been achieved. The "Derdai", the spiritual leader of the rebels who up to now had taken refuge in Libya, is now back in Chad. The Government's discussions with the Secretary-General of Front National de Libération (Frolinat), Dr. Abba Siddick, will hopefully lead to the settlement of the security problem. Withdrawal of the French troops has already started.
10. The economy has been expanding very slowly, and probably only in the small monetized sector. The external balance has suffered recently from a deterioration of the terms of trade and from sharply increasing imports, partially related to the political situation.
11. The Government's financial position is weak and is unlikely to improve as long as the political problem persists. The decision to withdraw from the Central African Customs and Economic Union (UDEAC) has further

reduced public revenues. Debt arrears have accumulated. The Government's capacity to carry out development projects and to provide the related current expenditures has become even more limited. The settlement of the security problem and the fiscal reform now envisioned will give momentum to the Government's current efforts to reduce the budgetary deficit, but the Government will have to exercise close control on current expenditures.

12. Poor and devoid of natural resources, the country will continue to depend almost entirely on external aid to meet development costs. Since the capacity to contract and service debt is almost non-existent, capital should be provided on concessionary terms. Even when the import content of projects is high, as is the case with the present project, Chad is not in a position to finance a substantial part of local costs. Foreign lenders should therefore include in their contribution the major part of local expenditures.

The Project

13. The proposed project would focus on the training of middle-level technicians and semi-skilled workers for industry and commerce, and of extension agents for agriculture. It would include:

- (i) the construction and equipment of a technical secondary school at Fort Lamy;
- (ii) remodelling and additional construction and equipment for the conversion of a technical school at Fort Archambault into an accelerated vocational training center;
- (iii) transferring the agricultural training center financed under the first education project from Fort Lamy to Fort Archambault;
- (iv) a study of young farmer training; and
- (v) continuation of the existing project unit for the implementation and overall supervision of the project.

14. The main item in the proposed project would be the establishment of a secondary technical school in Fort Lamy, as now agreed by the Government. That school would offer two three-year training programs, one for technicians and one for craftsmen, in the fields of general mechanics, automobile mechanics, and electricity. A school advisory council including representatives of industry would ensure that teaching was geared to employment opportunities and the needs of the economy. During negotiations, the Government would be asked to provide assurances that this council would be established, and that adequate staff would be recruited or trained before the completion of construction which is expected in 1974. Guarantees would also be sought that the school would not be oriented toward university entrance requirements.

Most of the teaching staff would come from the existing technical school in Fort Archambault. The cost of this item would be about \$1.6 million. Construction costs in Chad are among the highest in the world, because more than 80 percent of construction materials are imported, and land transportation is very expensive.

15. The conversion of the existing technical school at Fort Archambault into a vocational training center would provide training for the semi-skilled workers needed in the sugar, textile, and meat-canning industries developing in that area. The new center, however, would not become available before 1974 when the new technical school is established in Fort Lamy. The three intervening years would be sufficient for the Government to train the required instructors, and assurances would be sought during negotiations that this will be done. The cost of this item would be about \$0.3 million.

16. Construction of the agricultural training center which was part of the 1968 project has not yet started. This leaves the way open for the transfer of the center to Fort Archambault, in accordance with the Government's decentralization policy. The additional costs deriving from the transfer would be justified by the fact that Fort Archambault lies in a promising agricultural area. The center would offer a three-year program (grades 11 - 13) of theoretical and practical training for extension workers. The cost of this item would be about \$0.2 million.

17. Experience has shown that traditional farming schools tend to produce government agricultural agents rather than practising farmers. New forms of training are therefore being tried by the Government. The project would include a small amount (\$15,000) for a study of the results of these schemes. An amount of \$150,000 is further included for project administration. Contingencies would amount to about \$0.5 million.

18. The project unit now in charge of the first education project would also assume responsibility for the proposed project. During negotiations, the Government would be asked to provide assurances that the concurrence of the Association would be sought for any change in the management of the project.

19. Foreign technical assistance would be essential for the success of the project, and particularly of parts (i) and (iii). It is currently being provided by France (FAC), and no expansion of it would be required. FAC has given assurances that priority will be given in its annual aid programs to the continued presence of such personnel in Chad. During negotiations, the Government would be asked to secure technical assistance satisfactory to the Association for a period of three to five years, and to seek the Association's concurrence if any change becomes necessary. The Government would like the project to include technical assistance from the private, international organization ORT (Organisation, Reconstruction, Travail), and this would have to be financed by IDA. Our view is that present arrangements are more likely to guarantee the success of the project. Nevertheless, we will obtain full details at the time of negotiations, and then consider whether to recommend any increase in the proposed credit.

20. It is expected that, during negotiations, the Government will also request IDA financing for a program of in-service training of primary school teachers, using existing and proposed primary teacher training institutions as headquarters. The Government's request was presented for the Bank's consideration during Mr. McNamara's visit to Chad in January 1971. The preliminary cost estimate of this item indicates that about \$250,000 would be required. Appraisal of this item has not yet been undertaken. However, sufficient funds would be made available under the proposed credit, provided the justification for the item can be proven on the basis of data recently received and supplemented by that to be brought by the negotiating team. The provision for this item might be made subject to a condition that disbursement would be made only after satisfactory appraisal.

21. The proposed credit would finance:

- (a) the c.i.f. cost of imported furniture and equipment, including local transportation and installation;
- (b) the cost of professional services, of the young farmer study, and of project administration;
- (c) 84 percent of the cost of civil works and of locally produced furniture and equipment for the agricultural training center;
- (d) 78 percent of the cost of civil works and of locally produced furniture and equipment for the other items.

(It appeared necessary for practical reasons to keep the same percentage for the agricultural training center as in the 1968 credit, which provides most of the funds for it).

22. Contracts for civil works and procurement of furniture and equipment would conform to the Bank/IDA guidelines on international competitive bidding. Domestic manufacturers of furniture and equipment would be accorded a preferential margin equal to the existing rate of import duty of 15 percent of the c.i.f. cost of competing imports, whichever is lower.

23. It has been estimated that the foreign exchange component would be about \$1.9 million, and that taxes would amount to about 20 percent of the total cost of \$2.8 million, or \$0.56 million. The proposed credit of \$2.2 million would cover all foreign exchange costs plus about \$0.3 million of local costs, i.e. close to the total cost of the project, exclusive of import duties. The Government's contribution of 20 percent of total cost, mostly in the form of releasing tax resources, constitutes an adequate domestic effort, together with the increased recurrent costs of about \$0.8 million annually which will derive from the proposed project. The reasons for this judgement are set out in paragraph 12 above.

Recommendation

24. I recommend that representatives of the Government of the Republic of Chad be invited to negotiate an IDA development credit of US\$2.2 million equivalent to assist in the financing of the proposed education project on the terms and conditions outlined in paragraphs 6.01, 6.02 and 6.03 of the Appraisal Report. Discussions during negotiations could lead to further recommendations regarding technical assistance by ORT, in-service training of primary school teachers and the cost overrun on the teacher training college at Moundou.

Roger Chauffournier
Director

Attachment.

CHAD - Actual and proposed lending program through FY 1976

Population: 3.7 m

Per cap inc: \$70 (1970 Estimate)

	through 1968	1969	1970	1971	1972	1973	1974	1975	1976	1964-68	1969-73	1972-76
<u>Agriculture</u>												
Livestock I				1.0								
Livestock II							4.0					
Irrigation						3.0						
Cotton Development						5.0						
Land Settlement								5.0				
<u>Transportation</u>												
Road I	4.1											
Road II						2.0						
Road III									4.0			
Air Strips									3.0			
<u>Education</u>												
I	1.8											
II				2.8								
III								4.0				
<u>Public Utilities</u>												
Telecommunications							3.5					
IDA	5.9			3.8		10.0	7.5	9.0	7.0	5.9	13.8	33.5
IBRD	-			-		-	-	-	-	-	-	-
<u>Gross Program</u>	<u>5.9</u>			<u>3.8</u>		<u>10.0</u>	<u>7.5</u>	<u>9.0</u>	<u>7.0</u>	<u>5.9</u>	<u>13.8</u>	<u>33.5</u>
No.	2			2		3	2	2	2	2	5	9
IDA	5.9			3.8		5.0	7.0	7.0	7.0	5.9	8.8	26.0
IBRD	-			-		-	-	-	-	-	-	-
<u>Net Program</u>	<u>5.9</u>			<u>3.8</u>		<u>5.0</u>	<u>7.0</u>	<u>7.0</u>	<u>7.0</u>	<u>5.9</u>	<u>8.8</u>	<u>26.0</u>
No.	2			2		2	2	2	2	2	4	8
<u>IDA credit outstanding:</u>												
- Including undisbursed	5.9	5.9	5.9	8.8	8.7	14.7	21.7	26.4	28.1			
- Excluding undisbursed	-	-	0.1	3.0	5.0	7.0	9.0	11.3	13.0			

LOAN COMMITTEE

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SEP 05 2014

February 3, 1971

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MEMORANDUM TO THE LOAN COMMITTEE

Jordan - First Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 3, 1971 from the Europe, Middle East and North Africa Department, entitled "Jordan - Proposed Credit for a First Highway Project" (LC/0/71-14).
2. Comments, if any, should be sent to reach Mr. Mendoza (ext. 4811) by 5:00 p.m. on Monday, February 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

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President
The Economic Adviser to the President
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Mr. M. Shoaib, Vice President
Directors, other Departments
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LC/0/71-14

February 3, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

JORDAN - Proposed Credit for a First Highway Project

1. This memorandum recommends an IDA Credit of up to \$6 million to finance the foreign exchange component of a highway project, the principal element of which is an 18 km. four-lane divided highway between Amman and Zarqa. A report entitled "Appraisal of a First Highway Project - Jordan" dated October 14, 1970, is attached hereto in support of the recommendation. The increase in the proposed credit amount from \$5 million shown in the appraisal report to \$6 million is explained in paragraph 7 below.

Background

2. Bank Group lending to Jordan to date consists of four credits (two for water supply and two for agricultural credit) amounting to \$10 million. This proposed credit would be the first Bank Group operation in Jordan's transportation sector and the first in the country since the Arab-Israeli war of 1967. Two other projects are being considered for subsequent financing by IDA. An education project was scheduled for appraisal last June but, due to the uncertain conditions in the country at that time, the appraisal mission was postponed and is now scheduled for May, 1971. IDA participation in the financing of a power generation project is being studied but would be contingent upon agreement being reached on joint financing arrangements with other co-lenders, possibly the Kuwait Fund which has expressed interest in the project, in order to reduce IDA's share in the financing of foreign exchange costs (about \$12 million) to 50 percent. Finally, lending prospects for the extension and improvement of the water supply system of Amman are being investigated. Attached is the lending program for FY 1971-76, which is presently under revision; a revised five-year lending program will be distributed in March with the country program paper.

The Project

3. The Highway project was appraised in April/May 1970 but in view of the civil disturbances of June and September 1970, the Association held this project in abeyance until the Government had confirmed its intention to carry out the project and the Association had assessed the practicability of implementing the project under the present circumstances. On the first point, in the course of a visit to Jordan by an Area mission last November, the Government reasserted its determination to start the project as soon as possible in view of its economic priority and of its importance in the efforts to restore confidence and economic activity. On the second point, the mission concluded that while it was unlikely that internal peace and security would be fully restored in Jordan for some time, the trend towards even more widespread unrest had been substantially checked, if not reversed, as a result of the firm policy followed recently by the Government, and that the chances that the project could be carried out in an orderly way had improved. This was evidenced by the response to the Government's advertisements for contractors' prequalification for the highway's construction: twenty-four firms from 10 countries applied for pre-qualification; fourteen have been subsequently accepted with IDA approval. It was accordingly decided to resume processing of the project under the conditions outlined in paragraph 8 below.

4. The proposed 18 km. highway is a critical section of the road network of the country; it links the two major cities of the East Bank and forms part of the main routes from Amman to Jordan's northern and eastern neighbours. The existing road is inadequate to handle its already congested traffic, and an entirely new highway has become necessary; its construction and supervision by consultants would be financed under the proposed credit.

5. In addition, the project includes provision for consulting services to implement the findings of an on-going study by USAID-sponsored consultants who will shortly complete a review of the organization and operations of the road maintenance department of the Ministry of Public Works. UNDP's interest in financing this technical assistance is being ascertained. The project further calls for the services of a transportation economist to be financed by the UNDP to assist the Jordan Development Board in improving the planning of transportation investments. The project also includes funds to meet the road maintenance department's most urgent requirements for equipment, which will be verified by the USAID-sponsored consultants.

6. The distribution within Amman of traffic from the Amman-Zarqa road can be handled in the short term by an existing six-lane city street, which is estimated to reach serious congestion towards the end of this decade. The most appropriate long-term method for traffic distribution, which should be implemented by that time, would be based on a study of the city's future land use and related transport patterns which have not been the subject of any systematic planning despite the considerable growth in the population of Amman. UNDP's interest in financing also this study will be elicited before lending is consummated; an allowance of US \$0.7 million has been made in the project for this study and the technical assistance referred to above, should UNDP not be able to finance them.

7. Construction costs have increased from those given in the appraisal report as final agreement has since been reached with the Government on the roadway cross section and quantity estimates have now been finalized. Total cost of the project is now estimated as follows (in \$ million):

	<u>Initial Estimate</u> Total Cost	<u>Present Estimate</u> Total Cost Foreign Cost	
Highway construction	4.62	5.70	3.70
Road maintenance equipment	0.50	0.50	0.50
Consultant services:			
Supervision of construction	0.30	0.30	0.21
Technical assistance	0.15	0.15	0.15
Urban study	0.70	0.70	0.56
Contingency allowance	<u>0.84</u>	<u>1.10</u>	<u>0.88</u>
	7.11	8.45	6.00

IDA financing is tentatively envisaged for the whole foreign exchange cost of \$6 million but could be reduced to \$5.3 million if UNDP were to bear the cost of the technical assistance and of the study referred to in paragraphs 5 and 6.

8. On the basis of the revised cost estimate and of the savings in vehicle operating costs and time, construction of the highway would yield a 17 percent rate of return to the economy, excluding any benefits to military traffic on the road. However, Transportation Projects Department has made clear in its report that in the uncertain circumstances through which Jordan is passing, and

despite the generous contingency allowance provided for this project, the cost estimates must be regarded as tentative only, and subject to possible revision when the actual tenders from contractors have been evaluated. Consequently, we propose not to submit this credit to the Executive Directors until a review of costs based on the evaluation of actual bids has been made and the economic justification of the project confirmed. As the expectation that IDA will finance this project has been mentioned in the bid invitation documents and the credit would be made before the awarding of contracts, it is believed that the proposed procedure will not discourage contractors from bidding on this project. While the Government has accepted this approach it has requested, in order not to delay implementation of the project, that the Credit Agreement be negotiated while bidding takes place, its finalization being subject to the above mentioned review of bids and of economic justification by the Association which should be in April. On this basis it is proposed to start negotiations in the second week of February.

9. The project will be executed by the Ministry of Public Works with the assistance of qualified consultants, and construction contracts will be let on the basis of unit prices after international competitive bidding in accordance with the Association's "Guidelines on Procurement". Prequalification of contractors has already taken place (see paragraph 3) and bid invitation documents approved by the Association are being issued by the Government.

The Economy

10. A report on the current economic position and prospects of Jordan was distributed to the Executive Directors on December 18, 1969. It noted that prior to the Arab-Israeli war of June 1967, Jordan had made remarkable progress in its economic development. The consequence of the war was to disrupt severely the growth of the most promising sectors, namely agriculture, industry and tourism. A renewed influx of refugees placed new strains on the budget and the labour market, and only large inflows of foreign grant assistance averted a drastic deterioration of the Government's financial position. Additional difficulties resulted from the closure of the Suez Canal. This situation was worsened by the hostilities between Jordanian and Guerilla forces in 1970, the immediate effects of which were to bring the economy to a standstill and to cause a substantial flight of capital and talents from the country. It remains to be seen at what pace and to what extent the confidence of the private sector will be restored, but the Government has continued to make determined efforts to keep the development process going in spite of difficult conditions.

11. The conclusion of the economic report was that Jordan is in need of considerable external assistance, particularly in those sectors where projects meeting economically justified present needs could eventually be integrated into the country's development strategy whatever the evolution of the political situation. This conclusion remains valid and the proposed road project appears to meet this specific criterion. A Bank economist will visit Jordan in February to update the last economic report. An economic memorandum based on the findings of that mission will be completed before the presentation of the proposed credit to the Executive Directors.

Recommendation

12. I recommend that the Association invite the Jordanian Government to negotiate a credit of up to \$6 million along the lines of the recommendations set forth in paragraph 6.01 of the attached appraisal report and in this memorandum. The credit would be presented to the Executive Directors for approval only after the verification of the project costs and economic justification in the light of the evaluated bids for the highway construction.

M. P. Benjenk
Director
Europe, Middle East and North Africa
Department

Attachments

Population: 2.0 m
GNP Per Cap: \$250

IVa. JORDAN - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1971	1972	1973	1974	1975	1976	1964-68	1969-73
Agricultural Credit III	IDA			3.0					
Agricultural Credit IV	IDA					3.0			
Education I	IDA	5.0							
Education II	IDA				5.0				
Power Generation	IDA		5.0						
Highways I	IDA	5.0							
Highways II	IDA					2.0			
Water Supply	IDA			5.0					

IDA	<u>10.0</u>	<u>5.0</u>	<u>8.0</u>	<u>5.0</u>	<u>5.0</u>	<u>9.5</u>	<u>23.0</u>
No.	2	1	2	1	2	3	5

LOAN COMMITTEE

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February 2, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Food Grain Storage Project II

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 2, 1971 from the South Asia Department, entitled "Pakistan - Development Credit for the Second Food Grain Storage Project in East Pakistan" (LC/0/71-13).
2. Comments, if any, should be sent to reach Mr. John H. Stewart (ext. 2779) by 5:00 p.m. on Friday, February 5.
3. It is planned then, if the Committee approves, to inform the Governments of Pakistan and East Pakistan 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/0/71-13

February 2, 1971

LOAN COMMITTEE

Memorandum from the South Asia Department

PAKISTAN: Development Credit for the Second Foodgrain
Storage Project in East Pakistan

Introduction

1. Attached for consideration by the Committee is an appraisal report "Foodgrain Storage Project II - Pakistan" (No. PA-72; dated January 20, 1970). The Government of Pakistan has requested an IDA credit of US \$10.5 million to finance the estimated foreign exchange costs of expanding and improving its foodgrain handling and storage system. The credits include provision for US \$0.8 million of supplementary financing for the first Foodgrain Storage Project (Credit No. 83-PAK).

2. The Association has made thirty-eight development credits to Pakistan totalling US \$501.2 million (net of cancellations). The Bank has made thirty-one loans in Pakistan totalling US \$633.4 million (net of cancellations). Although the actual amount may be somewhat lower depending on the availability of IDA funds and action in Pakistan regarding a proposed reform in trade and fiscal policy, I am preparing a lending program for IDA credits to Pakistan in this fiscal year on the basis of a US \$70 million ceiling excluding the recently approved US \$25 million EP Reconstruction credit. Five credits amounting to US \$57 million (Dacca Southwest US \$30 million; EPWAPDA Tubewells US \$14.5 million; EP Consulting Services US \$2.5 million; EP Tea Machinery US \$5 million; Lahore Water Supply US \$5 million) have been appraised and are expected to be ready for presentation to the Executive Directors before June 30, 1971. These credits together with the other credit already made this year (WPWAPDA Transmission and Distribution US \$23 million) would exceed the US \$70 million. However, it is likely that the amount earmarked for the EPWAPDA Tubewell project can be reduced as a result of joint financing by one or two Consortium members. Two Bank loans amounting to US \$40-60 million (KESC Distribution US \$10 million; PICIC IX US \$30-50 million) have also been appraised but negotiations for these loans will be deferred pending the Government's policy decision referred to earlier.

Background

3. In February of 1966, IDA (US \$19.2 million) and Sweden (US \$4.8 million) jointly financed the first Foodgrain Storage Project (Credit No. 83-PAK). This project included the construction of four silos, completion of the feasibility study and detailed engineering of a fifth silo, the best location for which at that time was thought to be Chalna. The project also provided financing for training Pakistanis abroad and a godown (flat storage unit) rehabilitation program.

4. The physical construction of the four silos at Ashuganj, Narayanganj, Santahar and Chittagong proceeded on schedule, and disbursements are now almost complete. The training program, except for the quality control aspects, has proceeded satisfactorily. However, the infestation control program has only been partially implemented due to inadequate training, lack of fumigants, and a shortage of transportation vehicles; a quality control expert has now been recruited and is due to arrive in East Pakistan soon to prepare and implement a comprehensive program, which we hope will proceed satisfactorily from now on. Very little progress has been made on godown rehabilitation; of the 800 godowns scheduled to be rehabilitated, work on only five has been satisfactorily completed, and on forty-five others the work is of such poor quality that it will have to be redone.

5. It now appears that it was unrealistic to have undertaken a program to rehabilitate 800 godowns, spread all over the Province, when little preparatory work had been done before the credit was approved. Other factors which contributed to the failure of this program were: (a) a shortage of rupee funds (partly as a result of the cost of the program being substantially underestimated at the time of appraisal); (b) deficient contractor capability; (c) lack of qualified supervisory personnel; and (d) absence of a comprehensive implementation plan. It also appears that senior Government officials were not fully committed to this program.

6. Prior to the appraisal of the currently proposed project, consideration was given to a reduced program of godown rehabilitation in view of the disappointing performance under the first credit. However, because of the vital importance of providing adequate storage facilities throughout the Province, the appraisal mission in consultation with the East Pakistan officials recommends redefining the program to cover rehabilitation of 740 godowns and transferring this aspect of the joint project to the new credit. Partly as a result of strong representations made by the Association's staff to the Government, action has recently been started to carry out an effective rehabilitation program. Four firms of local consultants have been hired to make engineering preparations, to prepare tender documents, and to prequalify local contractors. The proposed project contains a provision, which has become standard on recent credits to Pakistan, that a revolving fund be established to ensure that sufficient rupee funds would be made available on a timely basis. The appraisal mission is of the opinion that all parties concerned with this program are adequately equipped to ensure its successful implementation under the second credit.

The Project

7. The proposed project consists of: (a) planning, designing, constructing and equipping two new 50,000 ton silo storage and transfer facilities; (b) providing technical assistance to the Food Department of the Government of East Pakistan in organizational realignment, financial accounting and inventory management; (c) training silo management and operational personnel; (d) providing US \$0.8 million of supplementary finance required to complete the first project; and (e) as summarized above in paragraph 6, rehabilitating 740 godowns with a total capacity of 370,000 tons.

8. The total cost of the proposed project is estimated at just under US \$39 million, with a foreign exchange component of about US \$21 million (54 percent). The project is expected to provide actual net savings (after

debt service payments) of at least US \$6 million per year in foreign exchange expenditures, due to lower foodgrain losses and reduced transportation costs. The rate of return to the economy is expected to be in excess of 18 percent. The proceeds of the credit would be relented by the Government of Pakistan to the Government of East Pakistan on the same terms and conditions as those of the IDA/Swedish credits.

9. The silo and godown facilities will be needed to handle imported foodgrains. Imports may be expected for many years, because even if within a few years domestic foodgrain production were to increase beyond present estimates it is likely that imports will still be required to raise the nutritional level of per capita consumption. Furthermore, the four silos constructed under the first project, and the Khulna silo under the proposed project, are located in consumption centers and could be used for storage of locally grown grains in the unlikely event that these facilities were no longer needed for imports.

10. Procurement will be through international competitive bidding. The Borrower proposes pre-qualification of prospective bidders for the civil works and mechanical-electrical installations for the silos to ensure that contractors submitting bids are capable, and we agree with this proposal.

Issues

11. I agree basically with the recommendations of the appraisal report and consider this a well justified project. However, I have the following comments on the detailed recommendations in paragraph 6:

- (a) Appointment of Project Director. The appraisal report suggests (para. 4.02) that any change in the appointment of the present Project Director during the construction period would be made only in consultation with IDA. I believe that the Government of East Pakistan will not make a change in this key position without prior consultation with the Association; I plan to express this expectation clearly during negotiations. However, I do not think that it is advisable to deal with this subject in a covenant in the Credit Agreement, as is recommended in para. 6.01(c) of the appraisal report.
- (b) Employment of Management Consulting Firm. The appraisal report (para. 6.03(d)) suggests that a management consulting firm be employed to develop a new organizational structure for the Food Department and recommends that the employment of such a firm be a condition of effectiveness. While I have no doubt that the organization of the Food Department leaves room for improvement, I am not convinced that employing a consultant is the only way to achieve this. I propose during negotiations to discuss the need for improvement and the best ways for accomplishing it. The outcome may well be a recommendation similar to that in the appraisal report. In any case, I do not feel this is a proper subject for a condition of effectiveness, and whatever is agreed during negotiations would be better expressed in the form of a covenant, to be complied with by an agreed date.

(c) Godown Rehabilitation.

- (i) The appraisal report (para. 3.20) recommends that international competition be followed for the godown rehabilitation program, with US \$500,000 being established as a minimum contract amount, by grouping together from a single geographic area, a number of works, each estimated to cost about US \$10,500. I have no doubt that the Government of Pakistan would be prepared to follow the procedures for international bidding. However, I would not expect foreign contractors to show much interest in this work, and thus seriously question the need to establish arbitrary bid packages of US \$500,000, which may disqualify some competent local contractors. I intend to discuss this point during negotiations with a view to working out a more flexible arrangement.
- (ii) The appraisal report (para. 3.21) also proposes that disbursements be against the actual foreign exchange costs, currently estimated as 17 percent of this program. I propose to explore this proposal during negotiations, since it may be difficult, especially for local contractors, to document such expenditures. It may be more practical to allow for reimbursement of 17 percent of the local contractors' invoices or the actual documented foreign exchange expenditures, whichever is greater. I believe that in order to ensure the success of this part of the project we should be prepared to finance more than the foreign exchange cost. I propose to discuss this with the Swedish Government representatives during negotiations.

- (d) Agriculture Projects Department Suggestions. While Agriculture Projects Department is in agreement with the suggestion made in para. 11(c)(ii) above, it is concerned about consultation prior to the appointment of successor(s) to the Project Director (para. 11(a)) and the timing of the appointment of management consultants (para. 11(b)). On the godown rehabilitation program (para. 11(c)), the Agriculture Projects Department believes that contracts would most likely go to local contractors, but does not feel it can make a technical case for limiting bidding. If the amount of contracts included in any grouping were to be reduced, Agriculture Projects Department feels that international tendering would not be meaningful. In addition, Agriculture Projects Department feels that contracts for a substantial number of godowns are an essential element in avoiding repetition of the bad performance under godown contracts awarded during the course of the first project.

(e) Transportation Projects Department Suggestions. Since the Green Cover appraisal report was distributed, the Transportation Projects Department has suggested that the following additional assurances be obtained during negotiations in connection with the Chalna port;

- (i) that a port facility be constructed at Chalna by June 30, 1974 which would allow fully loaded vessels of at least 10,000 dwt to berth alongside at all times throughout the year and to discharge grain into the silo to be built at Chalna under the project;
- (ii) that a navigation channel with a minimum clear depth of 24 feet at lowest low water throughout the year, would be maintained to allow access to the above facility.

Recommendations

12. I recommend that we invite representatives of the Government of Pakistan and the Government of East Pakistan to negotiate a credit of US \$10.5 million equivalent substantially in accordance with the conditions proposed in the appraisal report and in this memorandum.

Gregory Votaw
Deputy Director
South Asia Department

Attachment

Population: 120 m.
GDP per Cap.: 90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

			(\$ millions)							
			Fiscal Year				Total	Total		
			1970	1971	1972	1973	1974	1975	1964-68	1969-73
Tubewells - ADC	IDA	14.0								
Irrigation - Chandpur	IDA	13.0								
Irrigation - Dacca Southwest	IDA	0.8								
Irrigation - Project Eng.	IDA	2.4								
Irrigation - Dacca Southwest	IDA		34.0							
Irrigation - Karnaphuli	IDA			10.0						
Irrigation - Muhuri	IDA				7.0					
Irrigation - Bellachi	IDA				5.0					
Irrigation - Chandpur North	IDA				10.0					
Irrigation - Little Feni	IDA					10.0				
Irrigation - Barisal I	IDA					20.0				
Irrigation - Pabna	IDA						18.0			
Irrigation - Comilla	IDA						15.0			
Food Grain Storage II	IDA		5.0							
Tubewells EP/APDA I	IDA			8.0						
Tubewells EP/APDA II	IDA					25.0				
EP Tea Prod. & Processing	IDA		6.0							
EP/APDA Consultants II	IDA		2.0							
EP/APDA Consultants III	IDA				2.0					
EP/APDA Consultants IV	IDA						2.0			
EP Rural Infrastructure	IDA		10.0							
Seed Multip. & Dist.	IDA		5.0							
EP/APDA I Tubewells	IDA		20.0							
EP Education Unidentified	IDA				7.0					
EP Small Industries I	IDA	3.0								
EP Highways II	IDA			12.5						
EP Highways III	IDA				13.5					
EP Railways	IDA			8.0						

IVa. PAKISTAN - EAST & WEST - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agric. Credit ADB IV	IDA			15.0					
Agric. Credit ADB V	IDA				30.0				
Agric. Credit ADB VI	IDA						30.0		
	EP			<u>7.0</u>	<u>15.0</u>		<u>15.0</u>		
	WP			<u>8.0</u>	<u>15.0</u>		<u>15.0</u>		
Telecommunications II	IDA		15.0						
	EP		3.0						
	WP		<u>12.0</u>						
DFC - PICIC IX	IBRD		30.0						
DFC - PICIC X	IBRD				40.0				
DFC - PICIC XI	IBRD						40.0		
DFC - IDBP I	IDA	20.0							
DFC - IDBP II	IDA			10.0					
DFC - IDBP III	IDA						20.0		
	EP	<u>10.0</u>	<u>15.0</u>	<u>5.0</u>	<u>22.0</u>		<u>30.0</u>		
	WP	<u>10.0</u>	<u>15.0</u>	<u>5.0</u>	<u>18.0</u>		<u>30.0</u>		
East & West	IBRD		30.0		40.0		40.0		110.0
	IDA	35.0		25.0	30.0		50.0		136.0
	Total	<u>35.0</u>	<u>30.0</u>	<u>25.0</u>	<u>70.0</u>		<u>90.0</u>	<u>314.7</u>	<u>246.0</u>
	No.	2	1	2	2		3	13	10

P & B

11/17/70

IBRD	19.2	40.0	30.0	45.0	5.0	40.0	162.0	288.7
IDA	77.2	110.0	110.5	87.5	110.0	90.0	332.3	433.2
Total	<u>96.4</u>	<u>150.0</u>	<u>140.5</u>	<u>132.5</u>	<u>115.0</u>	<u>130.0</u>	<u>494.3</u>	<u>721.9</u>
No.	10	11	11	10	7	7	25	51

Note: the IDA lending program
is to be adjusted to --
the IBRD lending program
is to be adjusted to --

70.0; 50.0 80.0 80.0 80.0 80.0
30.0 ----- 120.0 -----

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

(\$ millions)								
		Fiscal Year					Total	Total
1970	1971	1972	1973	1974	1975	1964-68	1969-73	

SCARP V	IDA	5.0						
SCARP VI	IDA		12.0					
Tubewells - Dipalpur	IDA			15.0				
WP Education - Eng. Colleges	IDA	8.0						
WP Education Unidentified I	IDA		8.0					
WP Education Unidentified II	IDA				5.0			
WP Fertilizer Plant II	IBRD		30.0					
WAPDA Power Distribution	IDA	23.0						
WP Power V - KESC	IBRD	10.0						
WP Highways III	IDA		20.0					
WP Highways IV	IDA			20.0				
Port Eng. - Karachi	IDA	1.0						
Port Constr. III - Karachi	IDA		15.0					
Port Constr. IV - Karachi	IDA			20.0				
Sui Northern Gas III	IBRD	19.2						
Sui Northern Gas IV	IBRD		5.0					
Sui Northern Gas V	IBRD			5.0				
Water Supply II - Lahore	IDA	5.0						

IBRD	19.2	10.0	30.0	5.0	5.0			178.7
IDA	9.0	28.0	40.0	20.0	55.0	5.0		97.0
Total	28.2	38.0	70.0	25.0	60.0	5.0	81.3	275.7
No.	3	3	4	3	4	1	6	18

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/71-7

February 1, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Bolivia - Gas Pipeline Project" (Loan No. 635-BO) held at 3:00 p.m. on Friday, January 22, 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)

February 1, 1971

Minutes of Special Loan Meeting to consider "Bolivia - Gas Pipeline Project" (Loan No. 635-BO) held at 3:00 p.m. on Friday, January 22, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Baum, Knox, H. Scott, Wiese, van der Meer, Elliott, Fajans, Sassoon and Pearce (Secretary).

2. Issue: The meeting had been called to consider Mr. Skillings' memorandum of January 21 to Mr. Alter, which recommended two alternative proposals for the management of the gas fields formerly owned by Gulf Oil and, since nationalization, operated by Yacimientos Petroliferos Fiscales Bolivianos (YPFB), the Bolivian state oil company.

3. Discussion: The meeting noted that:

(a) Following the Bolivians' decision against Spanish participation in the management of the gas fields and in view of political developments within Bolivia, the Bolivian representatives had proposed that the Management Committee of the special YPFB division responsible for the gas fields be eliminated and a direct relationship established between the divisional manager and the General Manager of YPFB.

(b) However, Bank staff had concluded that, in order to insulate the special YPFB division from YPFB's General Manager and Board, a Management Committee with external representation should be maintained to advise in the management and development of the gas fields. Specifically, it would approve the special division's budgets and work programs, and monitor their execution.

(c) The Bolivians had then agreed to consider retention of a three-man Management Committee but had insisted that external representation - in particular, the Bank's suggestion of an Argentine national - be excluded. They had proposed instead an all-Bolivian Committee, comprising the General, Planning and Special division Managers of YPFB. Bank staff objected to this proposal because the Committee would be too homogeneous; they felt it would be preferable to have one member of the Committee appointed by the Bolivian Government, outside YPFB.

4. The Chairman said that the composition of the Committee, in particular the designation of a member to represent the Bank's interests, should be determined by the role which the Bank's representative would be expected to play. If it were supervisory, the Bank's representative should be a full member of the Management Committee; if, on the other hand, his role were that of a watchdog, it would be sufficient for him to visit Bolivia periodically to attend Committee meetings and participate in its discussions, without voting. The latter alternative would, from the Bank's standpoint, constitute a form of end-use project supervision.

5. Decision: The Chairman, noting the South America and Transportation Projects Departments' views that the role of the Bank representative would be advisory rather than supervisory, decided that the Bank should accept an all-Bolivian Committee, preferably but not necessarily with Government representation on the Committee, plus a Bank-paid observer. [N.B.: In the subsequent negotiations, the Bank agreed to accept the Bolivian proposal on the membership of the Committee as set forth in para. 3(c) above.]

David Pearce
Secretary

Cleared by: Messrs. Knapp
Baum
H. Scott/Sassoon
Wiese/Fajans

cc: Loan Committee
Participants

LOAN COMMITTEE

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LM/M/71-6

February 1, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Sudan - Education Project" (Credit No. 122-SU) held at 2:15 p.m. on Monday, January 18, 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)

February 1, 1971

Minutes of Special Loan Meeting to consider "Sudan - Education Project" (Credit No. 122-SU) held at 2:15 p.m. on Monday, January 18, 1971 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Aldewereld, Chadenet, Ballantine, Gabriel, Lejeune, J.H. Williams, J. Malone, J. Stewart, McMahon, Panikar and Pearce (Secretary).

2. Issue: The meeting had been called to consider Mr. Lejeune's memorandum of January 12, 1971 to Mr. Knapp which reviewed the status of an \$8.5 million credit to the Sudan for an education project (122-SU) and recommended that the findings of an October, 1970 supervision mission be transmitted to the Government.

3. Discussion: The meeting noted that:

- (a) Although the credit agreement had been effective since January 24, 1969, no disbursements had yet been made. Physical progress was behind schedule - 12-15 months on the agricultural and teacher-training institutes and 24 months on the secondary schools - and the only known project expenditures to date comprised about \$0.5 million paid to the consultants.
- (b) Despite several visits by Bank staff in 1970, little progress had been made, mainly owing to their inability to see the Minister of Education or his Under-secretary to discuss the Ministry's almost complete lack of support for the project. There was reason to believe that the Government, which was apparently reconsidering its secondary school policy, might wish to modify that component of the project.
- (c) While action by the Association - on grounds of non-performance - might be justified, this would be premature, until the Government's intentions regarding the project had been clarified, and also undesirable, owing to the delicate nature of Bank/IDA relations with the Sudan at this time. In the circumstances, the immediate objective was to establish effective communication with those in the Government directly responsible for the project.

4. Decision: The Chairman approved Mr. Lejeune's recommendation that Mr. Malone, during his forthcoming visit to Khartoum, should convey the findings of the October, 1970 supervision mission and propose a cabinet level meeting with senior Education Projects Department staff and others as appropriate to consider the project's future.

David Pearce
Secretary

Cleared by: Messrs. Cope
Lejeune/Williams/Panikar
Chadenet
Ballantine/Stewart

cc: Loan Committee
Participants

LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

February 1, 1971

MEMORANDUM TO THE LOAN COMMITTEE

People's Democratic Republic of Yemen - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated February 1, 1971 from the Europe, Middle East and North Africa Department, entitled "People's Democratic Republic of Yemen - Proposed Highway Project" (LC/0/71-12).
2. Comments, if any, should be sent to reach Mr. Metherate (ext. 4819) by 1:00 p.m. on Thursday, February 4, 1971.
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

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President
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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

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LC/0/71-12

February 1, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN - Proposed Highway Project

Introduction

1. Attached for consideration by the Loan Committee is a report (No. PTR-70) entitled "Appraisal of a Highway Project in Southern Yemen", recommending an IDA credit of US \$1.0 million to the People's Democratic Republic of Yemen (Southern Yemen) to help finance a highway project.
2. The proposed credit would constitute the first Bank Group lending operation in Southern Yemen, and the only lending operation for FY 1971. An agricultural project included in the lending program for FY 1972 needs further definition. The attached Five-Year Lending Program (FY 1971-76) proposes lending in a total amount of US \$20.5 million. This program was approved during the Country Program Paper review with Mr. McNamara on July 9, 1970, as was the recommendation that the lending should be from IDA, at least during the initial years.

Economic Situation

3. The economic report (No. EMA-24a) was distributed to the Executive Directors on October 2, 1970. It pointed out that the country has an extremely limited resource base. Southern Yemen's economic life in the past centered around the British military base and the oil refining, bunkering and entrepot trade in the port of Aden. The closure of the Suez Canal in 1967 and the withdrawal of British budgetary support since independence in the same year confronted the Government with severe financial difficulties. There was an immediate decline in the output of goods and services; GNP fell by one-third and foreign exchange earnings by two-fifths. The discontinuation of British budgetary support alone reduced total Government receipts by more than half. Unemployment rose sharply especially in Aden. The Government took rigorous measures to cope with this difficult situation. By increasing the rates on existing taxes, improving efficiency of tax collection and introducing new taxes, it managed to increase domestic revenues despite the fall in national income. As a result, the budget deficit has been narrowed down to manageable proportions. However, the expenditure cuts were made largely at the expense of public investment which almost came to a standstill.

4. Since independence in November 1967, the Government has been committed to the building up of a socialist society in which economic activity is concentrated in the public sector, while the private sector is confined to a subsidiary role. As a first step towards this objective, most of the foreign companies operating in the country (banks, insurance companies, trading and shipping firms and local petroleum distribution companies) were nationalized at the end of 1969 and merged into a newly created Economic Organization for the Public Sector and National Planning.

5. Because of the uncertainties surrounding the resumption of service trades, the economic mission concluded that the country should concentrate its efforts on developing a commodity production base. Development potential exists in agriculture and fisheries and to a more limited extent in some light manufacturing industries, mining and tourism. Development of a good transport system, principally roads, is regarded as a key for the development of these sectors.

6. The possibilities for raising development funds and obtaining trained manpower from within the country are very limited, but substantial aid offers, both for loans and technical assistance, have already been made by some Arab countries, USSR, Mainland China, and some Western countries. A sizeable UNDP program is already underway or under consideration for fishery development, agricultural demonstration and training, and training and some equipment for the road sub-sector.

7. The external debt and the annual debt service burden are rather small, but the extreme constraints on the Government budget and the balance of payments, together with the limitations on future economic growth arising from the country's low resource base, make it essential that foreign aid be on concessional terms.

The Project

8. The proposed project was tentatively identified by the Bank economic mission that visited Southern Yemen in February/March 1970. As the United Nations Development Program (UNDP) is already assisting the road sub-sector and there is a possibility of some additional UNDP financing, the Government has requested both IDA and UNDP to finance different components of the project. The proposed project consists of the following:

1. Consulting services for,
 - a) technical assistance to strengthen the Public Works Department (PWD);
 - b) feasibility study for about 420 miles of high priority roads;
 - c) detailed engineering of about 150 miles of roads resulting from (b);

2. Workshop tools and machinery and spare parts for existing maintenance equipment;
3. Fellowships for PWD staff for training abroad.

Since the date of the draft appraisal report, the Government informed IDA that the list of roads to be covered by the feasibility study (Item 1 (b) above and Table 11 of the draft appraisal report) has been revised. IDA has agreed to this revision in principle. An IDA mission which is currently in Southern Yemen will review these revisions with the Government and a final list of roads will be agreed.

9. The proposed project is estimated to cost US \$2.5 million, with a foreign exchange component of about US \$2.1 million equivalent. IDA has been requested by Government to finance project Items 1 (c) and 2 of paragraph 8 above, the total cost of which will be US \$1.2 million. The proposed credit of US \$1 million would cover 85 percent of the total cost of these items, i.e. their full foreign exchange component. Government has applied to UNDP for financing for project Items 1 (a), 1 (b) and 3 of paragraph 8 above. Their total cost (besides counterpart funds in kind to be provided by the Government) is estimated to be US \$1.3 million, of which about US \$1.1 million would be the foreign exchange component. The financing requested from UNDP is for the full US \$1.3 million, which will cover some local financing requirements. The Government would provide the counterpart staff, local support personnel and related services required for the whole project. In view of the interdependence of the various project items, the Government and UNDP have suggested that the Bank should act as the Executing Agency for the project items covered by UNDP financing.

10. Road transportation in Southern Yemen is in its early stages and in urgent need of development, as a basis for promoting the production sectors of the economy. The highway administration needs substantial assistance for the planning and execution of this work. Similarly, organizational and technical assistance are needed to build up a good maintenance system to meet the present and future needs of the country. These factors account for the predominance of technical assistance and studies in the proposed project. In the circumstances, economic benefits are difficult to quantify at this stage, and the justification of the project is essentially qualitative (see paragraph 5.01 of the draft appraisal report).

11. The PWD would be responsible for executing the project, supported by the technical assistance team provided under the project by UNDP. The appraisal report refers to a shortage of experienced staff within the PWD, which may be alleviated to some extent by the return of young engineers from training abroad. Sufficient competent senior personnel besides those already in service are essential for

the satisfactory execution of the project, and the Transportation Projects Department deems it prudent, and I agree, that this aspect be investigated more closely prior to finalizing the terms of reference for the technical assistance team. The IDA mission referred to in paragraph 8 above will discuss the extent to which the technical assistance team should participate in project implementation.

12. The Government's application to UNDP is proposed for approval in June 1971, with provision for advance financing to enable the technical assistance team to arrive in the field around May 1971. A condition of effectiveness of the proposed credit would be the retention by Government of consultants for that team.

Major Issues

13. Compensation for Nationalized Properties: The enterprises nationalized in 1969 were mainly owned by British, French and Indian nationals. The nationalization law provides for compensation of the owners with 2 percent, 20-year bonds to be financed out of the profits of these enterprises. A firm of independent auditors has been engaged by the Government to assess the value of the nationalized properties. Some of the parties subject to nationalization have expressed their dissatisfaction with the compensation envisaged by the law. The Government has indicated its willingness to negotiate claims directly with the former owners in such cases. No Executive Director has yet raised this issue with the Bank.

14. The arrangements made so far for negotiating for compensation, represent a reasonable effort on the part of the Government. We will ask the Government to inform us during negotiations about the progress in implementing them and to confirm the intention to further proceed with compensation on the basis of these arrangements. I intend to inform the British, French and Indian Executive Directors prior to negotiations of our position. As far as the Indian interests are concerned, the economic mission in Spring 1970 was told by the Indian diplomatic representatives in Aden that the former Indian owners were prepared to negotiate directly with the Government if the compensation proposals were not satisfactory.

15. Debt Reporting. Southern Yemen has not yet reported its foreign debt obligations to the Bank. The Government has been provided with the debt reporting forms and has assured us that it will provide the required information. Most of the debts are known to be from non-member countries of the Bank.

16. Amount of Credit: The UNDP has informally indicated its agreement in principle to consider the government's request for financing certain items in the project, as explained in paragraph 9, but it is not

yet certain whether sufficient funds will be available to finance all items included in the request. We expect to be informed about the availability of UNDP funds soon after the application is reviewed by UNDP, which should be possible by early February. In the event that the UNDP should be unable to provide assistance for any of the items included in the request, it would be appropriate, and I would recommend, that the foreign exchange cost of such items be included in the IDA credit. In that event, the amount of the IDA credit could increase from US \$1.0 million up to US \$2.1 million, and assurances should be obtained from the government that it would cover the additional local costs which would otherwise have been borne by the UNDP.

17. Procurement: Nearly all of the tools and equipment and about one-third of the spare parts included in the project would be suitable for procurement under international competitive bidding. However, certain items amounting to about US \$160,000 would be tied to the make of equipment already available in Southern Yemen, and international competitive bidding would thus be unsuitable; financing of these items is considered appropriate under the circumstances.

Recommendation

18. I recommend that the Government of Southern Yemen be invited to negotiate a credit of US \$1 million for the proposed highway project on the terms and conditions set forth in the appraisal report and in this memorandum. I further recommend that IDA be prepared to finance in addition the foreign exchange cost of those elements of the project for which UNDP assistance might not be available.

M. P. Benjenk
Director

Attachments: 1. Five-Year Lending Program
2. Appraisal Report

Population: 1.4 million
 GNP Per Cap: US \$100

Attachment 1

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN
ACTUAL AND PROPOSED LENDING THROUGH 1976

(US \$ million)

Sector		Through 1970	Fiscal Years					Total 1964-68	Total 1969-73	Total 1972-76
			1971	1972	1973	1974	1975	1976		
Agriculture I	IDA			2.0						
Agriculture II	IDA						5.0			
Agriculture III (Fisheries)	IDA				4.0					
Roads I	IDA		1.5							
Roads II	IDA					4.0				
Roads III	IDA							4.0		
<hr/>										
IBRD										
	IDA		1.5	2.0	4.0	4.0	5.0	4.0	7.5	19.0
	Total		<u>1.5</u>	<u>2.0</u>	<u>4.0</u>	<u>4.0</u>	<u>5.0</u>	<u>4.0</u>	<u>7.5</u>	<u>19.0</u>
	No.		1	1	1	1	1	1	3	5
IDA Credits Outstanding:										
- including undisbursed			1.5	3.5	7.5	11.5	16.5	20.5		
- excluding undisbursed			0.0	1.0	2.5	5.0	7.5	10.0		

Europe, Middle East and
 North Africa Department
 January 28, 1971

LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

January 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Salto Osorio Hydroelectric Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated January 29, 1971 from the South America Department entitled "Brazil - Proposed Bank Loan for Salto Osorio Hydroelectric Project" (LC/0/71-11).
2. Comments, if any, should be sent to reach Mr. S.S. Husain (ext. 2357) by 5:00 p.m. on Wednesday, February 3.
3. It is planned then, if the Committee approves, to inform the Government and Eletrosul 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

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

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LC/0/71-11

January 29, 1971

LOAN COMMITTEE

Memorandum from South America Department

BRAZIL - Proposed Bank Loan for Salto Osorio Hydroelectric Project

1. Attached is Appraisal Report No. PU-50 recommending a Bank loan of \$70 million to Eletrosul (Centrais Eletricas do Sul do Brasil S.A.) to finance the international procurement of permanent equipment, the foreign exchange cost of consulting services and training and interest during construction. The proposed loan would be the 22nd Bank loan for electric power in Brazil and the first to Eletrosul, a company formed in 1968 which will become the largest and most important generation and transmission company in the southern region of Brazil.

The Lending Program

2. The proposed loan would be the second to be made to Brazil as part of the current fiscal year's lending program which comprises six projects. Proposal for a \$8.4 million Bank loan for Technical and Agricultural Education Project is under consideration by the Loan Committee. Appraisal Reports are currently being prepared for all the other projects scheduled for the fiscal year. The five-year program (fiscal years 1971-1975) 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. Brazil continues to be creditworthy for substantial amounts of Bank lending.

The Project

4. The project consists of the 700 MW Salto Osorio Hydroelectric Plant to be constructed on the Iguacu River, 1,562 km of 230 kv transmission lines and provision of engineering, training and managerial services. The total cost of the project is estimated at \$152.3 million. The proposed Bank loan of \$70 million will finance cost of equipment to be purchased under international competitive bidding (estimated at \$54.8 million), in which, as in the past, Brazilian suppliers will participate with a 15 percent margin of preference, the foreign cost of engineering, training and managerial services (\$5.2 million) and interest on the loan

during construction (\$10 million). Disbursement of about \$0.5 million for foreign exchange cost of engineering services for which expenditures were incurred prior to the signing of the loan is proposed. The proposed loan would be made with provisions for prompt and adequate tariff adjustments similar to those of previous power loans to Brazil and with customary provisions for debt limitation, and for Bank approval of major new investments Eletrosul may wish to undertake during the construction period. A twenty-five year maturity including a six-year grace period is proposed for the Bank loan.

Procurement

5. In the Marimbondo Project 677 BR we agreed to define, for purposes of bid comparison and as part of the basis for computation of the 15 percent margin of preference, the CIF landed cost of foreign goods as inclusive of taxes for the renovation of merchant marine and port improvement at the rates prevailing on the date of the Loan Agreement. In the appraisal report we mentioned that these charges were assigned to port and merchant marine improvements and applied to imports, exports and coastal shipping, although at different rates. The charges quoted in the Appraisal Report (Annex 2) were as follows:

- (1) Port improvement tax:
 - (a) 2 percent on the CIF value of imports,
 - (b) 0.2 percent on the value of exports, and
 - (c) 0.2 percent when the merchandise is shipped to or from another port in Brazil.
- (2) Merchant marine tax:
 - (a) 20 percent on the freight value for departure from a national port in case of coastal shipping, and
 - (b) 15 percent of the freight value for imports from overseas.

It was estimated that these two charges were equivalent to 3 percent of landed costs.

6. There was considerable discussion in the Board on this and the Chairman undertook to circulate a paper on Brazil Port Charges (attached). It was presented to the Board on August 7. The above information was repeated. The memorandum concluded that port improvement and merchant marine charges were distinct from import duties and should be regarded as user charges.

7. The information given to the Board was based on information we had previously received from the Brazilian Government. Recently, however, we learned that this information was incorrect and that an earlier decree had abolished the port improvement tax on exports. When we learned of this change we consulted the Chairman of the Loan Committee who decided that this should be brought to the Board's attention in connection with the Salto Osório Project. Subsequently, we

have further learned that prior to the signing of the Marimbondo Loan, another decree had raised the merchant marine tax on the freight value of imports from 15 percent to 20 percent which increases the CIF value of imports by less than 0.5 percent.

8. The exemption of exports from port taxes does not invalidate the case for regarding port improvement and merchant marine charges as user charges. In the above mentioned paper to the Board it was pointed out that "it is not uncommon for port charges to be levied in ways which discriminate between national and foreign shipping and/or between import and export cargoes". Even when the port improvement tax applied to exports, the export rate was only one-tenth of the rate on import. Both the merchant marine tax and the port improvement tax continue to apply to coastal shipping and cannot be categorized as protective measures. I recommend, therefore, that for the proposed loan and all other loans to be negotiated in Brazil during this fiscal year we continue to define CIF landed cost as inclusive of port and merchant marine improvement charges.

Recommendation

9. I recommend that the Bank inform Eletrosul and the Government of Brazil that it is prepared to negotiate a loan of \$70 million for the Salto Osorio Hydroelectric Project under the terms and conditions set forth in the attached appraisal report.

Gunter K. Wiese
Deputy Director

Attachments.

Population: 93.3 m
GNP Per Cap: \$286

BRAZIL - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1971	1972	1973	1974	1975	1976	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	260.4	437.5	240.0	330.0	320.0	295.0	291.1	1180.8
No.		6	10	6	6	5	4	10	28

SecM70-377

FROM: The Secretary

August 7, 1970

BRAZIL PORT CHARGES

In response to a question raised at the meeting of the Executive Directors on May 19, 1970, attached is a statement entitled "Brazil - Port Charges in Bid Comparison", prepared by the Transportation Projects Department.

Distribution:

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

BRAZIL - PORT CHARGES IN BID COMPARISON

1. In the President's Report and Recommendation to the Executive Directors on the loan to Central Eletrica de Furnas, S.A. for the Marimondo Hydroelectric Project in Brazil (P-808), it was stated in connection with the procurement procedures to be followed that, "in conformity with a recent Government regulation, certain special charges recently levied on all port traffic to provide funds for port improvement and the renovation of the merchant marine will be included in the landed cost of imported goods for bid comparison purposes." When the loan for the Marimondo project was considered on May 19, several Executive Directors inquired about the nature and background of these port charges and about the justification for their inclusion in the cost of imported goods for bid comparison purposes. The President agreed that a special report would be made to the Executive Directors on the subject before the presentation of the next loan to Brazil.

BACKGROUND

2. The charges in question are the Port Improvement charge and the Merchant Marine Renovation charge which were levied in their present form in January 1969 (see Annex 2 of Appraisal Report, PU-41). The basic features of these charges are as follows:

Port Improvement Charge - This charge was created to provide resources for the National Port Fund from which financing is allocated for port improvement works throughout the country. It is levied as a loading-unloading charge on the CIF value of all cargoes moving through Brazilian ports, including domestic coastal shipping as well as foreign trade. The prevailing rates are:

- (a) 2% on imports;
- (b) 0.2% on exports;
- (c) 0.2% on domestic coastal cargoes.

Merchant Marine Renovation Charge - This charge was created to provide resources for the Merchant Marine Fund which is used to help finance the Brazilian merchant marine. It is charged on the freight value of domestic and foreign cargoes at the following rates:

- (a) 20% for domestic cargoes;
- (b) 15% for imports.

3. In January 1969, the Ministry of Finance issued Order (Portaria) No. 6 to regulate international bidding for equipment required by public

and private sector entities (see Annex 3 of PU-41). Included in the Order are formulas for calculating the prices to be used for bid comparison purposes which stipulate that the two port charges described above shall be added to the CIF cost of imports. Bank staff subsequently discussed the new Order and its application with the Brazilian authorities in order to determine the nature of the port charges and their incidence in the bidding process. On the basis of these discussions it was concluded that the two port charges could be considered user charges whose inclusion in the cost of imports for bid comparison purposes was consistent with the Bank's procurement guidelines. It was estimated that the inclusion of the two port charges would, on the average, add about 3% to the CIF cost of imported goods. The Brazilian authorities agreed that the Order would not be applied retroactively to procurement under Bank loans obtained previously. Marimondo is the first of the new loans to which the Order applies and the procurement schedule in the Loan Agreement (Schedule 4) states that the delivered price of imports will include the two port charges at the rates prevailing on the date of the Loan Agreement.

RELEVANT CONSIDERATIONS

4. The principal question taken into consideration in seeking to determine whether the inclusion of the Port Improvement and Merchant Marine Renovation charges in bid comparison is justified was whether they can be regarded as legitimate port user charges, or rather as protective levies equivalent to import duties. It is, of course, the Bank's policy in suitable cases to allow domestic manufacturers a 15% margin of preference in international competitive bidding in lieu of import duties if the latter are higher than 15%. The payment of port user charges, on the other hand, has been considered a normal part of the cost of delivery of imported equipment to the project site, and the Bank's procurement guidelines do not require their waiver. The Bank has not inquired into the nature or level of port charges, just as it has not concerned itself with other non-tariff aspects of members' fiscal and commercial policies bearing on prices offered in international competitive bidding.

5. The distinguishing feature of an import duty is, of course, that it is a charge levied only on foreign merchandise entering a country. Port charges, on the other hand, generally apply to cargoes moving through a port regardless of source or destination. Beyond this, however, it is difficult to define the characteristics of port charges since they vary widely from country to country and from port to port. In general, port charges are levied on port users as compensation for the use of port facilities, but this is done in a great many different ways. Charges commonly payable by port users include, in addition to general port dues, such as the Brazilian charges in question, specific charges for the use of particular facilities (e.g. quay dues, wharfage), for individual service rendered (e.g. pilotage, mooring), and for the use of port equipment

(e.g. cranes, tugs). The level of the different types of port charges, individually and in the aggregate, varies widely, even between comparable ports in the same geographical area. For example, information currently available in the Bank on four important West African ports shows that charges payable on the same amount and type of cargo unloaded from the same ship during the same period of time would vary by about 100%.

6. Port charges cannot be distinguished by the use to which the money collected from users is put. Where ports are not administered autonomously, user charges may go into the Government's general revenues to be freely used as the proceeds from any tax. In addition, the proceeds of port charges are sometimes specifically earmarked for non-port purposes. Conversely, ports may be financed by earmarked revenues obtained from non-port sources, as well as by general revenues.

7. It is not uncommon for port charges to be levied in ways which discriminate between national and foreign shipping and/or between import and export cargoes. While an international convention agreed at Geneva in 1923 provides for non-discrimination in port charges, many countries are not signatories and discrimination exists in both de jure and de facto forms. Discrimination in practice is produced, for example, by the levying in several countries of certain port charges in such a way as to significantly reduce the cost to vessels calling at their ports at frequent and regular intervals, i.e. mainly national flag vessels. De jure discrimination takes the form of higher port charges levied on vessels of certain countries or of reduced port charges offered to ships of particular lines. Also, certain countries apply special freight taxes to export cargoes carried on foreign flag vessels which are not applied on imports or coastal shipping.

CONCLUSIONS

8. From these considerations, it can be seen that port charges may best be distinguished from import duties by their base rather than their structure, level or the purposes to which the revenues obtained are allocated. In the latter respects, as the foregoing discussion indicates, there is nothing unusual about the two Brazilian port charges in question. The decision to accept the inclusion of the Port Improvement and Merchant Marine Renovation charges in bid comparison in the Marimbondo project was, then, based largely on the fact that, since they are levied on a variety of traffic using the port and not just on imports, they cannot be regarded as equivalent to import duties but rather as user charges. The Merchant Marine Renovation charge is levied on coastal shipping as well as imports and the rate charged is actually higher on the domestic cargoes than on imports. The Port Improvement charge is levied on all shipping, although the rate charged on imports is substantially higher than that charged on

exports and coastal cargoes. However, as noted above, such discrimination is not unusual in the levying of port charges and it would be difficult to demonstrate on this ground that the Port Improvement charge is not a legitimate user charge.

August 6, 1970

LOAN COMMITTEE

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WBG ARCHIVES

LC/A/71-2/1

January 28, 1971

NOTICE OF MEETING

The Meeting of the Loan Committee, originally scheduled for Friday, January 29, 1971 will now be held on Thursday, February 4, 1971 at 4:00 p.m. in the Board Room.

AGENDA

Senegal

The Committee will consider the memorandum of January 26, 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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