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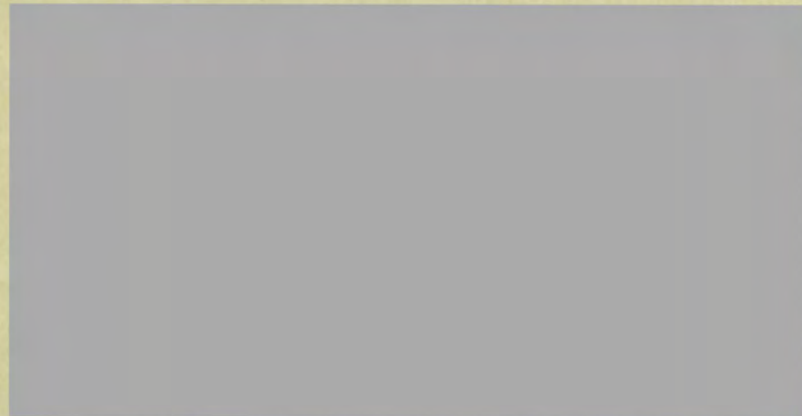
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Special Loan Committee Meeting - Minutes and Memos - 1970 - (April)

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and Memos 1970 (April 7-22)



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Special Loan Committee Meeting - Minutes and Memos - 1970 - (April)

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/70-15

April 22, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss Untying of Aid with Reference to Indonesia held on April 16, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

April 22, 1970

Minutes of Special Loan Meeting to discuss Untying of Aid with Reference to Indonesia held at 2:30 p.m. on April 16, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Demuth, Cope, Baum, Goodman, Tolbert and Pearce (Secretary).

2. Issue: The Chairman had called the meeting to consider the position the Bank should take at a meeting of the Inter-Governmental Group for Indonesia (IGGI) on April 20-21 in Rotterdam with respect to a Netherlands' Government proposal to take initiatives in consortia and consultative groups, where appropriate, to promote gradual untying of aid. This proposal, described in a letter from Dr. Everts to Mr. Goodman and in two documents prepared by the Development Assistance Committee (DAC) Secretariat respectively entitled "Draft Declaration of Intentions by DAC Members on International Action towards Untying of Aid" and "Some Technical Problems raised by permitting Procurement in Developing Countries," had been advanced originally at a DAC Working Party meeting on Financial Aspects of Development Assistance on March 2 and 3 and considered subsequently on April 6 and 7. There were two main issues for discussion, namely the Bank's attitude with respect to (a) the draft declaration in general and (b) paragraph 14 of the draft declaration which proposed that international procurement within the framework of selected and reciprocal untying of aid among members of consortia and consultative groups should be supervised by the sponsoring multilateral institution.

3. Discussion-Issue(a): The Chairman said that the Bank, as the leading multilateral advocate of international competitive bidding including limited preferences to domestic suppliers in appropriate cases, had always exhorted other aid donors to follow its example. It favored, as a general principle, the extension of procurement to as wide an area as possible. Consequently, subject to clarification of certain points relating to preferences (paragraph 10) and procurement in non-member developing countries (paragraph 12), he felt that the Bank should endorse the proposed Declaration of Intentions by DAC Members.

4. Discussion-Issue(b): Apropos paragraph 14 of the draft declaration concerning supervision of international competitive bidding amongst participating countries by sponsoring multilateral institutions, the East Asia and Pacific Department said that, in their view, consortia and consultative group members would consider such an arrangement almost a sine qua non for untying their aid. The issue would arise first in the context of Indonesia (IGGI) and the Netherlands, as sponsor of this group, had proposed informally that the Bank, in view of its special role in that country, should undertake this supervisory responsibility. The Bank's attitude in this instance therefore was crucial in two respects (a) the economic importance to Indonesia particularly of receiving untied aid, and (b) the precedent which Bank action, if any, would establish.

5. The meeting considered at some length the practical implications of the Bank's possible assumption of supervisory responsibilities for international competitive bidding for projects in Indonesia, of which it was estimated that there would be on a gross basis about 75-80 projects amounting to about \$360 million during the fifteen months commencing January 1, 1970. It was pointed out that, regardless of whether this task was undertaken by the resident mission in Djakarta or by the Projects Departments in Washington, a heavy work load (about 4-6 man weeks per project) would be involved. There was also an important question of principle involved: whether the Bank's supervisory role would be limited simply to monitoring procurement procedures or extended to responsibility, actual or implicit, for making judgements on the award of contracts. The Chairman suggested that the Bank should be prepared to consider:

- (a) technical assistance to the Indonesians with respect to project preparation, including bidding procedures and documentation for all projects;
- (b) review of specifications for all projects;
- (c) in addition, review of pre-qualification, tendering and evaluation for individual contracts exceeding a certain agreed amount.

6. Decision: It was agreed that these proposals would provide a sufficient basis for preliminary discussion of this subject at the forthcoming IGGI meeting.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Goodman/Tolbert
Baum

cc: Loan Committee
Participants

LOAN COMMITTEE

April 22, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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WBG ARCHIVES

Indonesia - Fisheries Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 22, 1970 from the East Asia and Pacific Department, entitled "Indonesia - Fisheries Project" (LC/0/70-64).
2. Comments, if any, should be sent to reach Mr. C.R. de Silva (ext. 4127) by 4:00 p.m. on Friday, April 24.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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

CONFIDENTIAL

LC/0/70-64

April 22, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

INDONESIA - Fisheries Project

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1. The Government of Indonesia has asked the Association for a credit of \$3 million to help finance the expansion of the fishing industry in North Sulawesi. The proposed project would consist of the construction, equipment and operation of shore facilities, fishing vessels and refrigerated carriers, and would also include a measure of technical assistance. Five credits have been made by the Association to Indonesia totalling \$66 million. Credits proposed for expansion of the PUSRI fertilizer plant (\$30 million), the second Irrigation Rehabilitation project (\$20.5 million), and the Second North Sumatra Estates Project (\$17 million) will be considered shortly by the Executive Directors. A copy of the Appraisal Report entitled "Indonesia - Fisheries Project" (PA-50) dated April 17, 1970 is attached.

2. A summary of recent economic developments in Indonesia and a description of proposed IDA lending for agriculture were included in a Memorandum to the Loan Committee (LC/0/70-31) dated March 17, 1970. The last full report of the economic position and prospects of the economy of Indonesia (EAP-10a) was issued on November 14, 1969 and was supplemented recently by a special report on current investment activity in Indonesia (EAP-14a) dated March 27, 1970.

The Project

3. Although the islands of Indonesia encompass a sea of about 5 million square kilometers, marine fishing is confined mostly to shallow, coastal waters because of the small size of traditional fishing vessels. Annual marine fish production could be raised substantially above the 1968 level of 726,000 tons by the introduction of modern technology, equipment and other necessary facilities.

4. The proposed project is the first phase of a program aimed at expanding fishing for skipjack, a species of small tuna, which is found in the seas around the Indonesian archipelago. The project consists of the construction, equipment and operation of freezing and cold storage facilities at Aer Tembaga, a natural fishing port in North Sulawesi (Celebes); the procurement and operation of 30 pole and line wooden fishing vessels of 30 gross tons each and the acquisition and operation or, alternatively, the charter of vessels to export skipjack to overseas markets, most likely Japan. Fifteen of the fishing vessels, the shore facilities, the carriers and the marketing of the frozen skipjack would be managed by the Aer Tembaga Unit of the State Fisheries Corporation (Eastern Division). The management of the unit would be strengthened by the addition of three expatriate experts and a qualified Indonesian accountant. Private entrepreneurs at Aer

Tembaga would be afforded credit facilities to acquire the remaining 15 fishing vessels, out of the proceeds of the proposed credit.

5. In the initial phase, which would be three years, exports of skipjack would be arranged through time charters. Thereafter, if the ownership and operation of carriers were found to be more economical, two refrigerated carriers would be provided under the proposed project. If it were decided to continue time charter arrangements, the amount allocated for carriers in the proposed credit would be cancelled.

6. The total cost of the project is estimated at \$4.3 million, of which the foreign exchange component is \$3.0 million or 70 percent. The foreign exchange estimate is based on the assumption of local construction of the fishing vessels. The proposed credit would cover the entire foreign exchange component, including that of the fishing vessels, which is estimated at 20 percent. Procurement would be on the basis of international competitive bidding, although it is expected that due to low construction costs for hulls, local shipyards would be the successful bidders, even without any preference for domestic suppliers. (The proposed credit would therefore meet only 20 percent of the cost of vessels if these were in fact procured abroad; the balance would have to be met by the Government). The local costs of the project would be met by the Government and the State Fisheries Corporation.

7. The Government would on-lend \$2,625,000 of the proposed credit to the Corporation at an interest rate of 12 percent per annum. The balance of \$375,000 of the credit would be used to meet the foreign exchange costs of the 15 fishing vessels to be acquired by private entrepreneurs. Local costs of \$318,000 for private vessels would also be provided by Government. Loans to private entrepreneurs would be made through four state commercial banks operating in the area under subsidiary agreements satisfactory to IDA. The private entrepreneurs would provide their own working capital.

8. During appraisal of the project the Government stated that the State Fisheries Corporation, Eastern Division, is a legally and financially autonomous organization, and that the Aer Tembaga Unit of the Corporation to which the expatriate personnel were to be attached, would be responsible for the execution of an important part of the project. However, according to information received on April 17 from the Resident Staff in Indonesia, the Aer Tembaga Unit may have separate legal status and, if so, there could be legal difficulties in the Unit having expatriates in management positions. The provision of expatriate personnel is considered essential for the success of the project and is likely to be an important issue for negotiation.

9. The fishing operations of the State Fisheries Corporation are reasonably well undertaken. However, its overall performance reflects the limited experience of its executives, particularly in

procurement, marketing and accounting. Technical assistance would be provided under the proposed credit to strengthen the management of the Aer Tembaga Unit, and a project committee would be established to review periodically the progress of project implementation. It is proposed that the Government would increase its present \$200,000 equity interest in the Corporation by \$614,000 and also provide a short-term loan of \$307,000, to provide the Corporation with sufficient funds to meet investment costs and requirements of working capital. The management of the Corporation would also be strengthened by an Indonesian internal auditor.

10. The principal aim of the project would be to encourage the private fisheries sector by demonstrating that skipjack fishing for export is profitable. A major barrier to expansion of the fishing industry in the Sulawesi area has been the lack of shore facilities to deepfreeze, store and export fish as local demand is satisfied. The Corporation would now provide these facilities.

11. The estimated economic rate of return would vary from 20 percent to 30 percent depending on the assumed export price, and indicates that the project is economically justified. The project would also create additional employment and result in net foreign exchange earnings of at least \$1.3 million annually.

12. An exchange reform has been introduced in Indonesia on April 17 involving the merging of two exchange markets - the BE (Bonus Export) and the DP (Complementary Foreign Exchange) markets - at Rp. 378 per 1 US Dollar. The appraisal report was written on the basis of the former BE rate of 326 Rp = 1 US Dollar. Since the bulk of project output is likely to be exported, the exchange reform (amounting to a devaluation of about 17%) should have a favorable influence on the estimated economic and financial returns of the project.

Recommendation

13. I concur in the findings of the appraisal that the project forms a suitable basis for an IDA credit of \$3.0 million equivalent and recommend that the Government of Indonesia be invited to send representatives to negotiate a \$3.0 million IDA credit essentially along the lines of para. 7.02 of the appraisal report.

attachment

Douglas J. Fontein
Deputy Director
East Asia and Pacific Department

LOAN COMMITTEE

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LM/M/70-14

April 22, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Indonesia - Second Irrigation Rehabilitation Project" held on April 8, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Broches, Baum, Evans, Goodman, Sella, Darnell, Haynes, de Silva and Pearce (Secretary).

3. Discussion: The Chairman, recalling that it was established policy that covenants requiring the Association's prior approval of key appointments, as opposed to prior consultation, should be used only in cases of exceptional difficulty and where there was a great risk that inadequate top management personnel might be appointed by the borrower, said that he was inclined to accept the East Asia and Pacific Department's recommendation that the Association insist only upon a prior consultation covenant.

5. Decision: The Chairman decided that, in view of the Agriculture Projects Department's representations concerning the importance to the proposed project of this matter, the Indonesians should be requested to nominate suitable candidates for the posts of Project Manager and Deputy Manager before presentation of the proposed credit to the Executive Directors. On this basis, the proposed covenant in the Credit Agreement could then be limited to the right of prior consultation.

Cleared by: Messrs. Knapp
Goodman
Baum
cc: Loan Committee/Participants

LOAN COMMITTEE

April 21, 1970

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WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Nepal - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 21, 1970 from the South Asia Department, entitled "Nepal - Proposed Credit for a Highway Project" (LC/0/70-63).
2. Comments, if any, should be sent to reach Mr. Feldman (ext. 2433) by 5:00 p.m. on Thursday, April 23.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director, Projects Department
General Counsel
Director, Economics Department
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/70-63 WBG ARCHIVES

April 21, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

NEPAL - Proposed Credit for a Highway Project

1. Attached is an Appraisal Report (PTR-54) dated April recommending that the Association make available to Nepal a credit of \$2.4 million equivalent for a highway project.
2. If authorized by the Loan Committee, I would invite the Government of Nepal to start negotiations in early May. This credit would be the second lending operation by the Bank Group in Nepal. In November 1969, IDA extended a credit of \$1.7 million equivalent for a telecommunications project. The credit agreement became effective at the end of February.
3. In 1964 the Bank made a grant of \$100,000 equivalent to the Government of Nepal for a transportation survey which was completed in 1965. Some of the recommendations have already been implemented and others will be incorporated in the proposed project. In addition, financing for a highway feasibility study was subsequently obtained from the UNDP. The feasibility study will start this spring (carried out in close consultation with IDA) and is expected to identify a further highway project for IDA financing.
4. The last economic report on Nepal (SA-7a) of June 26, 1969, describes the difficulties faced in the development of the economy and in particular the limitations imposed by the inadequacy of transportation facilities. Although a basic road network is under construction, much remains to be done, not only to facilitate the movement of people and goods but also to bring together isolated or loosely-linked communities. Economic development in Nepal is a matter of unifying the country as well as of raising incomes.
5. The Government is presently in the process of formulating its Fourth Five-Year Plan, covering the period 1970/71 to 1974/75. According to preliminary information, priorities will be given to investment in both transportation and agriculture. The Bank has been asked to assist in the preparation of the draft Plan, and Ben King is leading a mission to Kathmandu in May.
6. A copy of the proposed 5-Year Lending Program is attached. The Country Program Paper of December 1, 1969 stressed that this program was highly tentative and did not represent more than an attempt to outline areas where IDA assistance could be provided with an indication

of their relative importance. Since then the picture has become somewhat clearer and I intend to revise the program after the return of the King mission.

7. The proposed credit would be the first Bank Group highway project in Nepal, and although modest in size, it includes elements for urgently needed improvements to the transport system. One of the main objectives of the project would be to improve highway maintenance which, with the planned take-over of roads constructed under bilateral aid agreements, will require a substantially increased allocation of resources for maintenance. The project also provides for the replacement of five understrength road bridges and the supply and erection of five suspension bridges for porter traffic in the hills in order to facilitate communications in remote parts of the country.

8. One of the main objectives of the project would be to strengthen and improve the organization of the Roads Department and technical assistance is provided for this purpose. As in the Telecommunications project, this assistance is expected to be provided by UNDP, to whom the Government has already submitted a formal request. Paragraph 6.04 of the Appraisal Report proposes that presentation to Executive Directors should be contingent upon the Association being satisfied that funds for this technical assistance will be made available and that steps are being taken to recruit the necessary experts. We do not expect any difficulties in the finalization of these arrangements. However, should something unforeseen arise, I would propose to increase the amount of the credit by about \$300,000 to finance the required technical assistance.

9. The project does not raise major issues and the conditions have already been discussed in general terms with the Government. Financing by IDA (and UNDP) would cover the estimated foreign exchange component of the project and would represent about 80% of the total cost, presently estimated at US\$3.3 million. We propose that expenditures incurred before the signing of the credit agreement, on account of consultants retained in March, 1970, to complete bridge designs and tender documents (US\$20,000), be met from the credit.

10. Subject to the comments made in paragraph 8, I recommend that the Loan Committee authorize negotiation of the proposed credit.

I.P.M. Cargill
Director

Attachments

Population: 10.5 m
GDP Per Cap: \$70

IVa. NEPAL - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Irrigation - Chatra Canal	IDA			5.0					
Agriculture Unidentified II	IDA			3.0					
Agriculture Unidentified III	IDA					3.0			
Telecommunications I	IDA	1.7							
Telecommunications II	IDA				2.0				
DFC	IDA				2.0				
Education I	IDA				2.0				
Highways I	IDA		2.5						
Highways II	IDA			3.0					
Highways III	IDA						3.0		
Water Supply	IDA				3.0				
Unallocated I	IDA			2.0					
Unallocated II	IDA						2.0		

IDA	<u>1.7</u>	<u>2.5</u>	<u>13.0</u>	<u>9.0</u>	<u>3.0</u>	<u>5.0</u>	<u>26.2</u>
No.	1	1	4	4	1	2	10

LOAN COMMITTEE

April 20, 1970

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WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

India - Cauvery Delta Irrigation and Drainage Rehabilitation Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 20, 1970 from the South Asia Department, entitled "India - Cauvery Delta Irrigation and Drainage Rehabilitation Project" (LC/0/70-61).
2. Comments, if any, should be sent to reach Mr. Feldman (ext. 2433) by 5:00 p.m. on Wednesday, April 22.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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CONFIDENTIAL SEP 09 2014
LC/0/70-61 WBG ARCHIVES

April 20, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

INDIA - Cauvery Delta Irrigation and Drainage Rehabilitation Project

1. Attached is an Appraisal Report (PA44) dated April 7, 1970, recommending that the Association make available to India a credit of \$26 million equivalent for this project. The most recent version of the Five-Year Lending Program is attached. The project was originally included in the Lending Program in FY 1971, for a credit of \$15 million. In view of the progress made on preparation and appraisal, and the possibility that the project can be included in this year's IDA allocation for India, the schedule has been advanced. The amount proposed for this credit also has been increased from \$15 to \$26 million. For some time it has been recognized that the amount shown in the Lending Program was subject to change pending the findings of the appraisal mission.
2. If authorized by the Loan Committee, I would invite the Government of India to start negotiations on May 11. Within the period from May 4 through May 15 we will be negotiating three other Indian projects: Agricultural Credit (Punjab), ICICI VIII, and Power Transmission II.
3. The project would be the first stage of the rehabilitation of the Cauvery Delta irrigation and drainage system, in the State of Tamil Nadu, in south-eastern India. It would include the rehabilitation and improvement of existing irrigation and drainage works; the installation of 8,000 additional filter point wells; the electrification of these and of 3,000 existing wells; and on-farm development for part of the area, all to be carried out over a five-year period. The project works would serve 575,000 acres in three non-contiguous blocks.
4. Benefits from the project would arise from the increased agricultural production through better regulation of surface water supplies and increased provision of groundwater throughout the year together with improved drainage. At full development of the project, the annual incremental net value of production would be about Rs.128 million (US\$ 17 million). The economic rate of return would be about 18%.
5. The appraisal report recommends that contracts for all equipment and pumps should be awarded on the basis of international competitive bidding and that contracts including those won by indigenous manufacturers would be reimbursed in full at an estimated cost of \$12.6 million. It is estimated by the appraisal mission that about 75% of these contracts would be awarded to Indian manufacturers given a 15% preference. However it is uncertain whether or not GOI will accept international bidding for all of these items.

Our present assumption is that procurement arrangements will be proposed along the lines of those now under discussion for the Power Transmission II project. (Bids will be invited internationally in the case of equipment for which the Indian tariff is 27½% or less with the Indian bidders being allowed a 27½% preference, or the tariff, whichever is lower. The Bank would finance 100% of any contract won by an Indian bidder on the basis of a 15% preference or less. Where the Indian bidder is successful on the basis of a preference of between 15% and 27½% the Bank would finance the imputed foreign exchange content only. Where the lowest Indian bidder required a preference in excess of 27½% to win, the contract would be awarded to the lowest of the foreign bidders. The Government intends to treat successful Indian bidders as exporters who would be entitled to receive various "export incentives.") Messrs. Wapenhans, McIvor, Kirk and Dunn are expected to discuss this question in Delhi next week and I intend to hold up formal issuance of the invitation to negotiate until the Government of India confirms this or some other acceptable arrangement.

6. If GOI reserves procurement for those items (mainly trucks and other vehicles) with an import duty higher than 27½%, it would reduce the amount of contracts subject to international competitive bidding by \$1.3 million from \$12.6 million to about \$11.3 million and the size of the credit from \$26 million to \$25 million.

7. Under present arrangements GOI provides an average of about 50% of the annual development budgets of the seventeen states through loans of up to 30 years, bearing 5-3/4% interest; and through grants. The present five-year plan period calls for an amount of roughly \$260 million to be provided by the center to Tamil Nadu. GOI does not earmark funds loaned or granted to a state for specific projects (although major projects are agreed between GOI and the states); the state must provide the funds from its own (including GOI support) budget for projects including the one under consideration. However, the GOI will undertake to pass on to the state, as part of its overall support, the proceeds of the IDA credit. In addition GOI occasionally provides supplementary funds for specific projects from its own resources on an ad hoc basis.

8. This is the first stage of Cauvery Delta rehabilitation and it is expected to cost \$40.2 million (including IDA financing of \$26.0 million) over a five-year period. The average estimated annual budgetary support by GOI to Tamil Nadu is \$52 million. Estimated expenditures from the credit are not expected to exceed \$8 million in any single year.

9. The onlending arrangements proposed for the Cauvery Project are identical to those which were recently approved for the Kadana Project. Even though the IDA funds are not specifically earmarked, disbursement procedures will also be identical to similar IDA projects and no funds will be released to the borrower (GOI) until satisfactory evidence has been received that the equivalent amount has been expended by the State in accordance with the terms of the documents.

10. To ensure timely and adequate financing for the project, assurances will be obtained during negotiations that the Government of India and the Government of Tamil Nadu will make arrangements, subject to legislative approval, in the annual development plans and annual budgetary allocations of Tamil Nadu for the provision of funds required for the implementation of the project in accordance with the expenditure schedule in paragraph 4.29 of the appraisal report.

11. I recommend that the Loan Committee authorize negotiation of the proposed credit of \$26 million to the Government of India in light of the recommendations and conditions set forth in paragraphs 8.01 and 8.02 of the appraisal report, subject to the reservations stated above.

I.P.M. Cargill
Director

Attachments

Population: 511 m
GNP Per Cap: \$90

IVa. INDIA - 5 YEAR LENDING PROGRAM

			(\$ millions)					
			Fiscal Year				Total	Total
			1970	1971	1972	1973	1974	1975
						1964-68	1969-73	
Agricultural Credit - Tamil Nadu	IDA			25.0				
Agricultural Credit - Gujarat	IDA	35.0						
Agricultural Credit - Punjab	IDA	25.0						
Agric. Credit - Andhra-Pradesh	IDA			25.0				
Irrigation - Kadana	IDA	35.0						
Irrigation - Cauvery Delta	IDA	26.0						
Irrigation - Krishna-Godavari	IDA			10.0				
Irrigation - Pochampad	IDA			10.0				
Irrigation - Godavari Barrage	IDA			10.0				
Irrigation - Tawa	IDA			10.0				
Agricultural Aviation	IDA			6.0				
Grain Storage	IDA			10.0				
Fisheries	IDA				7.5			
Agric. Unident. (6-8 proj.)	IDA			140.0				
Agric. Unident. (6-8 proj.)	IDA				150.0			
Agric. Unident. (6-8 proj.)	IDA					165.0		
Agric. Unident. (6-8 proj.)	IDA						165.0	
Telecommunications IV	IDA			40.0				
Telecommunications V	IDA				40.0			
Telecommunications VI	IDA					40.0		
Telecommunications VII	IDA						35.0	
Telecommunications VIII	IDA							35.0
DFC - ICICI VIII	IBRD	40.0						
DFC - ICICI IX	IBRD				40.0			
DFC - ICICI X	IBRD						40.0	
Education Unidentified I	IDA			20.0				
Education Unidentified II	IDA						20.0	
Fertilizer - Nangal (Public)	IDA	25.0						
Fertilizer Plant Unidentified	IBRD	25.0						
Industry Unidentified II	IBRD				15.0			
Industrial Imports VI	IDA	75.0						
Family Planning	IDA			10.0				

(Contd.)

IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					
		Fiscal Year					Total
(Contd.)		1970	1971	1972	1973	1974	1975
							1964-68
							1969-7
Power Transmission	IDA	38.0					
Power Transmission	IDA		60.0				
Power Unidentified II	IDA			15.0			
Power Unidentified III	IDA				15.0		
Power Unidentified IV	IDA					60.0	
Highways II	IDA		30.0				
Ports - Bombay/Calcutta	IDA		30.0				
Railways X	IDA	55.0					
Transportation Projects Unident.	IDA			65.0			
Transportation Projects Unident.	IDA				60.0		
Transportation Projects Unident.	IDA					50.0	
Water Supply - Bombay	IDA		10.0				
Water Supply Unidentified I	IDA			15.0			
Water Supply Unidentified II	IDA					15.0	
Unallocated	IDA			15.0			

		IBRD	40.0	25.0		55.0		40.0	189.0	160.5
		IDA	289.0	311.0	287.5	280.0	280.0	280.0	591.0	1320.0
		Total	329.0	336.0	287.5	335.0	280.0	320.0	780.0	1480.5
P & B	4/10/70	No.	8	16	12	13	11	10	11	52

* Note: the IDA lending program
is to be reduced to --

235.0 235.0 280.0 280.0 280.0 280.0

LOAN COMMITTEE

April 20, 1970 **DECLASSIFIED**

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Afghanistan - Agricultural Development Bank

1. The Committee is requested to consider, without meeting, the attached memorandum of April 20, 1970 from the South Asia Department, entitled "Afghanistan - Proposed Credit for the Agricultural Development Bank" (LC/0/70-62).
2. Comments, if any, should be sent to reach Mr. Aiyer (ext. 2648) by 5:00 p.m. on Wednesday, April 22.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

Copies for Information:

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

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LC/0/70-62

SEP 09 2014

WBG ARCHIVES

April 20, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

Afghanistan - Proposed Credit for the Agricultural Development Bank

1. Attached is an appraisal report (PA-46) dated April 15, 1970 recommending that the Association make a credit of \$4.7 million equivalent to the Kingdom of Afghanistan to help finance the credit program of the Agricultural Bank of Afghanistan, the main source of agricultural credit. It is estimated that the credit will be disbursed over a period of 3.5 years.

Background

2. To date the Association has made two credits to Afghanistan. The first, Credit 68-AF (\$3.5 million), was for an education project in 1964. So far only about \$300,000 has been disbursed, exclusively for consulting services. Since 1964, several bilaterally financed education projects have been completed and doubts have grown about the current appropriateness of the project to the educational need of the country and about the construction standards for the proposed buildings. While the previous Government had requested that the project be re-examined and revised in accordance with priority needs of the sector, we understand that the new Minister of Education (who assumed office in December 1969) may request cancellation of this credit. He feels that the educational process in Afghanistan has been unduly influenced by donor preferences and would prefer to re-think the educational needs of the country before embarking on any major new investments. The second credit, Credit 158-AF (\$5.0 million) was extended in May 1969 for the improvement of highway maintenance operations. Because of elections and a subsequent change in Government, the credit has not yet been ratified by Parliament, therefore it is not yet effective. Ratification is expected soon. The delay in ratification has not yet affected the execution of the project because since last August consultants, under a program financed by UNDP with the Bank as Executing Agency, have been engaged in some of the preparatory and preliminary work necessary for the project.

3. Afghanistan is one of the least developed nations in the world. In spite of relatively high levels of investment, the economy appears to have remained stagnant. The development outlays of the last decade, about three-fourths of which were financed from foreign sources, have been concentrated on heavy infrastructure projects which have not yet begun to contribute significant benefits to the economy. There is an acute shortage of domestic savings. The balance of payments continues to show a deficit and the debt service ratio, now about 20 percent, is expected to rise to 27 percent in the next three years.

4. The country program consists of projects that offer a reasonable chance of bringing about economic improvements on a moderate scale in sectors that offer scope for effective work. The proposed lending program is summarized in Annex I. Agriculture, which accounts for over 50 percent of gross domestic product, is one such sector. Farming practices are primitive, productivity is low, and production of food grains has remained about the same for the past ten years. The introduction of modern crop production practices has been recent and early results have been rather encouraging but modest. One of the factors inhibiting more rapid progress is the lack of an efficient source of long- and short-term credit at reasonable rates and adequate supporting services. The Government of Afghanistan is aware of this.

5. The main source of credit for farmers is the Agricultural Development Bank (AGBANK), a mixed public-private enterprise, which has been in operation since 1954, but has had great difficulty in establishing an effective lending program. Its authorized capital is Af.500 million (\$6.7 million); its headquarters is in Kabul and there are ten branch offices. After a promising start, the AGBANK was forced to curtail its activities mainly because of management problems. It was too dependent upon the Ministry of Agriculture; management and staff had little training and experience in agricultural credit; the Supreme Council, its governing body, met too infrequently for effective administration and failed to delegate authority to AGBANK's management; and lending, supervision and accounting practices were unsatisfactory.

6. In November 1968 the Government requested assistance from the UNDP Special Fund in reorganizing the AGBANK. This is now underway, with the guidance of a consulting firm financed by UNDP, the Bank serving as Executing Agency. Upon completion of the reorganization, the consultants will continue to have executive functions until September 1972.

The Project

7. The total cost of the project proposed in the appraisal report amounts to \$7.0 million equivalent; it would support a three-year lending program amounting to an estimated cost of \$5.8 million equivalent, and supporting technical services (including irrigation construction equipment, expert and extension services and fellowships for local staff) at an estimated cost of \$1.2 million. A vital element of the project is the strengthening of AGBANK and provision of technical assistance for the Ministry of Agriculture. The main components of the lending program are: \$4.4 million for farm machinery (including tractors with attachments and spare parts, threshers, ox-drawn implements, and shallow well pumps) and \$1.4 million for rehabilitation of existing minor irrigation schemes. Of the total project cost (\$7.0 million equivalent), IDA would finance the foreign exchange component representing about 67 percent and a small amount (\$60,000) for local extension services. Farmers would contribute 18 percent of the investment cost, the AGBANK 13 percent, and the Government 2 percent. The borrower would be the Royal Government of Afghanistan.

8. AGBANK's annual lending operations would increase from an estimated \$0.8 million equivalent in 1970/71 to about \$1.8 million by 1973/74. To meet its financial requirements the Government has already increased AGBANK's resources but further contributions would be required after 1974. Transfer as equity of that portion of the IDA credit which has been designated for AGBANK's lending is recommended to improve AGBANK's financial structure for an expanded credit program after the IDA credit has been fully used. Disbursements would be to AGBANK, except for the extension service component which would be to the Government. The Government would carry the exchange risk. AGBANK would lend to individual borrowers at not less than 8 percent per annum.
9. Tractors, including attachments and spare parts, pumpsets, vehicles and construction equipment, would be procured through international competitive bidding. The small component of animal-drawn implements would be locally procured. For irrigation rehabilitation schemes, local competitive bidding would be required because these works, being labor-intensive, would not attract participation of foreign firms.
10. To strengthen the Ministry of Agriculture's technical services for farmers investing under the project, the Ministry would establish a Minor Irrigation Department and a Groundwater Control Section. Three experts for the irrigation unit and one for the pump-related unit would be provided by the project. Their terms of reference would, in addition to technical and managerial assistance, include the preparation of sub-projects for a second stage project. The Ministry would also expand and improve its extension services. To improve effectiveness of local staff, fellowships are included for on-the-job training under conditions similar to those in Afghanistan. The Bank may have to render assistance in appropriate placement of the trainees.
11. The project would substantially increase farm income by intensifying and improving production on irrigated farms through use of tractors and ox-drawn implements, and by providing additional and reliable water supply through irrigation rehabilitation and pump irrigation. Returns to farmers are estimated to range from 22 percent on irrigation rehabilitation to 31 percent on tractors; technical services are expected to be effective under the circumstances of the project, and output would be increasing from a low starting base. The rate of return to the economy is estimated at 21 percent. Additional but non-quantified benefits, would result mainly from institutional improvements of the AGBANK and the Ministry of Agriculture. The estimated value of annual production attributable to the project would be about \$12 million equivalent, including about \$4.6 million of import savings and about \$1 million in direct annual export earnings.
12. In order to ensure successful implementation of the project, there are several detailed points to be negotiated with the representatives of the Government and these are given in paragraphs 8.01 (a) and (b) of the appraisal report. Although these points do not raise any major issues in the field of agricultural credit, they are designed for the particular circumstances prevailing in Afghanistan.

13. The total project cost is estimated at \$7 million, of which the IDA participation would be for the foreign exchange component which amounts to \$4.7 million or 67 percent. The participation towards the investments on farm mechanization, pumpsets and irrigation rehabilitation is 62 percent; expert services, fellowships, and equipment between 80 and 100 percent. With the exception of about \$60,000 for local extension services, there is no local currency financing involved.

Recommendation

14. I concur with the recommendation in paragraph 8.02 of the appraisal report and propose that the representatives of the Royal Government of Afghanistan be invited to Washington to open negotiations for this credit.

Attachment

I.P.M. Cargill
Director

Annex I: Afghanistan - 5 Year Lending Program

Population: 15.8 m
GNP Per Cap: \$70

IVa. AFGHANISTAN - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Bank I	IDA	4.7							
Agricultural Bank II	IDA				5.0				
Agricultural Bank III	IDA						5.0		
Irrigation - Kunduz I	IDA		4.0						
Irrigation - Kunduz II	IDA			5.0					
Irrigation - Farah Rud	IDA				15.0				
Livestock I	IDA			4.0					
Livestock II	IDA						4.0		
DFC - IDBA I	IDA			3.0					
DFC - IDBA II	IDA					3.0			
Tourism	IDA		2.0						
Airport Improvement	IDA		3.0						
Air Transportation	IDA						5.0		
Secondary Roads	IDA			10.0					
Highways	IDA					10.0			
Unidentified I	IDA					4.0			
Unidentified II	IDA					3.0			
Unidentified III	IDA						3.0		
Unidentified IV	IDA						3.0		

LOAN COMMITTEE

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SEP 09 2014
April 17, 1970
WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Congo (Brazzaville) - Pointe Noire-Makola Road Project

Attached for information is a memorandum from the Director of the Western Africa Department to the Chairman of the Committee, dated April 17, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for a road project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

TO: Mr. J. Burke Knapp

DATE: April 17, 1970

FROM: Roger Chaufournier

SUBJECT: CONGO (BRAZZAVILLE) - Pointe Noire-Makola Road Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President to the Executive Directors on a proposed credit to the People's Republic of Congo for a road project, and the draft Credit Agreement. The credit was negotiated on the terms and conditions agreed upon by the Loan Committee, and therefore no substantial changes have been made in the Appraisal Report (PTR-43) which is now being processed; a copy of the green cover report is attached for ease of reference. Board presentation is scheduled for May 5, 1970, assuming the Government appoints its representative to sign the Statutory Committee Report in due time.

2. The attention of the Loan Committee was drawn to the existence of unsettled claims. Discussions were held on this question during negotiations between the delegation, Mr. Broches and myself. They were recorded in a memorandum to Files. No further action is called for by the Bank before the Credit is presented to the Executive Directors.

3. A report "The Economy of Congo (Brazzaville) - Recent Evolution and Prospects" (AW-7a) dated April 21, 1969 was circulated to the Executive Directors (R69-65) on April 22, 1969. A copy of the draft President's Report has been sent to Mr. Friedman.

4. The oral presentation by Mr. Leduc of the Western Africa Department will refer to the development of Congo's transport sector.

5. This memorandum and the papers attached to it have been cleared with representatives of the Departments concerned.

6. I would appreciate it if you would give any comments you may have on the draft documents to Mr. Leduc (Extension 4740) as soon as possible.

Attachments.

cc: Mr. McNamara
Mr. Cope

Loan Committee (without attachments)

LOAN COMMITTEE

DECLASSIFIED

April 17, 1970
SEP 19 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Second Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 17, 1970 from the South Asia Department, entitled "Pakistan - Development credit for the Second Education Project in West Pakistan" (LC/0/70-59).
2. Comments, if any, should be sent to reach Mr. Alsegaf (ext. 2775) by 5:00 p.m. on Tuesday, April 21.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/70-59

April 17, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

Pakistan: Development Credit for the Second
Education Project in West Pakistan

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Introduction

1. Attached for consideration of the Committee is a Report "Appraisal of a Second Education Project in West Pakistan" (PE-16) dated April 7, 1970. The Report recommends that an IDA Credit of US \$8 million equivalent be made to Pakistan to cover 60 percent of the costs of (i) the relocation, expansion and improvement of N.E.D. Government Engineering College at Karachi and (ii) the expansion and improvement of the West Pakistan Engineering University in Lahore.
2. To date IDA has made twenty-nine credits to Pakistan totalling about US \$399 million equivalent, net of cancellations. A US \$13 million credit for the Chandpur II Irrigation Project was approved by the Executive Directors on April 14, 1970. Two other credits amounting to about US \$3.5 million (Karachi Port Engineering; Karnaphuli and Muhuri Irrigation Engineering) have been negotiated and will be presented to the Executive Directors shortly. Provision for this project has been included in the Country Program Paper (Attachment 1). Several other credits should be ready for presentation before the end of the current fiscal year. If these are processed as scheduled, then the total amount ready for financing would be somewhat in excess of the US \$74 million presently earmarked for IDA lending to Pakistan in FY 1970. The Bank has made thirty loans to Pakistan for a total amount of about US \$614 million, net of cancellations.
3. The current economic situation was dealt with in my recent memorandum on "Pakistan: Development Credit for the West Pakistan Water and Power Development Authority Power Transmission and Distribution Project" (LC/0/70-56) dated April 15, 1970. An economic mission has just returned from the field and is preparing its report.

Background

4. In the period 1960 to 1965 Pakistan achieved a high rate of development in the field of industrialization. The Third Five-Year Plan (1965/66-1969/70) continued to emphasize industrial development but the outbreak of the Indo-Pakistan War imposed severe resource constraints which forced a shift in emphasis to quick yielding investments and agriculture and which considerably slowed down the growth of industry. The Fourth Five-Year Plan, now being formulated, is expected to adopt as a major strategy for future industrial development a shift towards export oriented industries, which in turn requires improvement in quality and the production of more finished items.

5. The expected industrial development necessitates an increase in the number and particularly in the quality of engineering personnel. The educational system of Pakistan has been under mounting criticism in recent years and in recognition of existing shortcomings the Ministry of Education in July 1969 published proposals for a New Education Policy. This new policy, which has just been approved by the Cabinet, calls for "a massive shift towards technical and vocational education" together with a determined research effort to transform the country's resources.

6. In May a large UNESCO mission will visit Pakistan to undertake a comprehensive review of the education sector, including the New Education Policy. We expect that the report of the mission will also identify a number of priority projects, some of which might be suitable for further Bank Group lending during the next few years.

7. The draft Fourth Plan recognizes that in regard to engineering education the problem to be faced during the next few years is one of quality and not sheer expansion. Accordingly, no additional places in engineering education will be provided beyond those specified in the Third Plan, which provided for raising the intake capacity of degree engineering courses in West Pakistan to 1800; as of June 30, 1970 the capacity is expected to be about 1500. Part of the effort at improving the quality of engineering education will be aimed at developing engineering courses at M.Sc. levels.

Earlier Education Credits

8. So far the Association has assisted in financing three education projects in Pakistan, two of which are in East Pakistan and one in West Pakistan, with Credits totalling \$26 million. The Credit for West Pakistan (Credit No. 50-PAK in amount of \$8.5 million) was made on March 25, 1964 to finance approximately 50 percent of the estimated total costs of construction and the procurement of equipment for Lyallpur Agricultural University, the procurement of equipment for 6 Technical Institutes in West Pakistan, the employment of expatriate teachers and overseas training of Pakistani teachers of the Technical Teacher Colleges at Karachi and Rawalpindi.

9. The procurement of equipment for the Technical Institutes is now about 75 percent complete, and another 10 percent has been ordered. The Pakistan authorities have proposed to use the remaining 15 percent for the purchase of equipment for new programs and this proposal is now under consideration. The technical assistance and overseas training program for the Technical Teacher Training Colleges are about half completed. At the West Pakistan Agricultural University, Lyallpur, construction is behind schedule. Less than three-quarters of the construction program in the approved master plan is under way, of which about 80 percent is complete. In other words, although nearly 90 percent of the anticipated six-year construction period has elapsed only about half of the total construction work has been done. Procurement of instructional equipment appears to be keeping pace with construction. Initial delays were due to difficulties in developing a master plan. Construction did start in 1966, but especially during the last year or so, construction was hampered because rupee funds were not made available to the project authorities as and when needed. Now, both because of a general shortage of rupee funds in Pakistan and also to

take into account new emphases set by the New Education Policy, the Government of West Pakistan is reassessing the program requirements at Lyallpur; a proposal by Pakistan to modify the program is at present under consideration. If we consider the request justified, we will have to be assured before agreeing formally, that the rupee funds required to complete the revised project will be made available as and when needed. In any case, a further extension of the Closing Date will be necessary.

10. The first East Pakistan Education Credit (Credit No. 49-PAK) was made at the same time as the West Pakistan Credit (Credit No. 50-PAK) and provided US \$4.5 million for construction and equipment for Mymensingh Agricultural University, equipment and services for eight Technical Institutes and technical assistance for the Technical Teacher Training College at Dacca. The second East Pakistan Education Credit (Credit No. 87-PAK) was made in June, 1966 and provided US \$13 million to finance 60 percent of the second phase of the expansion and improvement of Mymensingh Agricultural University, including the provision of overseas teacher fellowships, and for construction and the procurement of equipment at five Technical Institutes in East Pakistan.

11. The Technical Institute programs under Credit No. 49-PAK are on time, and the Technical Institutes under Credit No. 87-PAK are expected to be completed one year ahead of schedule. The technical assistance program for the Technical Teacher Training College at Dacca (Credit No. 49-PAK) has already been completed. The Agriculture University project, however, is substantially delayed; a recent supervision mission has reported that the major cause of slow implementation in the past year - the shortage of rupee funds - has been alleviated and that sufficient funds are available till the end of the current fiscal year. However, administrative difficulties and personality problems remain, and progress will have to be monitored by particularly frequent supervision missions. Extensions of the Closing Dates (Credit No. 49-PAK from June 30, 1971 for one year; Credit No. 87-PAK from June 30, 1972 for 2 years) are likely to be necessary.

The Project

12. The proposed project comprises the construction of academic and commercial buildings, boarding facilities and staff houses, and the provision of instructional equipment and technical assistance at the N.E.D. Government Engineering College in Karachi and at the West Pakistan University of Engineering and Technology in Lahore; this would allow an increase of about 650 (from the present 3300 students) in the combined undergraduate enrollment, the initiation of a full-time M.Sc. engineering program at the West Pakistan University of Engineering and Technology with a planned enrollment of 420 students, and substantial improvement in the quality of instruction at both institutions. Although the emphasis is on improving the quality of graduate engineers and to develop a small corps of engineers with postgraduate training, a modest increase in undergraduate enrollment is also justified at this stage.

13. At the West Pakistan University of Engineering and Technology in Lahore, new buildings would be provided for the two departments of civil and electrical engineering; new equipment would be installed in the

laboratories, shops and teaching spaces of the five engineering departments, and books and journals would be purchased for the library. Because the University draws its students from the whole country and there is a severe shortage of appropriate accommodation in Lahore, hostels would be provided for an additional 500 students to increase the capacity to 1300 students. The total costs of this part of the project are estimated at about US \$6.8 million equivalent, including 10 percent for contingencies. Foreign exchange expenditures including contingencies are estimated at US \$3.1 million. Although the teaching staff is well qualified and competent for the teaching to degree level, selected members of the staff would be given further overseas training to meet the needs for postgraduate and research work.

14. The N.E.D. Government Engineering College, Karachi, will be re-located to a site adjacent to the University of Karachi as there is no room for expansion on the present site. A complex of modern buildings would be constructed and additional equipment and books provided. As the new site lies outside the Karachi urban area, hostel accommodation for two-thirds of the planned enrollment of 1500 students and about 70 staff houses would have to be provided. The development of a properly qualified teaching staff will be an essential element in improving the quality of education at this college, since at present the staff is inadequate both in numbers and qualifications. To meet the needs of the College, the teaching staff would be nearly doubled (from 47 to 89), and an intensive training program would be introduced to upgrade the qualifications of both new and existing staff. The total costs of this part of the project are estimated at about US \$6.8 million equivalent including 10 percent contingencies. Foreign exchange expenditures, including contingencies, are estimated at about US \$3.4 million.

15. In view of the delays in the provision of rupee funds under the existing three education credits, holding up construction at the agricultural universities both in East and West Pakistan, the Appraisal Report recommends (para. 3.29) that specific assurances be obtained from the GOP; these assurances would provide that (i) the rupee funds estimated to be required during a fiscal year for capital expenditures be allocated in full in the Government budget for the respective fiscal year and (ii) that these funds when becoming available to the provincial government would be placed in a separate account, to be used exclusively for the implementation of the project. I fully agree that we should do everything possible to avoid delays in project implementation due to lack or shortage of rupee funds. I have repeatedly discussed our great concern about the unsatisfactory performance on some projects with the Finance Minister and Senior Secretaries of the Government of Pakistan and have been assured that in the future this aspect will receive very close attention. I propose to explore with the Government representatives during negotiations the most suitable arrangement; this may well be the separate account recommended by the Appraisal Report. If that should not be feasible for fiscal, legal or other reasons, we should consider other alternatives, for example a three-month revolving fund.

16. The proposed credit of US \$8.0 million would provide about 60 percent of the total estimated cost of the project (about US \$13.6 million equivalent), with foreign exchange expenditures of about US \$6.5 million or just under half of total project cost. I believe that a contribution by IDA to the local currency expenditures is justified for essentially the same reasons set forth in

my memorandum "Pakistan: Proposed Development Credit for the Chandpur Irrigation and Flood Control Project" (LC/O/70-14) dated February 11, 1970, particularly since any disbursements on account of local currency expenditures will be made against contracts awarded to Pakistani contractors and suppliers on the basis of international competition.

17. Practically all contracts for civil works and the supply of equipment and furniture would be awarded after international competition. Pakistani furniture makers would compete against foreign suppliers with a margin of preference of 15 percent. Contracts for civil works and for furniture are expected to be won by Pakistani bidders.

18. The Appraisal Report recommends (para. 4.08) that disbursements for civil works and for locally procured equipment and furniture should be on a percentage basis. While I agree with this arrangement for civil works contracts, in order to assure that we retain some leverage over the entire construction period, I recommend that we disburse the full amount of contracts for furniture whether or not Pakistani suppliers win the award.

19. The Appraisal Report further recommends (para. 4.08) that the amount of disbursements under the Credit be limited to US \$8.0 million or 60 percent of the total project costs, whichever is less. I am of the opinion that the latter limit should be deleted; reductions in the total costs of the project are not very likely but if such a case should occur I believe we should still disburse the full amount of the Credit even if we should end up financing somewhat more than 60 percent.

20. The Appraisal Report also recommends (para. 4.04 and para. 4.05) that the proposed credit be presented to the Executive Directors only after the consultant architects and project directors for both institutions have been selected and approved by the Association. I have meanwhile agreed with the Education Projects Department to make their appointment conditions of effectiveness of the credit instead.

21. The proposed credit would be made to the Central Government, which would re-lend the proceeds to the Province of West Pakistan on the same terms. On July 1, 1970 the Province of West Pakistan will be divided into four new provinces. Although only few details have been announced, it is clear that the N.E.D. Government Engineering College would fall within the new Province of Sind, and the West Pakistan University of Engineering and Technology within the new Province of the Punjab. I propose that we proceed with the negotiation, and possibly with the presentation and signing of this credit, assuming that the legal framework for the establishment of the new provinces will provide for an orderly assumption of the obligations of the Province of West Pakistan by the successor provinces. The two institutions, although both fully owned by the present Province of West Pakistan, have their own administration. I am confident that they will carry out their respective parts of the project. I expect both institutions to be represented during negotiations. We have considered the advisability of entering into a separate project agreement with each of the institutions. However, apart

from the fact that the N.E.D. Government Engineering College is directly under the West Pakistan Secretary of Education and could not be party to such an agreement, I feel that the orderly transfer of obligations by the present Province of West Pakistan to the new provinces will fully and satisfactorily cover the responsibilities of the institutions.

22. Details about the new arrangements are expected to be known by the time this project is presented to the Executive Directors and if required, we could withdraw, or modify, the project at that time.

Recommendation

23. I recommend that we invite the Government of Pakistan, the Province of West Pakistan and the universities involved to send representatives to Washington to negotiate a credit of \$8.0 million on the conditions referred to in the attached Appraisal Report and in this memorandum.

I.P.M. Cargill
Director

Attachments

Population: 120 m
GNP 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	17.0							
Irrigation - Chandpur	IDA	13.0							
Irrigation - Dacca Southwest	IDA	0.8							
Irrigation - Project Eng.	IDA	2.5							
Irrigation - Dacca Southwest	IDA		30.0						
Irrigation - Karnaphuli	IDA			10.0					
Irrigation - Muhuri	IDA				7.0				
Irrigation - Belkuchi	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		
Tea Machinery & Irrigation	IDA		5.0						
Tubewells EPWAPDA I	IDA			8.0					
Tubewells EPWAPDA II	IDA					25.0			
Chandpur North Engineering	IDA			1.0					
Barisal I Engineering	IDA			2.0					
EPWAPDA Consultants II	IDA		2.0						
EPWAPDA Consultants III	IDA				2.0				
EPWAPDA Consultants IV	IDA						2.0		
EP Education Unidentified	IDA			7.0					
EP Small Industries I	IBRD	3.0							
EP Highways II	IDA			12.5					
EP Highways III	IDA				13.5				
EP Railways	IDA		8.0						
		IBRD	3.0						
		IDA	33.3	45.0	40.5	37.5	55.0	35.0	758.3
		Total	36.3	45.0	40.5	37.5	55.0	35.0	101.3
		No.	5	4	6	5	3	3	2

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		22.4						
WP Highways III	IDA		10.0						
WP Highways IV	IDA			20.0					
WP Highways V	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	17.0							
Sui Northern Gas IV	IBRD			5.0					
Sui Northern Gas V	IBRD					5.0			
Water Supply II - Lahore	IDA		5.0						

IBRD	17.0	30.0	5.0		5.0				166.5
IDA	31.4	30.0	25.0	20.0	55.0	5.0			106.1
Total	<u>48.4</u>	<u>60.0</u>	<u>30.0</u>	<u>20.0</u>	<u>60.0</u>	<u>5.0</u>	<u>81.3</u>		<u>272.6</u>
No.	4	4	3	2	4	1	6		13

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

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

Agric. Development Bank IV	IDA	15.0						
Agric. Development Bank V	IDA		30.0					
Agric. Development Bank VI	IDA				30.0			
	EP	7.0	15.0		15.0			
	WP	8.0	15.0		15.0			

Telecommunications II	IDA	15.0						
	EP	3.0						
	WP	12.0						

DFC - PICIC IX	IBRD	10.0						
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	10.0	5.0	5.0	22.0	30.0		
	WP	10.0	5.0	5.0	18.0	30.0		

East & West	IBRD	10.0		40.0		40.0		90.0
	IDA	35.0	15.0	10.0	30.0	50.0		136.0
	Total	35.0	25.0	10.0	70.0	90.0	311.7	226.0
	No.	2	2	1	2	3	13	

IBRD	20.0	40.0	5.0	40.0	5.0	40.0	162.0	250.5
IDA	100.7	90.0	75.5	87.5	110.0	90.0	332.3	400.7
Total	120.7	130.0	80.5	127.5	115.0	130.0	494.3	660.5
No.	11	10	10	9	7	7	25	

P & B 3/20/70

* Note: the IDA lending program
is to be reduced to --
the IBRD lending program
is to be reduced to --

74.0 60.0 70.0 70.0 70.0
30.0 -----120.0 -----

LOAN COMMITTEE

DECLASSIFIED

April 17, 1970

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

India - Punjab Agricultural Credit Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 17, 1970 from the South Asia Department, entitled "India - Punjab Agricultural Credit Project" (LC/0/70-60).
2. Comments, if any, should be sent to reach Mr. Kuriyama (ext. 2765) by 1:00 p.m. on Wednesday, April 22.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

Copies for Information:

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

CONFIDENTIAL

LC/0/70- 60

April 17, 1970

LOAN COMMITTEE

MEMORANDUM FROM THE SOUTH ASIA DEPARTMENT

INDIA - PUNJAB AGRICULTURAL CREDIT PROJECT

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Background

1. Attached is an Appraisal Report (PA-48) dated April 16, 1970 recommending that the Association make a credit to India of US\$27.0 million equivalent for this project. The most recent edition of the five-year lending program is attached. The amount now proposed for this credit is \$2.0 million higher than indicated in the forecast, reflecting revised cost estimates developed in writing the appraisal report.
2. The Punjab Agricultural Credit Project would finance an investment program in farm mechanization in the State of Punjab in northern India. The Governments of India and Punjab are aware of the need to provide expanded credit facilities to farmers in order to enable them to make the investments necessary to take full advantage of the benefits available from the use of modern agricultural technology. The recently published All-India Credit Review estimates that incremental net needs for all types of agricultural credit will rise to about US\$666 million per annum by the end of the Fourth Five-Year Plan in 1973/74. Steps are being taken to involve commercial banks, as well as public sector cooperative channels, in meeting these credit requirements.
3. In November and December of 1968, the Bank group sent a reconnaissance mission to India to review the prospects for Bank/IDA participation in agricultural credit projects in several states. That mission recommended that projects in Gujarat and in Punjab could be suitable for Association financing with some further preparation, and that projects in several other states could be developed in the course of time. We expect to present the Gujarat project to Executive Directors on May 5, and the Punjab Project is scheduled to be presented on June 9. A third credit project, in Andhra Pradesh, is being appraised and should be ready for consideration by the Loan Committee and by the Executive Directors during the second quarter of FY 1971.

Bank/IDA Lending Program

4. The proposed credit would be the thirteenth lending operation of the Bank group in support of agricultural projects in India, and the fourth in the series supporting the new agricultural strategy, which began with the Tarai Seeds loan of June 1969. Appraisal reports have been prepared for proposed credits for a Second Power Transmission Project and the Cauvery

Delta Irrigation Project, for inclusion in this year's Association lending program. An appraisal report is being prepared for a proposed Eighth Loan to ICICI, which would be the only loan to India in FY 1970. In addition to the Andhra Pradesh Agricultural Credit Project, a number of other projects are being prepared for FY 1971, including an agricultural aviation project, a grain storage project and two irrigation projects.

5. The lending program will be reviewed in the context of a new country program paper in July/August.

The Economy

6. A new economic report, "Economic Situation and Prospects of India," (SA-13, April 15, 1970) is in the final stages of consideration. It indicates that in spite of favorable trends in the economy, including the balance of payments prospect, India continues to require substantial inflows of net aid on concessionary terms, such as the IDA financing proposed in the five-year lending program.

The Project

7. The Punjab Agricultural Credit Project would consist of Association financing of part of a two-year lending program for investments by farmers in tractors, farm implements, and harvesting machinery. The borrower would be the Government of India. The proceeds of the Association credit would be on-lent to farmers through the Agricultural Refinance Corporation (ARC, an all-India body which has participated in two previous Bank group projects, Tarai Seeds and Gujarat Credit) to the Punjab State Cooperative Land Mortgage Bank (LMB) and selected commercial banks. The commercial banks, many of which recently have been nationalized, would be participating in an Association-financed agricultural credit project for the first time, and would be required to accept the same terms and conditions of lending to farmers as the LMB.

8. Benefits from the project would arise from increased agricultural production. It is estimated that the extent of mechanization proposed would enable participating farmers to increase their cropping intensity by about 30 percent, expanding the cropped area by some 60,000 hectares, and to increase their yields by about 10 to 15 percent. Foodgrain production would increase by an estimated 200,000 tons per annum. The economic rate of return is estimated to be between 14 and 27 percent. In addition, the increased production should make possible savings of foreign exchange by substitution for foodgrain imports.

9. The appraisal report estimates the total cost of the project at about US\$39.0 million. We propose that the Association finance the total estimated foreign exchange cost of US\$27.0 million, or about 69 percent of the estimated total expenditures on the project. The entire amount of Association financing would be on-lent to the ARC, which would exceed ARC's requirements for refinancing under the project by about US\$6.5 million. This situation arises because ARC refinances only a percentage

of loans to farmers, which in turn finance only a percentage of each investment. We propose that the excess amount be placed in a special account to be used for refinancing ARC-approved agricultural credit schemes anywhere in India.

10. Procedures for tractor procurement would follow the agreement reached for the Gujarat project. Farmers would be allowed to exercise their choice of tractor makes, after eligible suppliers had indicated unit prices for bulk purchase of tractors at varying quantities. Eligible suppliers would be restricted to those firms manufacturing or approved to manufacture tractors in India. As more firms are approved by the Government to manufacture tractors, they would be added to the list. The Association would disburse only against imported tractors. The number of suppliers eligible for disbursement is now five (including firms representing manufacturers in the US, the UK and Germany) and it is expected that during the project this number will rise to at least six and perhaps as many as nine (including additional firms from the countries indicated above, and France). This number of suppliers will provide an adequate degree of competition, while the restriction will help to ensure provision of facilities for spare parts and after-sales service. The Government has already agreed to these arrangements for tractor procurement.

11. Most implements are produced locally in satisfactory quantity, and would be procured by farmers through existing commercial channels. Plow bottoms and discs for the manufacture of disc and mold plows would be imported after international tender, because of a shortage of hard steel for producing these components in India. Self-propelled combine harvesters (which are not manufactured in India) and tractor-drawn harvesters (which are) would be procured by international competitive bidding with a level of preference for domestic suppliers of 15 percent or the prevailing customs duty, whichever is lower. Although the prevailing customs duty on such farm machinery is now 15 percent, the Government of India may object to the importation of implements produced in India; if this situation arises I propose that the tractor drawn harvesters be reserved for local procurement, and the amount of the proposed credit be reduced accordingly.

12. The lending policies recommended for the IMB and the participating commercial banks also follow the pattern agreed for the Gujarat project. I do not expect any difficulty over these points, although the proposed increase in the rate of interest to farmers is greater in this case (from 7-3/4 percent to 9 percent) than it was in Gujarat (from 8-1/2 percent to 9 percent).

13. The only point on which there may be difficulty during negotiations concerns the role of the Punjab Agro-Industries Corporation (PAIC). In its initial project request, the Government of India indicated that PAIC would be designated as the sole importer and distributor of tractors under the project. We made it clear before and during appraisal that this position was completely unacceptable. In order to encourage a network of dealerships and agencies for each brand of tractor, which we consider to

be essential to efficient spare parts and servicing arrangements, we propose that each supplier be allowed to distribute tractors through agents designated by the supplier. Some suppliers already have existing dealership arrangements in the project area; all would be required to demonstrate that they would provide adequate after-sales' facilities before being allowed to supply tractors under the project. We do not object to a large role for the PAIC under the project; in fact we expect that PAIC will provide extensive custom services with equipment to be financed under the project. Further, it is open to any supplier who does not now have a representative in the project area to designate the PAIC as their agent for sales, distribution, and servicing of tractors - however, we will be unable to accept any position which requires that the PAIC act as agent for a supplier of tractors who wishes to make another arrangement.

Recommendation

14. I recommend that the borrower be invited to negotiate the proposed credit of US\$27.0 million on the basis of the recommendations and conditions set forth in paragraphs 8.01 and 8.02 of the appraisal report.

I.P.M. Cargill
Director
South Asia Department

Attachment

Population: 511 m
GNP Per Cap: \$90

IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit - Tamil Nadu	IDA		25.0						
Agricultural Credit - Gujarat	IDA	35.0							
Agricultural Credit - Punjab	IDA	25.0							
Agric. Credit - Andhra-Pradesh	IDA		25.0						
Irrigation - Kadana	IDA	35.0							
Irrigation - Cauvery Delta	IDA	26.0							
Irrigation - Krishna-Godavari	IDA		10.0						
Irrigation - Pochampad	IDA		10.0						
Irrigation - Godavari Barrage	IDA		10.0						
Irrigation - Tawa	IDA		10.0						
Agricultural Aviation	IDA		6.0						
Grain Storage	IDA		10.0						
Fisheries	IDA			7.5					
Agric. Unident. (6-8 proj.)	IDA			140.0					
Agric. Unident. (6-8 proj.)	IDA				150.0				
Agric. Unident. (6-8 proj.)	IDA					165.0			
Agric. Unident. (6-8 proj.)	IDA						165.0		
Telecommunications IV	IDA		40.0						
Telecommunications V	IDA			40.0					
Telecommunications VI	IDA				40.0				
Telecommunications VII	IDA					35.0			
Telecommunications VIII	IDA						35.0		
DFC - ICICI VIII	IBRD	40.0							
DFC - ICICI IX	IBRD				40.0				
DFC - ICICI X	IBRD						40.0		
Education Unidentified I	IDA			20.0					
Education Unidentified II	IDA						20.0		
Fertilizer - Nangal (Public)	IDA		25.0						
Fertilizer Plant Unidentified	IBRD		25.0						
Industry Unidentified II	IBRD				15.0				
Industrial Imports VI	IDA	75.0							
Family Planning	IDA		10.0						

(Contd.)

IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
(Contd.)		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Power Transmission	IDA	38.0							
Power Transmission	IDA		60.0						
Power Unidentified II	IDA				15.0				
Power Unidentified III	IDA					15.0			
Power Unidentified IV	IDA						60.0		
Highways II	IDA		30.0						
Ports - Bombay/Calcutta	IDA		30.0						
Railways X	IDA	55.0							
Transportation Projects Unident.	IDA			65.0					
Transportation Projects Unident.	IDA				60.0				
Transportation Projects Unident.	IDA					50.0			
Water Supply - Bombay	IDA		10.0						
Water Supply Unidentified I	IDA				15.0				
Water Supply Unidentified II	IDA					15.0			
Unallocated	IDA			15.0					

P & B 4/10/70

IBRD	40.0	25.0		55.0		40.0	189.0	160.5
IDA	289.0	311.0	287.5	280.0	280.0	280.0	591.0	1320.0
Total	329.0	336.0	287.5	335.0	280.0	320.0	780.0	1480.5
No.	8	16	12	13	11	10	11	52

* Note: the IDA lending program
is to be reduced to --

235.0 235.0 280.0 280.0 280.0 280.0

LOAN COMMITTEE

April 16, 1970

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MEMORANDUM TO THE LOAN COMMITTEE

Liberia - Public Utilities Authority Power Expansion Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 16, 1970 from the Western Africa Department entitled "Liberia - Proposed Public Utilities Authority Power Expansion Project" (LC/0/70-58).
2. Comments, if any, should be sent to reach Mr. Ram (ext. 4788) by 5:00 p.m. on Monday, April 20.
3. It is planned then, if the Committee approves, to inform representatives of the Public Utilities Authority of Liberia and the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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LC/0/70-58

SEP 09 2014

April 16, 1970

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LOAN COMMITTEE

Memorandum from Western Africa Department

LIBERIA: Proposed Public Utilities Authority Power Expansion Project

Introduction

1. The attached report entitled "Appraisal of Public Utilities Authority (PUA) Power Expansion Project" (No. PU-38 dated April 10, 1970) recommends a loan of US\$7.4 million to PUA for a period of 20 years (including a 5-year grace period) to finance the offshore cost component of the proposed project.

2. The Government approached the Bank for financial assistance for this project in September 1968. However, the appraisal had to await the outcome of the U.S. AID-financed study on Liberia's power development and the investigation of alternative means of meeting the expected power requirements. The consultants' final report was received at the end of August 1969. After its review in the Bank, an appraisal mission visited Liberia in November 1969.

3. The proposed 5-year lending program for Liberia (1971-75) is enclosed. The loan now proposed, which is the only one scheduled for Fiscal 1970, would be the Bank's third operation in Liberia. The project under the first loan for US\$4.25 million (Loan No. 368 LBR) for the construction of two roads and procurement of road maintenance equipment has been satisfactorily completed and the loan fully disbursed. The second loan for US\$3.6 million was made in June 1969 (Loan No. 617 LBR) for the Monrovia Port project and the progress of this project has been satisfactory. A rubber rehabilitation and replanting project with proposed lending of about US\$7 million, and a transmission project with proposed lending of US\$3 million are both scheduled to be appraised during the next six months and are likely to come up for the consideration of the Committee in the first half of Fiscal 1971.

The Project

4. The proposed project described in detail in the Appraisal Report (paragraph 3.01) would cover the first phase of the public power generation program in Liberia for 1970/74. This phase would consist of installation and commissioning of Unit 3; civil works at Mount Coffee for Units 3 and 4; excavation only for Unit 5; procurement and commissioning of 15 MW gas turbine Units 2, 3 and 4. One of the three gas turbine units, financed out of a loan of US\$1.22 million from the African

Development Bank (ADB), is presently on order and is scheduled for commissioning later this year. The total cost of the first phase of the expansion, excluding the cost of the gas turbine financed by ADB, is estimated to be US\$9.7 million, of which the proposed Bank loan would finance all the offshore costs amounting to US\$7.4 million, or 76 percent of the project cost.

5. The second phase of the expansion program would consist of procurement and installation of Mount Coffee Unit 4 and procurement and commissioning of gas turbine Unit 5.

6. The whole 1970-74 power expansion program is estimated to cost US\$22 million, including working capital, of which US\$15.3 million or 70 percent is expected to be financed by borrowings and the remaining 30 percent, or US\$6.7 million, from internal cash generation. Taking into consideration the proposed Bank loan, the ADB loan and the proposed loan of \$1.4 million from the Government of Liberia (paragraph 6.14(b)), this expansion program would require further assistance of US\$5.3 million for completion of the second phase. This amount is expected to be borrowed through bilateral sources.

7. In July 1970 the engineering consultants engaged by the PUA are expected to complete their study of distribution requirements to meet anticipated demand for 1971-81. The proposed 5-year lending program includes two phases of this distribution program to be financed by Bank loans in Fiscal 1971 and 1974.

8. Power demand has been growing at an annual rate of 21 percent during the last few years and the average growth rate during the next 5 years is estimated to be 17 percent. Completion of the first phase would increase installed capacity of the power system from 66 MW to 124 MW and the firm capacity in the dry season from 21.0 MW to 71.0 MW. The project will meet Liberia's power requirements to the end of 1974.

9. The proposed expansion program represents the least-cost means of meeting demand for power. The rate of return on incremental hydro-investment would be 15 percent. The incremental financial rate of return on the proposed development, including the gas turbines required to firm up Mount Coffee power, is estimated at 20 percent.

10. Consultants will be engaged for design review and preparation of tender documents and specifications for Mount Coffee. The staff of the borrower, with the assistance of the management consultants, Sanderson and Porter, is capable of installing and commissioning gas turbine units and is also capable of designing and erecting 69 KV transmission lines. The commissioning of gas turbine Unit 3 is scheduled for March 1971 and No. 4 for March 1972. Mount Coffee Unit 3 would be in service in March 1973.

11. The borrower, the Public Utilities Authority, controlled by a 10-member Board of Directors appointed by the President of Liberia, is a statutory corporation established in 1962 and charged with responsibility for the generation and distribution of public power. The Authority was subsequently made responsible also for running the water and sewerage departments previously part of the Public Works Department of Government. The Authority generates about 35 percent of the total power consumed in the country, the remaining 65 percent being generated by captive plants of the iron ore companies. Two mining companies located near Monrovia also buy power from PUA. PUA's operations serve mainly the capital city of Monrovia and Buchanan, an important port for iron ore exports. At the request of the Government, PUA also generates and distributes electricity in six secondary centers which are regional administrative headquarters of counties or districts. As these operations are uneconomical, Government makes good the losses arising out of these operations. This arrangement will be continued and PUA will undertake additional responsibility for power supply in uneconomic centers only under similar arrangements.

12. PUA has a contract with an American firm, Sanderson and Porter, from 1963 for management advice; to help operation of power facilities; to develop and institute a training program and to supervise and control the purchase, storage and distribution of materials and supplies. The PUA staff is generally competent. There are a number of procedural deficiencies enumerated in the Appraisal Report (paragraphs 5.19 - 5.21). PUA has agreed to engage the required number of extra staff to remedy these deficiencies, particularly in procedures for collection of accounts receivables, meter reading and disconnecting services.

13. In the past PUA has not always run its operations along commercial lines, for instance, in May 1967, PUA made a reduction averaging 23 percent in power rates to mark the completion of the Mount Coffee project, causing the rate of return on average fixed net assets in operation to fall to 4.2 percent in 1968. Without proper study, PUA also signed a 10-year contract with two mining companies to supply firm power at 1.2 cents per kWh. Recently, the management of PUA has shown a desire to follow sound utility practices, and current forecast shows that the rate of return on power operations should be quite satisfactory over the next few years. Nevertheless, it is proposed to obtain assurances during negotiations that a detailed study of tariff structures and rates be made and tariffs will not be reduced during the loan disbursement period. It is also proposed to require power operations of PUA to earn a return of at least 10 percent on its current fixed assets in operation during 1974 and thereafter. A minimum return of 10 percent is required to insure that PUA make a contribution of about 30 percent to the power department's ongoing construction program.

14. Although it remains PUA's goal to apply commercial standards to water and sewerage operation, the financial returns from these departments have been low or negative. It is therefore proposed to obtain assurances that PUA will adopt satisfactory rate policies for its water and sewerage operations and that it will undertake a review of its tariffs with a view to introducing new rates by 1973. In view of PUA's large debt service burden, it is also proposed to negotiate a suitable debt covenant (paragraph 6.21).

15. The Committee's attention is invited to the following aspects of the proposed project:

- (a) It is proposed that the offshore cost of the distribution study be made eligible for retroactive financing from March 1, 1970. The total offshore cost of this study, expected to be completed by June 1970, is estimated at US\$75,000. It is essential to complete this study before the Bank appraises the transmission project proposed for Fiscal 1971 (paragraph 3.04).
- (b) Government will grant PUA priority in the use of the flow of the St. Paul River (paragraph 5.02(ii)).
- (c) PUA will not engage in new activities unless both organization and staff are adequate to enable non-power operations to be carried out without detriment to efficiency of power operations (paragraph 5.02(i)).
- (d) PUA will also be required to modify its organizational structure so as to achieve better utilization of its Liberian staff and reduce the administrative burden on the Chairman (paragraph 5.12).

The Economy

16. Liberia has a dual economy with enclave operations in iron ore mining and rubber plantations, and a large and underdeveloped agricultural sector which absorbs about 80 percent of the population. While per capita GNP is estimated at around \$220, per capita incomes outside the enclave operations are probably about \$70 per year.

17. The last economic report on Liberia dated May 26, 1969 (Report No. AW-5A) noted that although the government had so far not been very effective in promoting economic development, it had made successful efforts in the past six years to strengthen its revenues and restore fiscal balance and to avoid further expansion of external public debt. There has recently been an increase in public development expenditures signifying a more determined effort to promote development. The share of public savings in financing this accelerated development effort has

been increasing due to a continued rise in the budget surplus. After partial rescheduling in debt service payments for 1969-71, debt service ratio in 1970 is estimated at about 7 percent. According to the current schedule, debt service payments will peak in 1974 at \$17.2 million and drop to less than half this amount by 1978.

18. Having considered the Economic Policy memorandum on Liberia by the Western Africa Department (EC/O/69-34/1) dated March 4, 1969, the Economic Committee recommended that, "subject to periodic reviews by the Committee, Liberia be regarded as eligible for Bank Group assistance over the next five years averaging about \$6 million annually, preferably with extended grace periods." All Bank Group financing to Liberia, including the proposed loan, will have been on Bank terms. We expect to soften the blend in the course of next year as we propose to finance an important agricultural project through IDA (paragraph 3 above).

Recommendations

19. I concur with the recommendations of the Appraisal Report and recommend that the Government of Liberia and the Public Utilities Authority of Liberia be invited to negotiate a loan of up to US\$7.4 million for the proposed Public Utilities Authority Power Expansion Project.

Roger Chaufourmier
Director

Attachment

Population: 1.1m
Per Cap Inc: \$210

LIBERIA - 5-YEAR LENDING PROGRAM
(PROPOSED)

		(US\$ millions)									
		Fiscal Years						Total	Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73	1971-75	
Rubber Rehabilitation	IDA		7.0								
Agriculture Unidentified	IDA						4.0				
Education	IDA			3.0							
DFC	IBRD			3.0							
PUA Mount Coffee Power	IBRD	7.4									
Transmission	IBRD		3.0			3.0					
Road Engineering & Road Rehabilitation and Equipment	IDA			2.5							
Road Construction	IBRD				3.0						
	IBRD	7.4	3.0	3.0	3.0	3.0	-	4.3	20.0	12.0	
	IDA	-	7.0	5.5	-	-	4.0	-	12.5	16.5	
	Total	<u>7.4</u>	<u>10.0</u>	<u>8.5</u>	<u>3.0</u>	<u>3.0</u>	<u>4.0</u>	<u>4.3</u>	<u>32.5</u>	<u>28.5</u>	
	No.	1	2	3	1	1	1	2	8	8	
IBRD Loans Outstanding											
- including undisbursed		15.1	18.1	20.6	23.1	25.6	25.0				
- excluding undisbursed		7.2	9.3	16.0	18.9	25.0	21.8				
IDA credits outstanding											
- including undisbursed		-	7.0	12.5	12.5	12.5	16.5				
- excluding undisbursed		-	-	2.0	8.0	9.0	13.5				

April 10, 1970

LOAN COMMITTEE

DECLASSIFIED

April 15, 1970 SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - WAPDA Power Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 15, 1970 from the South Asia Department, entitled "Pakistan - Development Credit for the West Pakistan Water and Power Development Authority Power Transmission and Distribution Project" (LC/0/70-56).
2. Comments, if any, should be sent to reach Mr. Cunningham (ext. 2774) by 5:00 p.m. on Friday, April 17.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

Copies for Information:

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

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LC/0/70-56

April 15, 1970

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LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Development Credit for the West Pakistan
Water and Power Development Authority
Power Transmission and Distribution Project

Introduction

1. The Government of Pakistan has requested an IDA credit to finance the foreign exchange costs of a project for the expansion of the power transmission and distribution system of the West Pakistan Water and Power Development Authority (WAPDA). A credit of US \$22.4 million is proposed to finance imported equipment and services equivalent to 57 percent of the total project cost of about US \$39 million; the balance represents local expenditures which would be met by the Government of Pakistan, Government of West Pakistan, and WAPDA. Further details on the project are set out in the attached report, "Appraisal of WAPDA Power Project" (No. PU-36 of March 26, 1970).
2. To date IDA has made twenty-nine credits to Pakistan totalling about US \$399million equivalent, net of cancellations. Three Credits amounting to about US \$16.5 million (Chandpur II, Karachi Port Engineering, Karnaphuli and Muhuri Irrigation Engineering) have been negotiated and will be presented to the Executive Directors shortly. Provision for this project has been included in the Country Program Paper (Attachment 1). Several other credits should be ready for presentation before the end of the current fiscal year. If these are processed as scheduled then the total amount ready for financing would be somewhat in excess of the US \$74 million presently earmarked for IDA lending to Pakistan in FY 1970. The Bank has made thirty loans in Pakistan for a total amount of about US \$614 million, net of cancellations.
3. During the Third Plan (1965/66 to 1969/70) Pakistan as a whole is expected to achieve a growth rate of 5.8 percent per annum compared with 5.5 percent per annum during the Second Plan (1960/61 to 1964/65). This improvement will have been achieved despite a substantial change in the resource position arising from the Indo Pakistan War of 1965 and the decrease in net transfers of foreign assistance. Despite this good performance in terms of the overall economy, disparity between West and East Pakistan persists and has become an increasingly important political issue. Over the Third Plan period, it is expected that the economy of West Pakistan will have grown by 6.2 percent per annum compared with only 4.2 percent per annum for East Pakistan.

4. The main feature of West Pakistan's performance since 1967 has been the breakthrough in foodgrain production. Industry, which hitherto had been the main force behind West Pakistan's development, fared less well as a result of the tight foreign exchange situation. Whereas the agriculture sector only increased by 3.8 percent per annum over the Second Plan, over the Third Plan the rate was 5.8 percent per annum. For industry, the trend was the reverse; during the Second Plan, industrial output grew by 11.7 percent but by only 5.4 percent in the Third Plan. These two sectors account for the major part of WAPDA's power sales (agriculture 27 percent and industry 47 percent) and therefore largely determine the level of power demand. Prior to the Third Plan, power sales had been increasing at about 20 percent per annum. But, despite the slowdown in industrial production, power sales over the last five years increased at an average rate of 13.5 percent. In fact, the rate of increase would have been higher but for a significant amount of load shedding which was necessary not because of shortage of generating capacity but because of bottlenecks in the transmission and distribution system. The primary purpose of this project is to assist WAPDA in relieving these bottlenecks.

5. WAPDA, which is owned by the Central and Provincial Governments, comprises two wings, one concerned with water projects and the other with power generation, transmission and distribution in the rest of West Pakistan except in the Karachi area, which is served by the Karachi Electric Supply Corporation Ltd (KESC).^{1/} Certain central services of WAPDA are common to both wings. WAPDA is also the executing agency for the Indus Basin and Tarbela Projects for the execution of which a separate department was established. The Bank Group has been closely associated with WAPDA on these two projects for which three loans and credits have been made (Loan No. 266-PAK of 1960 for US \$90 million, Credit No. 60-PAK of 1964 for US \$58.5 million, and Loan No. 548-PAK of 1968 for US \$25 million). The proposed credit would be the Bank Group's first lending for the power wing of WAPDA.

The Project

6. The project consists of additions to and expansion of WAPDA's transmission and distribution substation system and would provide about 900 MVA of transformer capacity and the necessary switchgear and auxiliary equipment; it would also include the addition of a second circuit to about 64 miles of existing 132 KV line and the repair of existing transformers. This work would complement German assistance under which new transformer capacity and distribution lines are being provided.

7. Bank staff have been concerned for some time about the need for the reorganization of the power wing, which WAPDA now proposes to carry out concurrently with the implementation of this project. WAPDA is presently negotiating with USAID for the provision of consulting services under a US \$6.5 million loan. Bank staff would maintain close contact with WAPDA as well as with USAID.

^{1/} KESC, which has a majority of private shareholders, has received four Bank loans between 1955 and 1968 for US \$51.7 million.

8. In view of the many subprojects involved, it has proved impractical to determine the incremental rate of return of the project. But, as substantial investment has already been made in generating capacity and major transmission and as there is considerable present and future demand to be satisfied, the incremental rate of return for this project should be high.

9. Procurement will be through international competitive bidding. A small portion (about US \$0.8 million) of the equipment to be financed from the credit could be manufactured locally. On these items, Pakistani manufacturers would be allowed to compete; bid comparison would be made at the cash-cum-bonus exchange rate (Rs. 9.2 to US \$1), the official rate at which manufacturers have to import their raw materials and components. Also a margin of preference of 15 percent would be granted. If a contract is won by local manufacturers, the Association would disburse the full amount of the purchase price and not limit disbursement to the foreign exchange content of the items. In this project, however, no other financing of local expenditures is contemplated.

10. The credit would be relent by the Government of Pakistan to WAPDA at the Government's usual terms for such lending, which at present are interest at $6\frac{1}{4}$ percent per annum on the outstanding balance, and a maturity of 25 years, including a grace period of 5 years. I am prepared to accept these terms rather than ask for the relending rate to be equivalent to the Bank's rate of 7 percent per annum, because WAPDA's power wing in any case is dependent to a large extent upon budget allocations, and because the difference between $6\frac{1}{4}$ percent and 7 percent on this credit would have little financial significance.

11. I have discussed with the Public Utilities Projects Department the list of assurances proposed in paragraph 8.02 of the Appraisal Report. The subjects referred to in subparagraphs 8.02 (b), (g) and (h), along with other administrative reforms which need to be implemented over the next three years, will be discussed during negotiations; however, we expect that most of the conclusions of such discussions would be best recorded in agreed minutes rather than included as covenants in the credit or project agreement. Subparagraph 8.02 (k) is intended to guard against a major disposal or redistribution of WAPDA's assets, and we have agreed that this objective would be best achieved by specifying the right of the Association to take remedies (such as suspension, cancellation and acceleration of maturity) if such disposal or redistribution were to be carried out in a manner which would interfere with, or threaten to interfere with, the accomplishment of the purposes of the Credit. I am in agreement with the other recommendations of the appraisal report and need not mention them in this memorandum. However, I should like to add a comment on institutional problems which WAPDA has to face.

12. Recently, the Government has been giving serious thought to the possibility of separating the water and power wings of WAPDA. In August 1969, the Bank asked Lord Hinton of Bankside to review the organizational structure of WAPDA. Towards the end of his visit, the Government of West Pakistan announced that the two wings would be separated although they would both remain under the overall authority of a single chairman. However, both Lord Hinton and we had been thinking in terms of a complete split between the two wings with the power wing being made into an indepen-

dent public utility. Subsequently, the President of Pakistan announced that the Government of West Pakistan would be dissolved and would be replaced by four provincial governments, similar to those which existed before 1958. At the present moment, the implications of this decision for WAPDA are not clear but we have been told that WAPDA will be kept intact as a regional authority under the office of the President with a Board on which the four new provinces would be represented. I propose that we should proceed with negotiations but that we should review the situation before presenting the credit to the Executive Directors.

13. I recommend that we invite representatives of the Government of Pakistan, the Government of West Pakistan, and of WAPDA to negotiate a credit of US \$22.4 million equivalent, subject to the conditions proposed in the appraisal report and in this memorandum.

I.P.M. Cargill
Director

Attachments

Population: 120 m
GNP 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	17.0							
Irrigation - Chandpur	IDA	13.0							
Irrigation - Dacca Southwest	IDA	0.8							
Irrigation - Project Eng.	IDA	2.5							
Irrigation - Dacca Southwest	IDA		30.0						
Irrigation - Karnaphuli	IDA			10.0					
Irrigation - Muhuri	IDA				7.0				
Irrigation - Belkuchi	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		
Tea Machinery & Irrigation	IDA		5.0						
Tubewells EPWAPDA I	IDA			8.0					
Tubewells EPWAPDA II	IDA					25.0			
Chandpur North Engineering	IDA			1.0					
Barisal I Engineering	IDA			2.0					
EPWAPDA Consultants II	IDA		2.0						
EPWAPDA Consultants III	IDA				2.0				
EPWAPDA Consultants IV	IDA						2.0		
EP Education Unidentified	IDA			7.0					
EP Small Industries I	IBRD	3.0							
EP Highways II	IDA			12.5					
EP Highways III	IDA				13.5				
EP Railways	IDA		8.0						
		IBRD	3.0						3.0
		IDA	33.3	45.0	40.5	37.5	55.0	35.0	158.3
		Total	36.3	45.0	40.5	37.5	55.0	35.0	161.3
		No.	5	4	6	5	3	3	21

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	22.4							
WP Highways III	IDA		10.0						
WP Highways IV	IDA			20.0					
WP Highways V	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	17.0							
Sui Northern Gas IV	IBRD			5.0					
Sui Northern Gas V	IBRD					5.0			
Water Supply II - Lahore	IDA		5.0						

IBRD	17.0	30.0	5.0		5.0				166.5
IDA	31.4	30.0	25.0	20.0	55.0	5.0			106.4
Total	<u>48.4</u>	<u>60.0</u>	<u>30.0</u>	<u>20.0</u>	<u>60.0</u>	<u>5.0</u>	<u>84.3</u>	<u>272.9</u>	
No.	4	4	3	2	4	1	6	13	

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

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agric. Development Bank IV	IDA		15.0						
Agric. Development Bank V	IDA				30.0				
Agric. Development Bank VI	IDA						30.0		
	EP		7.0		15.0		15.0		
	WP		8.0		15.0		15.0		
Telecommunications II	IDA		15.0						
	EP		3.0						
	WP		12.0						
DFC - PICIC IX	IBRD		10.0						
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	10.0	5.0	5.0	22.0		30.0		
	WP	10.0	5.0	5.0	18.0		30.0		
East & West	IBRD		10.0		40.0		40.0		90.0
	IDA	35.0	15.0	10.0	30.0		50.0		136.0
	Total	35.0	25.0	10.0	70.0		90.0	314.7	226.0
	No.	2	2	1	2		3	13	10
P & B	IBRD	20.0	40.0	5.0	40.0	5.0	40.0	162.0	259.5
	IDA	100.7	90.0	75.5	87.5	110.0	90.0	332.3	400.7
	Total	120.7	130.0	80.5	127.5	115.0	130.0	494.3	660.5
	No.	11	10	10	9	7	7	25	49

* Note: the IDA lending program
is to be reduced to --
the IBRD lending program
is to be reduced to --

74.0 60.0 70.0 70.0 70.0
30.0 -----120.0 -----

LOAN COMMITTEE

April 15, 1970

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SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Indonesia - Second North Sumatra Estates Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 15, 1970 from the East Asia and Pacific Department, entitled "Indonesia - Second North Sumatra Estates Project" (LC/0/70-57).
2. Comments, if any, should be sent to reach Mr. Mason (ext. 4703) by 5:00 p.m. on Thursday, April 16.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/70-57

April 15, 1970

LOAN COMMITTEE

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Memorandum from the East Asia and Pacific Department

SEP 09 2014

INDONESIA - Second North Sumatra Estates Project

WBG ARCHIVES

1. There is attached for the consideration of the Committee an Appraisal Report "INDONESIA - Second North Sumatra Estates Project". The report recommends that an IDA Credit of US\$17 million should be made to rehabilitate and expand one group of government-owned estates producing rubber (PNP IV) and another producing palm oil (PNP VI).
2. A summary of recent economic developments in Indonesia and a description of proposed IDA lending for agriculture were included in a Loan Committee memorandum of March 17, 1970 (LC/0/70-31). The last full report on the economic position and prospects of the Indonesian economy (EAP-10a) was issued on November 14, 1969 and was recently supplemented by a special report on current investment activity in Indonesia (EAP-14a of March 27, 1970).

The Project

3. The proposed Credit would assist in financing the second project for the rehabilitation and expansion of rubber and palm oil estates owned by the Government in North Sumatra. In June 1969 an IDA Credit of \$16 million (155-IND) was approved, to help finance the rehabilitation of PNP V (12 estates producing rubber) and PNP VII (9 estates producing palm oil). The proposed second North Sumatra Estates Credit would rehabilitate and expand two other groups of estates, PNP IV (21 estates producing rubber) and PNP VI (8 estates producing palm oil). The total cost of the new project is estimated at US\$32.3 million with a foreign exchange content of \$17 million or 53%, all of which would be covered by the proposed Credit.
4. The estates sector is one of Indonesia's largest earners of foreign exchange but its relative contribution has decreased since 1940 due to the run-down condition of the individual estates caused by political instability, corruption, extreme inflation and all round Government neglect. Before the second World War, Indonesia had one of the largest and most scientifically advanced estates industries in the tropics and the present Government is determined to bring this industry back to its former levels. In the present state of the economy however, the large investments needed for this purpose must come from abroad. In 1969 the government-owned estates comprised a total planted area of about 606,000 hectares including 224,500 hectares planted in rubber and 80,500 hectares of palm oil. IDA Credit 155-IND and the proposed credit will rehabilitate 20 percent of government-owned rubber estates and 82 percent of government-

owned palm oil estates. Consequently these two projects would constitute a most important beginning in the lengthy and costly process of reconstituting the Government-owned estates as efficient and up-to-date plantations.

5. The second proposed Credit like the first Credit would include measures to improve management. The estates would also benefit from the technical services established in the first Credit such as plant breeding. In addition the proposed Credit would aid agricultural research by making an amount of \$600,000 available to the Research Institute of the Sumatra Planters Association to employ consultants to prepare a long-term research program and to implement their findings.

Assurances and Conditions

6. In broad outline the Credit documents will be the same as those entered into between IDA and the Indonesian Government for the first Credit, 155-IND. However, two notable changes are suggested in the appraisal report, i.e. changes concerning management arrangements and the terms of the subsidiary loan agreements. As regards management arrangements, it is proposed (paras 5.03 and 5.04 of the appraisal report) that: (1) the Director General of Estates be a member of both PNP Boards of Directors; (2) the Boards and not, as formerly, the Minister of Agriculture should appoint the general, production and commercial managers; (3) managers would not be members of the Board. (2) and (3) are in line with commercial practice, and it is expected that there would be no difficulty in agreeing to these. The Director General of Estates has indicated that he is not in agreement with the proposal that he should be a member of both PNP Boards and I therefore suggest that the matter be further examined during negotiations.

7. Regarding changes in the subsidiary loan agreements it should be noted that the Government usually lends for medium term only, a maximum of 5 years, at 12 percent interest, with a maintenance-of-value provision. In Credit 155-IND it was agreed that the terms should be 12 percent interest with a maturity of 16 years for repayment of capital including a grace period of 6 years. In the appraisal report it is stated (para 4.29) that "the subsidiary loans would bear interest at 12 percent per annum, the standard Government lending rate for all State enterprises. The term of the PNP IV subsidiary loan would be 25 years, including a 10 year grace period; the PNP VI loan would be for 14 years, with grace periods of two years for interest and six years for principal. The terms of these sub-loans are determined by the capacity of the PNP to meet loan interest and repayments".

8. The very soft terms of the proposed loan to PNP IV and the grace period of interest suggested for the loan to PNP VI might create difficulties for the borrower. These terms were dictated by cash flow calculations but these are now being revised because the Government has stated its intention of lowering the maximum corporate tax rate from 60 to 45 percent. PNP IV

also has cash reserves yet to be determined which could provide additional resources during the initial stages of the investment program. Consequently the subsidiary loan terms could be on harder terms. The actual terms will be agreed during negotiations.

9. On pages 28, 29 and 30 of the appraisal report there is a list of 21 assurances to be sought from the Indonesian Government. Many of these will be along the same lines as those requested and agreed to in IDA Credit 155-IND. However, in the light of the experience gained so far with the first project, several new assurances are now being sought. These include matters which are already covered by Indonesian laws and contractual obligations and care will have to be taken as to the form in which these assurances are requested and given. For example, in condition (vii) since we do not know the terminating date of the contracts for processing materials outside the estates, such contracts will be examined during negotiations before setting definite dates for their termination. Also in condition (xiv) hiring and firing of PNP employees may well be subject to a general law so that in this case there will be limits to the authority of the Board to hire and fire. In condition (xv), the Government could hardly agree that PNPs would not improve salary and wage scales unless matched by increased productivity since Government across-the-board wage increases would have to be accepted. However, this need not preclude IDA and the Government from agreeing to the introduction of incentive payment systems to ensure the most economic use of estate labor.

10. With regard to assurance number (ix) I understand that the Minister of Finance has directed that imports of capital goods for all foreign aid projects should enter the country free of import tax. Accordingly this is not a special privilege sought for this particular project but will apply to all aid projects including Credit 155-IND.

11. Special mention should be made of the proposal to provide \$600,000 to the Research Institute of the Sumatra Planters Association (RISPA). The present status of RISPA is not clear since its original founders are no longer in control. \$200,000 of the \$600,000 is for payment of consultants' fees to prepare a long-term research and development program, and also to make recommendations on the financial organization and administration of RISPA. The remaining \$400,000 is to be used to implement the program recommended by the consultants. Presumably, what is required is the submission of the consultant's report to RISPA and to the Government and IDA with an undertaking by the Government to carry out such of the consultant's recommendations as it and the Association may agree upon before any disbursement can be made (see para 4.31 of the appraisal report).

12. Since there is no time to revise these and other recommendations, the Agriculture Projects Department proposes and I agree that the exact form and substance of the assurances required will be examined during negotiations.

Recommendation

13. The amount of \$17 million for the proposed project is included in the fiscal 1970 lending program. I concur in the findings of the appraisal that the project forms a suitable basis for an IDA Credit of \$17 million equivalent and recommend that, subject to my comments in paragraphs 6 to 12 above, the Government of Indonesia be invited to send representatives to negotiate a \$17 million IDA Credit.

Raymond J. Goodman

Director

East Asia and Pacific Department

attachment

LOAN COMMITTEE

April 14, 1970

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SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Trinidad and Tobago - Development Finance Company

1. The Committee is requested to consider, without meeting, the attached memorandum of April 14, 1970 from the Central America and Caribbean Department, entitled "Trinidad and Tobago - Proposed \$2 million Loan to the Trinidad and Tobago Development Finance Company" (LC/0/70-55).
2. Comments, if any, should be sent to reach Mr. Guijt (ext. 4764) by 5:00 p.m. on Thursday, April 16.
3. It is planned then, if the Committee approves, to inform representatives of the Trinidad and Tobago Development Finance Company and the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/70-55

April 14, 1970

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

TRINIDAD AND TOBAGO: Proposed \$2 Million Loan to the
Trinidad and Tobago Development Finance Company

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WBG ARCHIVES

Introduction

1. Attached for consideration by the Loan Committee is Report No. DB-65, recommending a Bank loan of \$2.0 million to the Trinidad and Tobago Development Finance Company (TTDFC) which is about to be established.

2. In FY 1969, the Bank made two loans to Trinidad and Tobago, one of \$9.4 million for secondary education and one of \$2.0 million for power distribution. The proposed loan of \$2.0 million is the only operation scheduled in FY 1970. Two projects are under preparation which we expect will lead to lending operations in FY 1971: a loan for Family Planning of \$2.0 million and a port improvement loan of \$5.0 million. The Five-Year Lending Program (FY 1970-74) is attached.

Economic Situation

3. An economic mission visited Trinidad and Tobago in March 1969. It found that substantial economic progress had been made in recent years and that a sound fiscal basis had been restored after a period during which public sector savings had declined. Moreover, private sector confidence had been restored after an extended period of hesitation on the part of private investors. The mission concluded that the petroleum industry, which had enabled the country to achieve a high standard of living, faced basic long-range uncertainties since there was a good possibility that crude oil resources might not last much beyond ten years. Therefore, diversification away from oil was Trinidad's principal economic task. A key element in any solution to this problem will be the development of tourism.

4. The economic report, which was submitted to the Board last August, concluded that, with concerted and determined efforts over the next five to ten years, sufficient momentum could be generated behind the tourist sector to make it a viable substitute for domestic petroleum as the country's principal source of foreign exchange earnings. In conjunction with the selective promotion of exports of manufactures (mainly within CARIFTA), tourism development should assure the country's continued economic viability and creditworthiness even if petroleum is exhausted in the early 1980's.

5. In the medium run, Trinidad's critical development constraint arises from the shortage of capable administrators and technicians in the public sector, and from a stifling of initiative and decision making in public sector entities resulting from a high degree of centralization of the decision-making process in Government. A careful decentralization through new and/or improved autonomous agencies is desirable.

6. A Country Program Paper was discussed in Mr. McNamara's office on October 28, 1969. The paper outlines a Bank lending strategy which, jointly with IDB and bilateral (mainly Canadian) assistance, is geared toward the needed diversification. The development of a new DFC has been included in the lending program as an important instrument for promoting industry and tourism.

The Project

7. The proposed loan of \$2 million is to finance the foreign exchange component of projected operations of the TTDFC over about two years. In 1966 a mission had reviewed the possibility for a privately-controlled DFC in Trinidad. The mission concluded that the expected business volume would not justify the setting up of a DFC. Another mission visited Trinidad late in 1968 and found that, as a result of an improved private investment climate, the establishment of CARIFTA and rising efforts to develop Trinidad and Tobago's tourism potential, there was now scope for an institution providing medium and long-term financing for industry and tourism.

8. After discussions between the Government and the Bank, Trinidad decided to set up the DFC with the Government holding the majority of shares. The Bank made it clear and the Government recognized that it was essential for the TTDFC to have an autonomous management, that the general manager should initially be recruited from abroad, and that sound criteria were needed for the company's financial operations. On this basis, the Bank assisted Trinidad in preparations for the establishment of the TTDFC, providing a consultant to advise them (Mr. de Andrea).

9. The TTDFC will be incorporated, shortly, as a private limited company. The company's Board of eight Directors has four members appointed by the Government (two of them, including the Chairman, are businessmen) and one by the Central Bank; the other three will represent the private sector, irrespective of the extent of private shareholding in the company.

10. The drafts of TTDFC's Articles of Association and Statement of Investment and Operational Policies are in their present form generally acceptable to the Bank except for a few points which, we expect, will be resolved shortly, but at the latest during loan negotiations. The Policy Statement follows the operational policies usually adopted by development finance companies which have obtained financing from the World Bank Group.

11. The Government has informed the Bank about an arrangement for the division of labor between the TTDFC and the Government's Industrial Development Company (IDC), an industrial promotion institution, which in the past has provided financing for industries and hotels. In the future, IDC will limit financing to small enterprises with maximum loans of TT\$50,000 (US\$25,000).

12. The Board of Directors will have to appoint an experienced General Manager. The Government asked the Bank for assistance in finding a candidate abroad, since there was no person of sufficient experience in Trinidad. It has selected one of the candidates suggested by the Bank, Mr. I. E. Nordin, a Canadian with extensive experience in the Industrial Bank of Canada; he will serve for not less than one year. A Trinidadian will serve as Deputy General Manager. We recognize that the ultimate success of TTDFC depends to a large extent on the progress made under the first General Manager.

13. The company's commitments during the first year are estimated at TT\$4 million or about 10 percent of projected investment in industry and tourism. An estimated 60 percent will represent foreign exchange requirements. The proposed loan of US\$2 million (TT\$4 million) is intended to cover foreign exchange costs for the TTDFC's initial period of about two years. The exchange risk will be passed on by TTDFC to its borrowers. TTDFC's proposed interest rate of 9-1/2 percent is in line with rates charged by Trinidad's commercial banks.

14. The financial forecasts suggest small losses during the first two years, and subsequent profits, which may permit a modest dividend after three years. TTDFC should have a sound capital structure and, provided that its operations are organized efficiently, it should have no difficulty in servicing the proposed Bank loan. Bank approval will be asked for all sub-loans requiring Bank funds of more than US\$50,000, with an "aggregate free limit" of US\$0.5 million.

15. The terms of the proposed loan are those normally applied to recent Bank loans to development finance companies, with the exception that TTDFC should be eligible for the concessional treatment in respect of the Bank's commitment charge since the company is just starting out.

Recommendation

16. I agree with the conclusions of the attached Report and recommend that representatives of TTDFC (or spokesmen for the company-in-formation) and the Government be invited to negotiate a loan of US\$2 million on the terms and conditions set forth in paragraphs 25 and 26 of the Report.

E. Peter Wright
Deputy Director

Attachments

Population: 1.0 m
GDP Per Cap: \$790

TRINIDAD - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Fisheries	IBRD			3.0					
DFC I	IBRD	2.0							
DFC II	IBRD			2.0					
DFC III	IBRD					3.0			
Education II	IBRD				8.0				
Population	IBRD		2.0						
Power Transmission	IBRD					14.0			
Port Development	IBRD		5.0						
Highways II	IBRD			9.0					
Highways III	IBRD						8.0		

IBRD	<u>2.0</u>	<u>7.0</u>	<u>14.0</u>	<u>8.0</u>	<u>17.0</u>	<u>8.0</u>	<u>13.6</u>	<u>42.4</u>
No.	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>9</u>

4/9/70

LOAN COMMITTEE

April 14, 1970

DECLASSIFIED

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Trinidad and Tobago - Development Finance Company

1. The Committee is requested to consider, without meeting, the attached memorandum of April 14, 1970 from the Central America and Caribbean Department, entitled "Trinidad and Tobago - Proposed \$2 million Loan to the Trinidad and Tobago Development Finance Company" (LC/0/70-55).
2. Comments, if any, should be sent to reach Mr. Guijt (ext. 4764) by 5:00 p.m. on Thursday, April 16.
3. It is planned then, if the Committee approves, to inform representatives of the Trinidad and Tobago Development Finance Company and the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/70-55

April 14, 1970

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

DECLASSIFIED

TRINIDAD AND TOBAGO: Proposed \$2 Million Loan to the
Trinidad and Tobago Development Finance Company

SEP 09 2014

WBG ARCHIVES

Introduction

1. Attached for consideration by the Loan Committee is Report No. DB-65, recommending a Bank loan of \$2.0 million to the Trinidad and Tobago Development Finance Company (TTDFC) which is about to be established.

2. In FY 1969, the Bank made two loans to Trinidad and Tobago, one of \$9.4 million for secondary education and one of \$2.0 million for power distribution. The proposed loan of \$2.0 million is the only operation scheduled in FY 1970. Two projects are under preparation which we expect will lead to lending operations in FY 1971: a loan for Family Planning of \$2.0 million and a port improvement loan of \$5.0 million. The Five-Year Lending Program (FY 1970-74) is attached.

Economic Situation

3. An economic mission visited Trinidad and Tobago in March 1969. It found that substantial economic progress had been made in recent years and that a sound fiscal basis had been restored after a period during which public sector savings had declined. Moreover, private sector confidence had been restored after an extended period of hesitation on the part of private investors. The mission concluded that the petroleum industry, which had enabled the country to achieve a high standard of living, faced basic long-range uncertainties since there was a good possibility that crude oil resources might not last much beyond ten years. Therefore, diversification away from oil was Trinidad's principal economic task. A key element in any solution to this problem will be the development of tourism.

4. The economic report, which was submitted to the Board last August, concluded that, with concerted and determined efforts over the next five to ten years, sufficient momentum could be generated behind the tourist sector to make it a viable substitute for domestic petroleum as the country's principal source of foreign exchange earnings. In conjunction with the selective promotion of exports of manufactures (mainly within CARIFTA), tourism development should assure the country's continued economic viability and creditworthiness even if petroleum is exhausted in the early 1980's.

5. In the medium run, Trinidad's critical development constraint arises from the shortage of capable administrators and technicians in the public sector, and from a stifling of initiative and decision making in public sector entities resulting from a high degree of centralization of the decision-making process in Government. A careful decentralization through new and/or improved autonomous agencies is desirable.

6. A Country Program Paper was discussed in Mr. McNamara's office on October 28, 1969. The paper outlines a Bank lending strategy which, jointly with IDB and bilateral (mainly Canadian) assistance, is geared toward the needed diversification. The development of a new DFC has been included in the lending program as an important instrument for promoting industry and tourism.

The Project

7. The proposed loan of \$2 million is to finance the foreign exchange component of projected operations of the TTDFC over about two years. In 1966 a mission had reviewed the possibility for a privately-controlled DFC in Trinidad. The mission concluded that the expected business volume would not justify the setting up of a DFC. Another mission visited Trinidad late in 1968 and found that, as a result of an improved private investment climate, the establishment of CARIFTA and rising efforts to develop Trinidad and Tobago's tourism potential, there was now scope for an institution providing medium and long-term financing for industry and tourism.

8. After discussions between the Government and the Bank, Trinidad decided to set up the DFC with the Government holding the majority of shares. The Bank made it clear and the Government recognized that it was essential for the TTDFC to have an autonomous management, that the general manager should initially be recruited from abroad, and that sound criteria were needed for the company's financial operations. On this basis, the Bank assisted Trinidad in preparations for the establishment of the TTDFC, providing a consultant to advise them (Mr. de Andrea).

9. The TTDFC will be incorporated, shortly, as a private limited company. The company's Board of eight Directors has four members appointed by the Government (two of them, including the Chairman, are businessmen) and one by the Central Bank; the other three will represent the private sector, irrespective of the extent of private shareholding in the company.

10. The drafts of TTDFC's Articles of Association and Statement of Investment and Operational Policies are in their present form generally acceptable to the Bank except for a few points which, we expect, will be resolved shortly, but at the latest during loan negotiations. The Policy Statement follows the operational policies usually adopted by development finance companies which have obtained financing from the World Bank Group.

11. The Government has informed the Bank about an arrangement for the division of labor between the TTDFC and the Government's Industrial Development Company (IDC), an industrial promotion institution, which in the past has provided financing for industries and hotels. In the future, IDC will limit financing to small enterprises with maximum loans of TT\$50,000 (US\$25,000).

12. The Board of Directors will have to appoint an experienced General Manager. The Government asked the Bank for assistance in finding a candidate abroad, since there was no person of sufficient experience in Trinidad. It has selected one of the candidates suggested by the Bank, Mr. I. E. Nordin, a Canadian with extensive experience in the Industrial Bank of Canada; he will serve for not less than one year. A Trinidadian will serve as Deputy General Manager. We recognize that the ultimate success of TTDFC depends to a large extent on the progress made under the first General Manager.

13. The company's commitments during the first year are estimated at TT\$4 million or about 10 percent of projected investment in industry and tourism. An estimated 60 percent will represent foreign exchange requirements. The proposed loan of US\$2 million (TT\$4 million) is intended to cover foreign exchange costs for the TTDFC's initial period of about two years. The exchange risk will be passed on by TTDFC to its borrowers. TTDFC's proposed interest rate of 9-1/2 percent is in line with rates charged by Trinidad's commercial banks.

14. The financial forecasts suggest small losses during the first two years, and subsequent profits, which may permit a modest dividend after three years. TTDFC should have a sound capital structure and, provided that its operations are organized efficiently, it should have no difficulty in servicing the proposed Bank loan. Bank approval will be asked for all sub-loans requiring Bank funds of more than US\$50,000, with an "aggregate free limit" of US\$0.5 million.

15. The terms of the proposed loan are those normally applied to recent Bank loans to development finance companies, with the exception that TTDFC should be eligible for the concessional treatment in respect of the Bank's commitment charge since the company is just starting out.

Recommendation

16. I agree with the conclusions of the attached Report and recommend that representatives of TTDFC (or spokesmen for the company-in-formation) and the Government be invited to negotiate a loan of US\$2 million on the terms and conditions set forth in paragraphs 25 and 26 of the Report.

E. Peter Wright
Deputy Director

Attachments

Population: 1.0 m
 GNP Per Cap: \$790

TRINIDAD - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Fisheries	IBRD			3.0					
DFC I	IBRD	2.0							
DFC II	IBRD			2.0					
DFC III	IBRD					3.0			
Education II	IBRD				8.0				
Population	IBRD		2.0						
Power Transmission	IBRD					14.0			
Port Development	IBRD		5.0						
Highways II	IBRD			9.0					
Highways III	IBRD						8.0		

	<u>2.0</u>	<u>7.0</u>	<u>14.0</u>	<u>8.0</u>	<u>17.0</u>	<u>8.0</u>	<u>13.6</u>	<u>42.4</u>
IBRD No.	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>9</u>

4/9/70

LOAN COMMITTEE

April 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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WBG ARCHIVES

Mali - Highway Maintenance Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 13, 1970 from the Western Africa Department, entitled "Mali - Proposed Highway Maintenance Project" (LC/0/70-54).
2. Comments, if any, should be sent to reach Mr. Rosenblad (ext. 4746) by 1:00 p.m. on Thursday, April 16.
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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

Copies for Information:

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

CONFIDENTIAL

LC/0/70-54

April 13, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

MLI: Proposed Highway Maintenance Project

I. BACKGROUND

1. In 1966 the appraisal mission for a railway project identified the need for a broad transport survey in Mali. This survey was carried out in 1967-1968 under UNDP financing by a Belgian consulting firm, with the Bank as Executing Agency. The proposed project evolved from the recommendations of that survey.

2. The proposed credit of US\$7.6 million would be the second Bank Group operation in Mali; the first IDA credit (95-MLI, 1966) provided US\$9.1 million equivalent to finance a program for the rehabilitation and modernization of the national railway; it is expected to be completed by mid-1971. The performance under this credit has not been fully satisfactory. The execution of the project is lagging behind schedule, and the financial position is precarious mainly because of slower than anticipated growth of traffic. A number of corrective steps have recently been taken, however, and the situation is showing signs of improvement.

II. THE ECONOMY

3. The Economic Committee discussed the economic situation in Mali on February 3, 1970 (EC/M/70-9) on the basis of an economic report (AW-14), which is expected to be circulated to the Executive Directors before the proposed project is brought to the Board.

4. Growth prospects are dependent mainly on the development of agriculture, livestock and fisheries. The attached Five-Year Lending Program reflects this priority. Over the medium-term, a growth rate of 3-4 per cent should be possible, provided the Government is able to cope

with the main economic problems which Mali is now facing, namely: heavy and rising debt service charges, severe budgetary constraints, a rather inflexible system of price controls and regulations, difficulties in the operation and management of public enterprises and continued balance of payments deficits. However, since the present Government took over in November 1968, some improvements in performance have been achieved. Farm prices of key agricultural products have been raised and more emphasis placed on the need to raise agricultural output. Public enterprises are being reviewed and reorganized; the 1970 budget appears to be virtually balanced though on the basis of reduced service payments; and external debts are being rescheduled.

5. Even assuming good performance, it is unlikely that public sector savings will be sufficient to permit significant contributions to the cost of development projects. The amount of investment that can be undertaken in Mali depends mainly on the volume of foreign aid that will be available. This in turn will largely be determined by the volume of projects that can be prepared for financing and by the general economic performance.

6. The Economic Committee agreed that given the present economic situation, characterized by a low level of per capita income, heavy external debt, "negative" foreign exchange reserves and modest growth prospects, foreign aid will have to be given on concessionary terms. It also agreed that, considering the low level of public savings, despite current improvement, allowance should be made for local cost financing when need arises.

III. The Project

7. The appraisal report on the proposed highway maintenance project is attached. It concludes that a project in a total amount of US\$9.1 million is economically justified and technically sound and that it constitutes a suitable basis for an IDA credit of US\$7.6 million, provided the matters listed in paragraph 6.01 and 6.02 of the report are agreed upon during negotiation.

8. The purpose of the project is to strengthen and re-equip the Directorate of Roads and Bridges (DRB), enabling it to maintain adequately all economically important roads and to carry out high priority feeder road betterments, so that economic development is not hindered by a deteriorating road system.

9. The project consists of the following:

A - A four-year program of highway maintenance and feeder road betterment to be implemented by the Directorate of Roads and Bridges (DRB) with the assistance of two teams of experts provided by ILO and by consultants and including the following:

- (a) the training of maintenance staff at all levels;
- (b) the reorganization of the Equipment Department of the DRB;
- (c) the renovation and expansion of maintenance workshops;
- (d) the overhaul and repair of existing salvageable maintenance equipment;
- (e) the purchase of highway maintenance equipment and spare parts; and
- (f) the betterment of about 1450 km of agricultural feeder roads.

B - Consultants services for a feasibility study and detailed engineering of the reconstruction and strengthening of the Bamako-Segou (215 km) and Bamako-Bougouni (170 km) roads.

10. The proposed IDA credit would finance the foreign exchange components of the project cost including subsistence allowances for experts and consultants during their stay in Mali. The local component of the project costs amounting to US\$1.5 million equivalent would be borne by the Government.

11. Some spare parts and equipment for overhaul and repair have already been ordered and will be delivered prior to the signature of the credit. Retroactive financing of these purchases amounting to US\$300,000 is proposed.

12. The maintenance program would require substantial increases in current highway maintenance expenditures. In addition to its contribution to the capital costs of the project the Government would have to increase the highway maintenance budget from about MF 940 million (US\$1.7 million equivalent) in 1971 to about MF 1.4 billion (US\$2.5 million equivalent) in 1974. The financial requirements of the project were reviewed during appraisal and the Government agreed in principle to the proposed level of expenditures and indicated its intention to allocate all revenues of the Road Fund to the financing of highway expenditures. Upon the Association's request the Government has set up a joint study group from the Ministries of Finance and Public Works to prepare a plan for the financing of highway expenditures under the project. The conclusions of the Government's study group will be reviewed during credit negotiations, at which time a specific financing plan will be discussed and agreed upon.

13. The Government has approached FAC to participate in financing of the Highway Maintenance and Feeder Road Betterment program. The Association has indicated its support for a possible FAC participation. If forthcoming, this contribution would only cover a small part (less than 10 per cent) of Mali's commitment under the project and would not affect its scope.

IV. RECOMMENDATIONS

14. I recommend that the Association invite the Government of Mali to negotiate a credit of US\$7.6 million for the proposed Highway Maintenance project. Negotiations would be in accord with conditions presented in paragraph 6.01 and 6.02 of the appraisal report.

Roger Chaufournier
Director

Attachments

Population: 4.7m
Per Cap Inc: \$80

IVa. MALI - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Rice Development	IDA			8.0					
Livestock	IDA			2.0					
Fisheries	IDA				1.0				
Agriculture Unidentified I	IDA				3.0				
Agriculture Unidentified II	IDA						6.0		
Communications	IDA		2.0						
Power					2.0				
Highway maintenance	IDA	7.6							
Highway rehabilitation	IDA					5.0			

IDA	<u>7.6</u>	<u>2.0</u>	<u>10.0</u>	<u>6.0</u>	<u>5.0</u>	<u>6.0</u>	<u>9.1</u>	<u>25.0</u>
No.	1	1	2	3	1	1	1	7

P & B 4/8/70

LOAN COMMITTEE

April 13, 1970

DECLASSIFIED

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Ethiopia - Settit Humera Agricultural Project

Attached for information is a memorandum from the Director of the Eastern Africa Department to the Chairman of the Committee, dated April 13, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for the Settit Humera Agricultural Development Project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

April 13, 1970

FROM: M. Lejeune

SUBJECT: ETHIOPIA - Proposed Credit for the Humera Agricultural Development Project

1. I attach for your approval a copy of the draft Report and Recommendations of the President to the Executive Directors on a proposed credit of US \$3.1 million to the Imperial Ethiopian Government to assist in financing a regional agricultural development project. Also attached is a copy of the draft Credit Agreement. While the draft agreement has not yet been officially approved by Government, it is due to be considered by the Council of Ministers on April 14, and we expect to receive a cable of approval immediately thereafter. Subject to your approval and to receipt of a cable giving the Council of Ministers' approval, it is planned to distribute these documents, together with the Appraisal Report, to the Executive Directors for consideration at a meeting on April 28, 1970

2. In December 1969, the Loan Committee considered a memorandum from Eastern Africa Department (LC/O/69 - 104 "Ethiopia - Setit Humera Agricultural Development Project") which recommended that we proceed with negotiations for a Bank loan of US \$3.5 million. You agreed with Mr. El Emery that project financing should be altered to an IDA Credit of US \$3.1 million (eliminating \$400,000 of interest during construction period). Aside from this change, the memorandum was approved by Loan Committee, without a meeting. Negotiations took place in Washington from February 16 through February 24.

3. The Appraisal Report has been revised to take account of the decision to switch the project from Bank to IDA financing, to avoid wording which might imply any possible involvement in a border dispute with the Sudan (see Mr. Williams' attached memorandum to Files of December 11) and to reflect the agreements with the Government during negotiations. There are five main points on which the agreed arrangements differ from those recommended in the green cover appraisal report, as follows:-

- (i) The description of the area for which aerial photography is required has been modified to avoid references to the border with Sudan.
- (ii) Instead of financing the foreign exchange cost of expatriates engaged in the Highway Construction Supervision Unit, the Credit will finance a percentage of the total cost of the unit equal to the estimated foreign exchange

cost, on the assumption that the Unit will consist of three expatriates and two qualified Ethiopian engineers (plus counterparts for the expatriates). The delegation had argued, and we conceded, that if we financed the foreign exchange cost only, they would be put in the position of having to hire expatriates in place of qualified Ethiopians in order to obtain financing.

- (iii) Bailey bridge components (estimated to cost US \$57,000) which at the time of appraisal were to be supplied by the Government from a stock financed by the United States Agency for International Development, will now be newly purchased and financed under the Credit as the bridge components in stock have in the meantime been allocated to other projects.
- (iv) The deadline for preparation of the work program for the Project Farm will run from the date of effectiveness rather than the date of signature, so that the Project Farm Manager employed under the Credit could have adequate time to prepare the program.
- (v) In order to ensure that project implementation would start expeditiously, the employment of the Project Farm Manager and the Project Coordinator was made a condition of effectiveness. This point was not covered in the earlier version.

4. In addition to the Credit Agreement, the Credit documents will include supplementary letters on (a) Organizational Arrangements (b) Tekkezi Bridge Construction Contract, (c) Highway Maintenance and Repairs, and (d) Design of Embankment. Copies of the draft letters are attached. It is proposed not to submit these letters to the Executive Directors.

5. This memorandum and the documents mentioned therein have received all necessary clearances.

6. The theme of the presentation of this Credit to the Executive Directors will be Humera as an example of the development of agricultural entrepreneurship in Ethiopia.

7. I would appreciate your giving comments on these documents to Mr. Gassner (extension 4023) at your earliest convenience.

cc: Mr. McNamara
Mr. Cope
Loan Committee (without attachments)

LOAN COMMITTEE

April 10, 1970

DECLASSIFIED

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Papua and New Guinea - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 10, 1970 from the East Asia and Pacific Department, entitled "Papua and New Guinea - Proposed US\$4.5 million Credit and US\$4.5 million Loan for a Highway Project" (LC/0/70-53).
2. Comments, if any, should be sent to reach Mr. Riddell (ext. 2227) by 5:00 p.m. on Wednesday, April 15.
3. It is planned then, if the Committee approves, to inform representatives of the Administration of the Territory of Papua and New Guinea and of the Government of the Commonwealth of Australia that the Bank and the Association are prepared to begin negotiations for the proposed loan and credit on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
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Vice President (IFC)

CONFIDENTIAL

LC/0/70-53

April 10, 1970

LOAN COMMITTEE

DECLASSIFIED

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WBG ARCHIVES

Memorandum from East Asia and Pacific Department

Papua and New Guinea - Proposed US\$4.5 Million Credit and
US\$4.5 Million Loan for a Highway Project

1. Attached is an appraisal report (PTR-51) dated March 31, 1970 on a highway project in the Territory of Papua and New Guinea (The Territory) comprising engineering, civil works and technical assistance. The Administration of the Territory (The Administration) through the Government of the Commonwealth of Australia (The Commonwealth) has requested Bank group financing for the proposed project.

2. The project would be the first Bank/IDA assistance for the Territory's transport system. A loan of US\$7.0 million for a Telecommunications Project (546 PNG) was made in 1968; disbursements through February 1970 on this loan were substantially lower than forecast during the appraisal. A supervision mission is at present in the field investigating this project. IDA credits of US\$1.5 million in January 1969 (137 PNG) and US\$5 million (175 PNG) in January 1970 contributed to the financing of a group of oil palm, beefcattle and coconut projects. The progress of the first project was described as excellent by a supervision mission in 1969. However, disbursements of the credit have been slow due to administrative delays. Steps are being taken by the appropriate departments in the Administration to overcome these delays. The second IDA credit is not yet effective.

The Economy

3. A report in which the economic position and prospects of the Territory were reviewed was distributed to the Executive Directors on September 3, 1969. The growth rate for the economy as a whole is forecast at 5-6%, as in recent years, with a marked difference in pace between the monetised (12%) and the subsistence (3%) sectors. Physical separation from markets has slowed the entry of many local farmers into the cash sector and highway construction will help to remedy this.

4. These forecasts do not allow for the effects of copper mining development on Bougainville Is., which are likely to be dramatic. The Territory's five year plan (1968/69-1972/73) provides for an estimated A\$838 million investment, 46% in the public sector. Under this program agricultural exports are expected to reach a level of A\$84 million by 1972/73 in which year it is hoped copper production will start and give rise to additional exports of A\$111 million. However, in the short term raising the funds needed to supply the public services that will be

needed to support the mining project is putting a strain on the Administration's budget, already heavily dependent on Commonwealth grants.

5. The five-year lending program for the Territory is attached as Annex I. The proposed loan is an important part of the Bank's effort to assist the Administration in providing the necessary infrastructure in the Territory. Other projects in the lending program also serve this objective as well as assist in promoting the growth of primary production.

The Project

6. Following an economic mission in 1967 the Bank assisted the Administration in preparing a request to UNDP to finance a Transport Survey in the Territory; the Bank is acting as executing agency. The survey was carried out by a firm of consultants - Sir William Halcrow and Partners (UK) - and a draft of Part I of the report was produced in early 1969. The consultants endorsed the investment program of the Administration in the Transport sector of the Territory's Development Plan for the five years to 1972/73. This program includes A\$109 million for highways out of a total investment of A\$157 million planned for transportation as a whole. The proposed project includes the highest priorities in the highway program.

7. Progress in opening up the interior has relied heavily on air transport and has therefore been costly. Construction of the highland highways, which form the principal part of the proposed project, is part of the Administration plan to provide cheaper transport in the Territory. These highways are to serve an area of relatively dense population in which there is a promising future for cash crops. The savings in transport and road maintenance costs would combine to give a satisfactory rate of return on the proposed investment. The project includes the cost of consultant services for detailed engineering of a second access to the highlands from the coast, which could be the subject of future financing by the Bank Group. It includes also finance for consultants services to introduce changes recommended by the UNDP consultants in the organization of the Public Works Department (PWD), which would be the agency responsible for executing the project, and for overseas training of indigenes to replace expatriate professional staff in the PWD. The principle of self government as a step towards future independence has been accepted by the Commonwealth and would result in greater independence for the PWD and the gradual withdrawal of the Commonwealth Works Department from the Territory. The speed of implementation of the consultants proposals in this respect is to be clarified during negotiations. There are no other material issues on which difficulty is expected in the negotiation of the agreements.

Financing

8. The total cost of the project is estimated at US\$13.0 million with an 'offshore component' of US\$9.0 million. As in previous loans and

credits to the Territory, which is part of the Australian monetary system, Australian procurement is to be treated as a foreign cost and therefore eligible for Bank and IDA financing. The detailed engineering for the construction was started in June 1969 by consultants and by the PWD, and is now substantially completed. It is proposed that 80% of these costs, which would amount to US\$140,000, be financed retroactively on the ground that they are integral to the project.

9. The Territory is not creditworthy but is qualified for Bank lending by the Commonwealth guarantee and on the basis of continuing Australian assistance. The low per capita income of the indigenous population (US\$100) also makes it eligible for IDA financing. The Commonwealth has requested IDA finance for non-revenue earning projects and would therefore have preferred IDA financing of this entire project. It has, however, agreed to the Administration's borrowing US\$4.5 million from the Bank and US\$4.5 million from IDA.

10. The Loan would be made to the Administration and guaranteed by the Commonwealth. Furthermore, under the provisions of the Papua and New Guinea Act (1948-68) the Commonwealth guarantees public loans to the Administration. The Commonwealth would confirm that the proposed IDA credit qualifies as a public loan for the purposes of the Papua and New Guinea Act. I agree with the conclusions and recommendations set forth in the report and I recommend that the Administration and the Commonwealth be invited to send representatives to Washington to negotiate a Bank loan of US\$4.5 million and an IDA credit of US\$4.5 million for the highway project.

Raymond J. Goodman
Director
East Asia and Pacific Department

Per Cap. GNP: \$200

REVISED

IBRD Loans Outstanding						
including undisbursed	11.5	31.0	43.0	47.0	47.0	52.0
excluding undisbursed	1.4	3.6	9.2	17.5	24.1	29.3
IDA Credits Outstanding						
including undisbursed	11.0	11.0	13.0	17.0	21.0	26.0
excluding undisbursed	0.3	2.4	4.5	7.4	11.2	14.8

LOAN COMMITTEE

DECLASSIFIED

LM/M/70-13

SEP 09 2014

April 10, 1970 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Pakistan - (Development of Small Industries) held on April 6, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

April 10, 1970

Minutes of Special Loan Meeting to discuss "Pakistan - (Development of Small Industries) held at 5:00 p.m. on April 6, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Cargill, Fuchs, Wiehen, Cunningham and Pearce (Secretary).
2. Issue: The meeting had been called to consider the South Asia Department's memorandum to the Loan Committee of March 27, 1970 entitled "Pakistan - Proposed IBRD Loan for the Development of Small Industries in East Pakistan" (LC/0/70-41).
3. Discussion: The South Asia Department, drawing attention to the background of the project and proposed loan which would provide \$2.9 million for purchase of imported equipment and machinery for subprojects approved under the East Pakistan Small Industries Corporation (EPSIC)/commercial banks program and \$0.1 million for consultancy services to EPSIC's Small Industry Advisory Service (SIAS), said that it was intended ultimately to make EPSIC itself the borrower and lender of foreign exchange. In the meantime, however, EPSIC, under an agreement entered into with commercial banks in 1967, would carry out technical and financial appraisal of projects with the applicant's commercial bank making a rupee loan; foreign exchange requirements would be met from the proceeds of the proposed Bank loan by the Central Government, which would be reimbursed in rupees by the commercial bank from the applicant's rupee loan or his own resources.
4. In reply to questions, the South Asia Department said that EPSIC, in view of its currently low turnover and limited experience, had yet to achieve the status of a viable financial institution to which the Bank could lend directly. However, EPSIC accepted that this status was the ultimate objective. The proposed loan which would help strengthen the institution, was not a form of program assistance, since there was a need for credit as well as foreign exchange by the ultimate beneficiaries. However, in order to avoid giving this impression, the Chairman suggested that the term of the proposed loan be reduced from 25 years to a maximum of 20 years. The South Asia Department agreed that a 20 year term or less would be discussed with the Pakistanis during negotiations. Finally, it was agreed that the rate of subloans to ultimate beneficiaries should, on the basis of the current State Bank rate of 5 per cent, remain at 9 per cent; SIAS' precise share of this interest spread should be agreed during negotiations.

5. Decision: It was agreed that negotiators be invited for the proposed loan in accordance with the recommendations contained in the South Asia Department's memorandum and the appraisal report, as modified by paragraph 4 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Wiehen/Cunningham

cc: Loan Committee
Participants

LOAN COMMITTEE

DECLASSIFIED

April 9, 1970

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Uruguay - Third Livestock Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 9, 1970 from the South America Department, entitled "Uruguay - Proposed Bank Loan to the Republica Oriental del Uruguay for a Third Livestock Project" (LC/0/70-52).
2. Comments, if any, should be sent to reach Mr. Favilla (ext. 2445) by 5:00 p.m. on Tuesday, April 14.
3. It is planned then, if the Committee approves, to inform the Government and representatives of the Republica Oriental del Uruguay that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in paragraph 22 of the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/70-52

April 9, 1970

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SEP 09 2014

WBG ARCHIVES

LOAN COMMITTEE

Memorandum from South America Department

URUGUAY - Proposed Bank Loan to the Republica Oriental del
Uruguay for a Third Livestock Project

1. Attached is Appraisal Report PA-38 "Uruguay - Third Livestock Development Project" recommending a Bank loan of \$6.3 million to the Government of Uruguay to assist in financing a Third Livestock Project.
 2. The proposed loan would be the Bank's seventh operation in Uruguay and would bring the amount of Bank lending to \$108.5 million. The last operation was a second Bank loan for Livestock Development of \$12.7 million made in March 1965. Since then, in view of the country's inadequate economic performance the Bank has made no new loans to Uruguay.
 3. Apart from the Third Livestock Project, a power project has just been appraised with a view to making a Bank loan to Usinas Electricas y los Telefonos del Estado (UTE), an established Bank borrower, in FY 1971. The five-year lending program for Uruguay, which was reviewed by Mr. McNamara on February 27, envisages Bank lending of \$92 million during FY 1971-75 (see attachment). The lending program includes projects in livestock, power, tourism and industrial finance, which are at various stages of identification and preparation.
- Economic Performance and Creditworthiness
4. A report on the current economic position and prospects of Uruguay has just been completed and will be distributed to the Executive Directors in early April. Consistent with this report, I recommended on August 4, 1969, to the Acting Chairman of the Economic Committee that we enter into discussions with the Uruguayan authorities about the resumption of Bank lending on the basis of the following policy conditions: (a) adoption of a flexible exchange rate policy; in order--inter alia--to assure export producers, particularly of beef, of adequate financial returns; (b) adoption of other measures related to the provision to livestock producers of a minimum rate of return of 15 percent on new investment, approximately double the rate prevailing in the spring of 1969; (c) action in the areas of fiscal, monetary, wage and price policies to reduce the pace of inflation; (d) a plan of action for the modernization and up-grading of the meat processing industry. The Acting Chairman of the Economic Committee agreed to these conditions, indicating that, in view of the efforts made by the Government to halt inflation, the Bank should look for a way to help Uruguay at this stage, particularly the export-oriented livestock sector (see EC/M/60-23 of August 23, 1969).

5. On September 18, 1969, I informed the Chairman of the Loan Committee of our proposal to discuss the above conditions with the Government. The Chairman of the Loan Committee agreed with this approach. Subsequently, we informed the Government of the Bank's lending posture.

6. On November 21, 1969, I reported to the Chairman of the Loan Committee that the Government had made substantial progress in meeting the Bank's macroeconomic and sector conditions. Gasoline taxes had been increased and other taxes raised, which should permit the Government to reduce the 1970 budget deficit substantially. The monetary program and the incomes policies of the Government appeared to be broadly consistent with continued progress in moderating the rate of inflation and resuming a modest rate of economic growth.

7. With respect to the livestock sector, the Government had taken a series of measures which had restored investment incentives to the point where the rate of return on new investments was between 17 and 18 percent. Export taxes on beef and wool had been reduced; domestic consumer prices for meat had been increased; the monopoly of the state-owned or controlled meat packing plants for the Montevideo market had been abolished; a start had been made in reducing their redundant labor force and an incentive system had been devised to encourage great export of better quality beef. Important steps had been taken to improve the meat inspection service. The Government had asked the Bank to finance from the proceeds of Loan 407-UR the cost of consultants to assist the Government in drawing up a plan of action for the rehabilitation and modernization of the meat packing industry. On the basis of improved performance, I recommended, and the Chairman of the Loan Committee agreed, that the Bank be prepared to invite for negotiations of the proposed Livestock Loan as soon as the technical work on the project was completed. However, consideration of the proposed Loan by the Executive Directors would have to await the outcome of the IMF negotiations with the Government on a new standby agreement, including an understanding on an appropriate test of the validity of the exchange rate. In the event that the Government and the IMF failed to reach such an agreement, the Bank would delay submission of the proposed Loan to the Executive Directors until it had reached an understanding with the Government on exchange rate policy.

8. The Appraisal Report has now been completed, a follow-up mission having been found to be necessary. The IMF mission has just returned from Montevideo after having negotiated with the Government the conditions for a first credit tranche standby. The agreement contains a number of targets to be achieved by the Government in 1970, including a net foreign exchange reserve test.

9. We have reviewed the conditions of the standby agreement and, while we have doubts about the consistency of some of the performance targets spelled out in the agreement--especially with regard to the credit expansion allowed for the private sector and the projected growth in nominal GDP--we have concluded that it provides an acceptable framework for the Bank's going forward with the interim livestock loan. On

the flexibility of the foreign exchange, the agreement is not completely satisfactory in that the Uruguayan authorities have not indicated that they are committed to devaluation should they fail to meet the foreign exchange test. Nevertheless, the test may be expected to signal in a significantly dramatic way the need for adjustment of the existing exchange rate, which has been in effect since April 1968. It is clear that the current projected inflation rate of about 15 percent is, over the longer run, not compatible with maintenance of the present exchange rate. The case for an early modification of the rate is, however, not overriding at this time since Uruguay's recent export performance has been satisfactory, bolstered by a substantial rise in the world market price of beef which is expected to continue for at least another two years, and its net foreign exchange reserves have continued to improve.

The Livestock Sector

10. As far as the livestock sector development program is concerned, we have taken a new look at the financial return to livestock producers on new investment in the light of rising world market prices of beef and the unexpectedly sharp reduction of the Uruguayan meat packing industry's processing margins. The latter reflects in major part the farreaching reforms in Government policies with respect to that industry carried out since the fall of 1969. It appears that at the present time the financial rate of return on new investments to livestock producers is well in excess of 20 percent.

11. We have made an analysis of the sensitivity of the financial rate of return on new livestock investment (about 20-23 percent at present) to increases in the cost of inputs corresponding to an inflation rate of 15 percent per year, without assuming any further change in other key variables such as world and domestic beef and wool prices, the exchange rate, the meat processing margins as well as export and other related taxes. The analysis indicates that the financial rate of return is likely to remain above the acceptable minimum (15 percent on new investment) for at least 18 months, which is the disbursement period of the proposed interim livestock loan. At that time, we are likely to be negotiating the proposed fourth livestock loan. If the Government has not yet adjusted the exchange rate, which at that time, is likely to constitute the only measure capable of improving beef producers' returns, we would condition presentation of that loan to the Executive Directors on the Government's taking such action. In the meantime, we propose to review periodically with the Government variations in farmgate prices and input costs, including the various key factors such as the exchange rate which influence them, in order to ascertain whether the financial rate of return falls below the acceptable minimum.

12. With respect to the meat processing industry, the conclusions and recommendations of the consultants, retained by the Government to prepare a plan of action for the rehabilitation and improvement of the industry, have now become available. We have reviewed the consultants'

report and have concluded that their recommendations are sound. The Government views the report favorably. We have discussed the consultants' recommendations with the IDB, which is about to make a loan to the private meat processing plants, and IDB has agreed in principle to incorporate into their Loan Agreement conditions broadly similar to those listed in paragraph 21(c) of this Memorandum. This should ensure effective coordination between the two Banks in inducing the Government to continue its efforts to modernize the meat processing industry on a sound basis.

The Project

13. The proposed project would provide technical and financial assistance for about one year to continue Uruguay's livestock development program, begun under Loans 245-UR (December 1959) and 407-UR (March 1965). Support for such a short term program is proposed to allow time for the Government to make further progress in resolving remaining sector policy issues. Basic investments for ranch development plans (pasture development, fencing and water supplies) and small purchases of livestock would represent about 79 percent of the cost of the new project. Incremental working capital, technical service and contingencies would account for the remaining 21 percent.

14. About 3,000 ranchers are expected to participate in the project, 2,000 ranchers within the "Plan Agropecuario" as defined by the Uruguayan legislation, under which the size of each borrower's ranch cannot exceed 2,500 hectares, and 1,000 ranchers outside of it, with no limitation as to size of individual ranches. Ranchers under the "Plan Agropecuario" would account for about 70 percent of total on-ranch investment.

15. The total cost of the project is estimated at \$13.1 million and the Bank would finance the foreign exchange cost, estimated at 48 percent of the total project. The remaining cost of the project would be financed as follows: Government 12 percent, participating banks 25 percent and ranchers 15 percent.

16. As in the first and second projects, the "Honorary Livestock Commission" and an internationally recruited livestock expert would continue to be responsible for the preparation, appraisal, approval and supervision of ranch development plans. In order to enable commercial banks to act as financial intermediaries in addition to the Bank of the Republic (BR), which had been the only channel for making sub-loans under the two previous loans, a Livestock Fund is to be established in the Central Bank, which took over the BR's central banking functions when it was created in March 1967. BR would continue to channel the sub-loans made under the existing "Plan Agropecuario" standards (see paragraph 14). Commercial banks and the BR will channel to larger ranchers funds available for relending over and above the requirements of the "Plan Agropecuario" during the next 18 months.

17. The local currency proceeds of the sale of directly imported items would be credited to the Livestock Fund and used for reimbursement on sub-loans made by participating banks. Terms to importers of the above items

would not exceed 120 days at an annual interest rate of 11.5 percent. The Livestock Fund would lend participating banks up to 75 percent of the face amount of livestock sub-loans at an interest rate of 7.5 percent. The term of the Fund's loan would be the same as the term of the sub-loan made by participating banks to project ranchers. Therefore, no significant surplus funds are envisaged under the proposed project for roll-over by the Livestock Fund. The principal amount reimbursed by the Fund to participating banks would be adjusted on the same basis as that used for sub-loans to ranchers.

18. Credit to project ranchers would be extended only on the basis of approved development plans. The term of sub-loans to project ranchers would be on the average of nine years, including a minimum grace period of three years, but in no event less than seven years. The interest rate on sub-loans to project ranchers would be 11 percent.

19. The principal of all sub-loans would be adjusted in accordance with an index based on ranch-gate prices of cattle and wool. Readjustment will be 100 percent for loans to borrowers with ranches in excess of 500 hectares; 75 percent for borrowers with ranches in excess of 300 hectares and 50 percent for borrowers with ranches of smaller size.

20. While this method of subsidizing livestock loans to the smaller ranchers is open to criticism, I am prepared to recommend that we accept the adjustment formula. Enactment of the relevant legislation by the Uruguayan Congress and the putting into operation of the readjustment system by the authorities in January 1969 marks a most significant advance compared to the situation which prevailed during the years when the bulk of the two earlier livestock loans was disbursed without indexing. Moreover, only a small proportion of the loan will accrue to ranchers whose loans are subject to partial indexing, taking into account the extension to larger ranchers of the facilities under the new loan. The nominal interest rate is at a high enough level to assure a reasonable real interest rate for all except the smallest ranchers at current rates of inflation. A defect remains, however, in that for the smallest ranchers (300 hectares or less) the real rate becomes one percent at a 20 percent inflation rate and is 3.5 percent at the current inflation rate. On balance, the real rate of interest charged under the whole program is unlikely to be lower than 8.6 percent, even at double the present inflation rate.

21. Since the appraisal report was prepared, we have agreed with the Agriculture Projects Department on the following modifications in positions to be taken during negotiations:

- (a) The appraisal report recommends the establishment of a Livestock Fund in the Central Bank to administer the proceeds of the proposed loan. Under Law 12394, Article 14, which established the "Plan Agropecuario", all sub-loan repayments must be turned over to the National Treasury to service IBRD loans. Anything in excess of this requirement becomes part of ordinary budget revenues. The Law,

therefore, would preclude the Central Bank from managing project funds. We have discussed this problem with the Banco Republica's legal staff, who felt that the establishment of the Central Bank has resulted in the automatic derogation of the above provision. We have asked for a thorough study of this matter. In the meantime, we propose that the Loan Agreement require the Government to enact legislation within an agreed period of time after the loan has become effective, authorizing the creation of a Livestock Fund within the Central Bank, with powers to retain and reinvest its receipts. If, however, during negotiations we become satisfied that the creation of Banco Central has, by itself, removed the obstacle posed by Article 14 of Law 12394, the Bank should be prepared to drop this requirement. We feel the Bank can afford the risk of such legislation not being enacted before the closing date of the proposed loan, since the amounts at stake will be minimal. This, however, would be different should the Bank make a fourth livestock loan. We would not submit such a loan to the Executive Directors until the above described legislation has been enacted. We also propose to advise the Government accordingly during negotiations.

- (b) The appraisal report recommends that during negotiations assurances be obtained from the Government that would ensure that ranch beef cattle prices and production costs would be maintained at levels that would ensure a satisfactory financial rate of return on new ranch investment during the life of the proposed loan (paragraph 7.01(v) of the appraisal report). In line with paragraph 11 above, we propose to revise the aforementioned recommendations as follows: (i) to provide for a systematic periodic review with the Government of ranchers' financial rate of return on new investment and (ii) to have the Government undertake to pursue policies (the setting of internal beef prices, slaughtering quotas and licenses, changes in export or other taxes, input price subsidies, credit and exchange rate policies) in such a manner that efficient livestock producers will be afforded a reasonable opportunity to secure a financial rate of return of at least 15 percent under normal conditions of production.
- (c) With respect to the meat processing industry, the appraisal report recommends that during negotiations the assurances listed in paragraphs 5.03 and 5.04 of the appraisal report be obtained from the Government. These assurances were formulated before the conclusions and recommendations of the consultants, retained by the Government to study the meat packing industry, had become available. Consequently, the assurances would now need to be reconciled with the consultants' recommendations and with the conditions with

respect to the meat packing industry which we have discussed with the IDB. We, therefore, propose to revise the above assurances as follows: the Government would (i) improve its meat inspection service to the point where it can meet the hygiene requirements of important international markets. To achieve this, it will undertake as soon as possible a thorough reorganization of its meat inspection service, which is to be adequately staffed with competent veterinarians under the direction of a full-time director, who is to be appointed no later than (a date to be fixed, which would be no more than three months from the date of signing the loan); (ii) employ experienced and competent consultants, to review and give advice on the technical, economic and financial soundness of the industry's investment programs, beginning with the private sector's modernization projects, now under way. Such consultants would be engaged as soon as possible and prior to the effectiveness of the loan; (iii) define the future role and scope of the Government-owned or controlled meat processing plants, including the future ownership (wholly Government owned, mixed participation or co-operative) and management of those plants, and would communicate its decision to the Bank, no later than (a date to be fixed which would be no more than four months from the date of signing the loan); and (iv) take all feasible administrative measures to establish a Meat Marketing Organization, which is to combine the present functions of the Meat Institute (INAC) and the Commission for Local Meat Supply and through an adequately staffed technical department, is to supervise the meat processing industry's operations and investments, no later than (a date to be fixed which would be no more than ten months from the date of signing the loan). Moreover, it would make best efforts to secure any necessary legislation no later than (a date to be fixed which will be no more than 15 months from the date of signing the loan).

- (d) The appraisal report recommends that the Bank obtain assurances that the "Plan Agropecuario" continue to employ an internationally recruited Technical Director whose duties would include the training of local technicians. We believe that one of his major responsibilities should be to develop Uruguayan capabilities to manage at a future date the technical side of "Plan Agropecuario" activities. The definitions of his responsibilities contained in Annex 2 of the appraisal report, would be enlarged to incorporate this objective.

Recommendation

22. I recommend that the Bank invite negotiations for a loan of \$6.3 million equivalent to the Republica Oriental del Uruguay for a

term of 12 years including a four-year grace period, substantially a along the lines set forth in the attached appraisal report, except for the modifications mentioned in paragraph 21 above.

Gerald Alter
Director

Attachments

Population: \$2.8 million
 GNP Per Capita: \$550

URUGUAY - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Livestock I	IBRD	6.3							
Livestock II	IBRD			15.0					
Livestock III	IBRD					15.0			
DFC	IBRD				4.0				
UTE Power Expansion I	IBRD				15.0				
UTE Power Expansion II	IBRD						18.0		
Power Distribution	IBRD		6.0						
Tourism I	IBRD			8.0					
Tourism II	IBRD						10.0		
IBRD		6.3	6.0	23.0	19.0	15.0	28.0	12.7	54.3
No.		1	1	2	2	1	2	1	6

March 20, 1970

LOAN COMMITTEE

LM/M/70-12 **DECLASSIFIED**

April 9, 1970 **SEP 09 2014**

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Morocco - Credit Immobilier et Hotelier - CIH" held on March 26, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

April 9, 1970

Minutes of Special Loan Meeting to discuss "Morocco - Credit Immobilier et Hotelier - CIH" held at 4:00 p.m. on March 26, 1970 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Hartwich, Mathew, Bart, Pollan, R.P. Armstrong, Coudol and Pearce (Secretary).
2. Issue : The meeting had been called to consider whether the Bank, in negotiations currently in progress for a proposed \$10 million loan to Credit Immobilier et Hotelier (CIH), should require CIH to apply a criterion of 10 per cent notional rate of return to all projects submitted to it for financing or, as requested by the Moroccans, only to projects to be financed from the proceeds of the proposed Bank loan.
3. Discussion: The Europe, Middle East and North Africa Department, noting that the next economic mission to Morocco would study the economic effects of the interest rates of both BNDE and CIH (effectively only 4.25 per cent on CIH's long-term hotel loans owing to government-paid rebates on the interest charges to CIH's borrowers) together with the effects of other governmental incentives for industry and tourism investments, stated that it favored a flexible approach at this time. It was recognized by both the Bank and CIH that the existing definition of the rate of return and the basis for its calculation were not the final answer and that the method would be refined following the study noted above. Accordingly, the Area Department favored acceptance of the position that the 10 per cent minimum rate of return should be made mandatory now only to projects to be financed from the proceeds of the proposed Bank loan. Meanwhile, it was expected that the agreed method for calculating the rate of return to be used by CIH in evaluating all hotel projects, would help prevent its resources from being misallocated.
4. The Chairman said that he was sympathetic to the Development Finance Companies Department's proposal that this issue should be tackled across the board. CIH should apply an appropriate return criterion to all hotel projects whether submitted to the Bank for financing or not. However, a gradual approach to reaching this goal might be feasible. He suggested that at this stage, the CIH negotiators should be told that hotel projects submitted to the Bank for financing from the proposed loan would be subject to the agreed 10 per cent rate of return criterion and that, as part of the Bank's end-use supervision, the Bank would carry out spot checks on the hotel projects financed by CIH from sources other than the Bank in order to ascertain how the return on these projects measured up. These spot checks would help the Bank form an opinion on the thoroughness with which CIH was seeking out and supporting hotel projects with attractive returns. The Moroccans should also be put on notice that, following the

economic mission's forthcoming study of interest rates and subsidies, the Moroccans' and the Bank's aim should be to work out a better-founded method for calculating an appropriate rate of return on CIH's hotel investments.

5. Decision: The Area and Development Finance Companies Departments agreed to resume the negotiations with CIH on this issue on the basis of paragraph 4 above.

David Pearce
Secretary

Cleared by: Messrs. Cope
Pollan
Bart

cc: Loan Committee
Participants

LOAN COMMITTEE

April 8, 1970 **DECLASSIFIED**

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Ivory Coast - Cocoa Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 8, 1970 from the Western Africa Department, entitled "Ivory Coast - Proposed Loan for a Cocoa Project" (LC/O/70-50).
2. Comments, if any, should be sent to reach Mr. Gue (ext. 4751) by 5:00 p.m. on Friday, April 10.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

April 8, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

Ivory Coast - Proposed Loan for a Cocoa Project

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SEP 09 2014

WBG ARCHIVES

Introduction

1. Attached for the consideration of the Committee is Report No. PA-41: "Cocoa Project - Ivory Coast". It recommends a Bank loan of US\$6.0 million. The Project was identified in 1965 by a PMWA mission and was prepared by SEDES (Société d'Etudes pour le Développement Economique et Social) and IFCC (Institut Français du Café et du Cacao) which submitted to the Bank a preliminary study in May 1968. In February/March 1969, a draft feasibility study was communicated to a Bank preappraisal mission which visited the Ivory Coast. The preparation of the feasibility study was carried out according to the recommendations of this mission.
2. The proposed loan would constitute the Bank's fourth lending operation in the Ivory Coast. In September 1968, the Bank made a loan of US\$5.8 million for a road reconstruction project which included financing for two road feasibility studies. The start of this project was held up by delays on the part of the Government in approving contracts for the construction work and the studies. However, necessary action was recently taken and the project is now progressing satisfactorily. In June 1969, the Bank made three loans totalling US\$17.1 million for an oil palm and coconut development project. As at March 30, 1970, no disbursements were made under these loans which have been made effective on December 31, 1969. On March 24, 1970, the Executive Directors approved a loan of US\$11.0 million for an education project including the financing of direct primary education and of instructional television. This loan is expected to be signed as soon as the Government has executed a contract with the management-consultants. We understand that arrangements for this signing are at a very advanced stage.
3. Other projects under active consideration include a road construction project which should be presented to the Executive Directors in FY 1971 as shown in the proposed 5-year lending program attached.

The Economy

4. The conclusions of the last economic report on Ivory Coast entitled "Memorandum on the Economic Situation and Prospects - Ivory Coast", No. 76a (July 3, 1968) and the Economic Policy Memorandum (EC/O/68-66 of June 21, 1968) were that the Ivory Coast should be considered creditworthy for Bank Group lending and that it continue to be classified as a "hard blend" Bank/IDA country. The economic mission that visited the Ivory Coast in November/December 1969 has

confirmed these conclusions but added a qualification regarding the relative share of project cost financing by external sources which is outlined below.

5. The economic mission foresees that in the period 1971-75 the public investment program will be of the order of CFAF 220 billion, including the full cost of the Kossou and San Pedro projects, and that the service of external debt including debt to be contracted during this period, will be about CFAF 65 billion. To meet total financial requirements of the public sector of CFAF 285 billion, public savings and internal borrowing are likely to provide about CFAF 170 billion. External financing needs will thus amount to some CFAF 115 billion (US\$415 million) of which one third would come from France (FAC) and FED and would be on soft terms. After debt service and financing of that part of the investment program for which external funds cannot be obtained (estimated at 20% at least of the total program), domestic public resources available for participation in projects involving external aid will be about CFAF 60 billion. This implies that external sources contribute, on the average, 65% of the cost of those projects. In the past, traditional sources of aid have generally financed still higher proportions of project costs but it is expected that this will be less and less the case. In order to meet its required share the Government may thus have to reduce its total program. However, too large a reduction would further accentuate the slowdown in overall growth which is expected to come about as a result of the lower forecasted growth of exports. It is therefore important that on the aggregate external aid finance at least 60% of the cost of economically justified projects. This in some cases, notably agriculture, will mean some local currency financing.

6. Also, in order to avoid too high a peak in debt service in the early seventies at a time when public and foreign exchange resources will also be needed for financing large investment projects, it is advisable that loans to be extended in the immediate future provide adequate periods of grace.

The Project

7. The project would be part of a 1971-1975 Cocoa Development Plan of the Ivory Coast which envisages the planting of 59,000 ha. and the rehabilitation of 47,000 ha. of cocoa. It would consist of the planting of about 19,000 ha. and the rehabilitation of 38,000 ha. The objectives of this program are to further diversify agricultural production in the forest areas and to introduce modern methods of establishing cocoa plantations and maintenance. In Ivory Coast most cocoa farms have been established under traditional methods. High yielding planting material and modern cultivation techniques provided under the project should greatly increase output per farm and cushion farmers against the vagaries of weather and world prices.

8. Cocoa is the third largest export earner of the Ivory Coast which is the fourth largest producer in the world after Ghana, Brazil and Nigeria. Its exports represent about 10% to 11% of total exports.

9. The planting project would start in 1970 and the rehabilitation project in 1971. The project as a whole would be completed in 1977. It entails a) provision of adequate extension and training services or facilities, and of improved seeds and materials; b) provision of credit to farmers for fertilizer, insecticides, spraying equipment and cash required for hired labor; c) construction of a warehouse to facilitate input distribution; d) cadastral survey for program implementation and e) carrying out of a study for a second phase cocoa planting program.

10. Total project cost is estimated at US\$12.6 million, US\$9.0 million being for new plantations, US\$3.2 million for rehabilitation and US\$0.4 million for the study. A loan of US\$6.0 million, as proposed in the Appraisal Report, would finance the estimated total foreign exchange costs, amounting to about 46% of total project cost (including interest). The loan would be disbursed against the c.i.f. cost of imported materials, against varying percentages of the cost of project administration and extension services and against the foreign exchange costs of the study, together with interest on the loan. In the light of the economic considerations reviewed in Para. 5 above, I would propose an increase of US\$1.5 million which would bring the Bank's participation to about 60% of total project cost. The proposed increase would cover an additional part of the extension services and part of the hired labor necessary for the new plantations, two essential elements of the project. The loan would be for a period of 15 years, including a grace period of 7 years corresponding to the disbursement period.

11. The Committee is invited to pay particular attention to the following aspect of the project: because the Government had given insufficient consideration to project credit arrangements, agreement could not be reached during appraisal on the volume and the terms of credit to be extended to participants and therefore the provision of funds to meet the project costs other than those financed by the proposed loan.

12. Consequently, the arrangements outlined below are based on the appraisal mission's recommendations but take into account, as far as possible, what is presently known of the Government's views; they may, therefore, have to be revised during negotiations.

13. Under the assumption of a US\$6.0 million Bank loan, the Government would have had to contribute 33% of total project cost and the remaining 21% would have been met by farmers' direct contributions and through re-investment of farm credit repayments. An increase in the amount of the loan by US\$1.5 million would result in a reduction of the Government's contribution from 33% to 19% since the farmer's contribution would remain the same. Credit for new plantations would cover the full cost of fertilizer, insecticides and sprayers together with cash totalling CFAF 14,000 per ha. to meet the cost of hired labor. There would be a grace period of 4 years from planting for both interest and principal and repayment

would be over the following 8 years by equal installments with interest at 5 1/2%. For rehabilitation, farmers would receive credit for 80% of the cost of insecticides and sprayers during the two-year period of rehabilitation. Interest at 5 1/2% would be capitalized during this period and repayments would be made over the following two years.

14. The project would be implemented by SATMACI (Société d'Assistance Technique pour la Modernisation Agricole en Côte d'Ivoire) under the overall responsibility of the Ministry of Agriculture. Since SATMACI does not have authority to borrow from the Bank, the loan would be made directly to the Government. SATMACI was created in April 1958 with the status of a public corporation in charge of extension work and implementation of Government programs for agricultural development. SATMACI's principal activities at present consist of cocoa rehabilitation, rice cultivation, milling and marketing, livestock operations and coffee extension service. SATMACI's technical management is sound and its accounting system is satisfactory. On the other hand, its current financial position needs improvement because of inadequate permanent capital and delays in receiving funds from the Government to finance agreed operations. The Government is aware of the need to remedy this situation. SATMACI is currently being reorganized on lines recommended by COFROR (Compagnie Française d'Organisation) but the Government is considering additional steps to streamline SATMACI's activities and improve its financial structure.

15. The Cocoa Director, Head of the Cocoa Division of SATMACI, would be responsible for carrying out the proposed project. New appointments to this position would be made after consultation with the Bank. To assist the Cocoa Director, a project manager, whose experience and qualifications would have to be satisfactory to the Bank, would be appointed to be in charge of the planting and the rehabilitation components of the Bank project. Also reinforcement of SATMACI's extension services would be required for execution of the project.

16. Other institutions involved in the project's execution would include IFCC (Institut Français du Café et du Cacao) which would supply seeds and carry out technical training, BDPA (Bureau pour le Développement de la Production Agricole) which would carry out extension training and CSSPPA (Caisse de Soutien et de Stabilisation des Prix des Produits Agricoles), an autonomous agency whose most important function is to protect farmers from seasonal price fluctuations by guaranteeing for each crop year a fixed farm-gate price. The purchase from producers and export of cocoa is mainly in the hands of well established private traders.

17. To ensure coordination between the agencies involved, a Project Coordinating Committee would be set up. The Government has agreed in principle to set up this Committee which would be chaired

by the Minister of Agriculture or his designate and would include senior officials from the Ministry of Economic and Financial Affairs, the Ministry of Planning and of CSSPPA, IFCC and SATMACI.

18. Procurement of fertilizer, insecticides, sprayers and vehicles (totalling about US\$5.0 million) would be made on the basis of international competitive bidding. Local manufacturers of imported goods would be allowed a preference of 15%. In practice this preference would apply only to fertilizer and then not before 1972 when a proposed fertilizer plant in the Ivory Coast is expected to be completed. No information is available at present on the volume or type of fertilizer which would be produced by this plant. Selection of consultants for the proposed study would be made according to standard Bank procedures.

19. The project's primary benefit would be the increased production of cocoa resulting in substantial foreign exchange earnings for the Government and higher income for participating farmers. Based on a world price of UScents 27 per lb, it is estimated that at full production the project would contribute about US\$9.0 million a year in net foreign exchange earnings from new plantations and about US\$5.0 million from rehabilitation. At the assumed price and taking into account the full family labor costs, the internal rate of return is estimated at about 20% for new plantations and about 35% for rehabilitation.

Recommendation

20. I recommend that representatives of the Republic of the Ivory Coast be invited to negotiate a loan of US\$7.5 million equivalent to assist in the financing of the cocoa project, otherwise substantially in accordance with the terms and conditions set forth in Paragraphs 8.01, 8.02 (except for (g) which should read "in consultation" instead of "in agreement"), 8.03 and 8.04 of the Appraisal Report.

Roger Chaufourmier
Director

Attachment

LOAN COMMITTEE

April 8, 1970 **DECLASSIFIED**

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Ghana - Eastern Region Cocoa Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 8, 1970 from the Western Africa Department, entitled "Ghana - Proposed Eastern Region Cocoa Credit" (LC/0/70-51).
2. Comments, if any, should be sent to reach Mr. Nissenbaum (ext. 4787) by 5:00 p.m. on Friday, April 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

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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LC/0/70-51 **SEP 09 2014**

April 8, 1970 **WBG ARCHIVES**

LOAN COMMITTEE

Memorandum from the Western Africa Department

Ghana - Proposed Eastern Region Cocoa Credit

1. Attached is an Appraisal Report (No. PA-43) dated April 1, 1970 recommending a credit of US\$8.5 million to the Government of Ghana to assist in the improvement of the cocoa production industry in that country's Eastern Region. The proposed credit would be the fourth and final one to Ghana in the current fiscal year. Last July, the Bank approved a US\$1.5 million credit for highway engineering of new alignments of the Accra-Kumasi-Takoradi trunk road system. In August, the Bank provided a US\$3.5 million credit for a water and sewerage project in the Accra-Tema area. A US\$1.3 million fisheries credit was approved last September. Apart from the fisheries credit, the proposed credit would be the first one for agriculture development. Attached is a table summarizing the five-year lending program for 1970-75.

The Economy

2. A summary of Ghana's economic situation and prospects was included in the Country Program Paper of January 27, 1970. Its assessment of Ghana's creditworthiness indicated that Ghana's debt burden and uncertain export earnings limit the prospects for significant lending on conventional terms. In a review of that CPP on February 9, 1970, it was agreed that Ghana should be treated as an IDA country for the present, barring the achievement of a long-term solution to its debt problem. A Bank mission recently began to reassess Ghana's economy and development situation.

The Project

3. The project is a high priority in agricultural investment. Cocoa dominates Ghanaian agriculture; it provides a livelihood for large numbers of small farmers; more of Ghana's land is devoted to cocoa than any other crop; it accounts for over two-thirds of Ghana's total exports. As it is the principal foreign exchange earner, Ghana has relied and still does rely on cocoa for financing its development program.

4. While cocoa earnings on a world-wide basis have fluctuated significantly, there are good reasons for greater investment in cocoa, particularly in a country which has proven to be an effective, well-suited producer. Unlike some other primary products, large increases in the supply of cocoa have not led to prolonged surpluses. Cocoa has been in shortage, in fact, since 1966 and demand has grown over the past decade.

Moreover, the prospects for continued growth in demand are quite good. Per capita consumption of cocoa is generally low while the long-term income elasticity of demands is (0.5-0.6) high. Also, although there is evidence that sustained high prices lead to substitution, there have been at the same time an increasing number of new uses of cocoa products.

5. Given, therefore, the commanding role cocoa plays in determining the prosperity of the country, the score of problems which have beset the industry within recent years are quite significant. Disease and infestation have flourished. Plantations have been abandoned. Farm maintenance has deteriorated, contributing to low yields per acre. Consequently, production has tended to stagnate. Ghana's chance to take a fair share of the benefits from the recent increased world cocoa prices has been lost, with its share of the world market now considerably less than the approximately 39% portion at the beginning of this decade. These adverse events appear to have resulted in large part from the unfavorable early 1960 policies. Public services were curbed, including the important measures for systematic control of swollen shoot disease and spray materials. The restrictions also involved effectively reducing the producer price, particularly in terms of its purchasing power. Cocoa production, in addition, was impaired by the abnormally heavy rains in 1968 which impaired spraying and harvesting. Moreover, they increased the incidence of black pod disease and interfered with the evacuation of cocoa from the growing areas where transportation nearly collapsed.

6. More recent Government policy has been much more supportive in an effort to achieve production increases. The producer price has been raised. As additional incentives, the Government doubled the amount of capsid spray available; subsidized the cost of the spray and spraying machines; and transported fertilizer from ports to cocoa areas. Most recently, the Government also resumed aiding farmers in replanting trees which had to be cut out because of swollen shoot disease. Much more, however, needs to be done to redress fully the neglect of the mid-1960's.

7. The proposed project consists of the provision of funds to be lent Ghanaian farmers and the supporting services for the rehabilitation of 51,000 acres of standing cocoa and introduction of high-yielding varieties to 36,000 acres. Its features include plans for an improved cocoa extension service, farmer training, feeder road improvement, and the establishment of 15 marketing cooperatives.

8. The project is justified by the benefits anticipated from the additional cocoa to be produced, as well as substantial indirect benefits. It is estimated that the additional cocoa produced from the project area would amount to about 19,000 long tons per annum. Current forecasts of long-range cocoa prices would indicate an estimated rate of return of 26%. If prices fell to the lowest level of the projected range and yields declined by one-fourth, the return would be 15 percent. At 27¢ per lb. (New York spot), the estimated yields would enhance Ghana's foreign exchange earnings perhaps by US\$11 million annually. The project's primary

benefits must also include its potential contribution to relieving Ghana's worsening unemployment situation, and prospects of higher incomes for some 5,000 farmers.

9. The project is estimated to cost US\$15.6 million. The proposed credit is for US\$8.5 million, equivalent to 55% of the total project. The remainder of the financing would come for Barclays Bank (US\$1.47 million) and the Government of Ghana (US\$5.61 million). The proposed Barclays Bank loan would be for local expenditures and would bear interest of 1% higher than the Bank of Ghana discount rate, currently 5%. It would be for 15 years, including seven years' grace. The Government's contribution would include US\$2 million which would be generated from farmers' loan repayments beginning in the fourth year of the project.

10. The bulk of the proposed IDA credit would be subdivided into loans to Ghanaian farmers for insecticides, hired labor and planting materials, and the cost of project administration. The project includes no major physical works and only a relatively small amount of commodities. Procurement of vehicles, tractors, and building equipment, spraying machines, tools and fertilizers valued at about US\$1.6 million would be through international competitive bidding. Gammalin insecticide valued at about US\$860,000 would be procured by negotiated contract with a local manufacturer. The project building program of housing and stores, costing about US\$660,000, would be subject to local competitive bidding.

Issues

Local Cost Financing

11. The proposed credit would meet all of the project's US\$5.04 million foreign exchange requirements. The remaining US\$3.46 million (41% of the proposed credit) would be for local expenditures and would finance 33% of total local cost requirements. These proportions appear to be both reasonable and appropriate in the light of Ghana's financial limitations.

12. Although the government has made substantial efforts to raise additional revenue and public savings, the heavy debt burden is absorbing a large portion of domestic resources. The extent of the build-up of external debt service obligations makes it unlikely that there will be a significant improvement in Ghana's ability to increase its share of development expenditure for some years to come. In this instance, moreover, limiting Bank financing to the project's foreign exchange component (33%) would constitute an unduly low proportion of Bank assistance to the capital requirements of the project.

13. Furthermore, the agricultural sector in Ghana has high priority. If the Bank Group is to assist in developing the sector, where the foreign exchange content of projects is usually low, it will have to be prepared to finance a substantial amount of local costs.

Project Staff

14. Project staff costs account for approximately 30% of total project costs. In general, relatively little fixed capital investment is involved in these types of projects with staffing costs consequently appearing high in proportion. In this instance, the proposed ratio of one field assistant to between 15 and 30 farmers and 65 and 85 acres may appear to be unnecessarily high, and the pyramid of field supervision as a whole^{1/} too dense, comprising as it will three groups of 256 people each. However, the experience of previous pest control projects in Ghana and of agricultural projects in other countries indicates that quite intensive supervision and technical assistance are necessary if the full benefit of such projects is to materialize. In addition, where spraying to eliminate capsid is involved, it is essential that no part of the project area be left untreated to avoid immediate reinfestation. A related consideration is that, in the past, Ghanaian farmers found it much more advantageous to open up new areas for cocoa production than to rehabilitate and replant old areas. In the Eastern Region, however, where the scope for new plantings has become quite limited, this alternative is a declining possibility. The much more difficult task of replanting old low-yielding cocoa is now a pressing requirement. The needs for close supervision in this case, therefore, are quite considerable.

15. The 768 field staff required are expected to be seconded to the project unit by the Ministry of Agriculture. During the initial stages of preparing this project, the Government of Ghana has begun training Agricultural Assistants and Field Assistants to meet project requirements. Also, the number of staff required for the project will be phased in over its first two years. During negotiations, we will seek to confirm that the Ministry, in fact, has begun and will continue to appoint the staff required for the project. It is not expected that this will cause any difficulty.

^{1/} Three groups, each directed by a senior agricultural survey officer directing five assistant agricultural officers, fifty agricultural assistants and two hundred field assistants.

Farmer Incentives

16. While the extent of supervising and technical assistance may play a prominent role in determining the project's results, another key variable will be the farmers' reactions to the incentives which the project provides. These include credits for spraying machines, pesticides, fertilizers, improved planting materials as well as for hiring farm labor; and most important prices paid to producer. These prices are fixed by the Government. The export duties on cocoa constitute the Government's main source of revenues; as a result there has been a tendency to maintain prices as low as possible. Last year the Government, in order to provide adequate incentive to producers increased the price to N28 per 60 lb. load. We do not recommend any further action for the Government to take at this stage on producers prices since we have no firm basis for assessing their importance among the variety of elements that affect cocoa production. Available data is quite sparse on the short-run production response to price changes. On the other hand, as the focus of the project suggests, it is clear that significant production benefits can flow from expanded rehabilitation and replantings. However, the question of producers prices is now being examined by an expert on Ghanaian cocoa within the current economic mission to Ghana. Moreover, we will continue to pay close attention to the producer price because of its significant implications for the Government's budget situation.

Management

17. The Government probably will press for locating the project authority within the Cocoa Division, rather than as a separate entity within the Ministry of Agriculture. Similarly, the Government has expressed reservations about the employment of an expatriate project manager. As indicated in the appraisal report, an adequate organization and management are regarded as essential. A project authority, directly responsible through the Principal Secretary to the Minister of Agriculture, is required because the Cocoa Division has neither the experience nor the capacity to carry out an operation as complex and large as the proposed project. In addition, the Cocoa Division, after fulfilling commitments to the project authority, would be fully utilized in swollen shoot virus disease control and could not absorb additional responsibility. The proposed negotiating position would be one of emphasizing the importance of the autonomy of the project authority for the period of the project's execution with, however, the clear potentiality for subsequent integration in the Cocoa Division.

18. In the judgment of the Projects Department, the project manager will have to be an expatriate as they do not expect the Government to be able to assign a suitable Ghanaian to the project without impairing other essential operations. Whatever the nationality of the candidate proposed by the Government, the Bank will want to be satisfied with the experience and other qualifications of the project manager.

19. There is another question which should be noted by the Loan Committee. On January 30, 1970, the Government of Ghana terminated a series of contracts for the design and construction of certain projects entered into between 1962 and 1965 with a group of foreign companies represented by Mr. N. Drevici. Their value is presently assessed at about US\$50 million. One of the projects consists of a cocoa processing plant complex.

20. The termination came after over three years of unsuccessful negotiations between the Drevici interests and Government representatives as to a partnership arrangement in ownership and management of five projects, including the cocoa processing plant complex.

21. The Government's statement of termination indicated that there had been a failure to reach agreement on equity participation. The Government also asserted that Drevici had incorporated two companies to operate two projects "without authority of Government", provision for Government participation or accounting to the Government on their proceeds. The Government further maintains that the original contracts were tainted and vitiated by improper and illegal gifts. However, the Government indicated clearly that it is "...prepared to discuss with Drevici group of companies all matters arising from the termination of these contracts" and the Drevici group has readily responded to the Government's invitation.

22. The Drevici interests filed a writ in the local courts last month to challenge the legality of the Government's executive instrument used to seize their bank accounts.

23. This situation should not affect the processing of this Credit. The proposed project for the expansion of cocoa production does not depend on, or have any relationship to, the cocoa processing facilities involved in the dispute. This dispute is being litigated in the courts of Ghana, and the Government has indicated its willingness to discuss issues arising out of the termination of the contracts. We know of no intervention by any other member country of the Bank in the dispute. We will, of course, continue to follow the progress of the dispute closely.

Recommendation

24. I recommend that the Association invite representatives of the Republic of Ghana to negotiate a credit of US\$ 8.5 million substantially on the terms and conditions put forth in paragraphs 10.1 and 10.2 of the Appraisal Report.

Roger Chaufourmier
Director

Population: 8.0 m
Per Cap Inc: \$230

IVa. GHANA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Oil Palm	IDA			2.0					
Cocoa Development	IDA	8.5							
Cocoa II	IDA			8.0					
Cocoa III	IDA						8.0		
Sugar Development	IDA			7.0					
Cotton	IDA			4.0					
Irrigation - Accra	IDA					10.0			
Fisheries I	IDA	1.3							
Fisheries II	IDA				5.0				
DFC - NIB I	IDA		4.0						
DFC - NIB II	IDA				6.0				
DFC - NIB III	IDA						6.0		
Education I	IDA			4.0					
Education II	IDA						4.0		
Power Distribution - ECG II	IDA		8.0						
Power Distribution - ECG III	IBRD				8.0				
Power - Kpong	IBRD				18.0				
Highway Engineering	IDA	1.5							
Highway Maintenance	IDA		12.5						
Roads	IDA					12.5			
Water Supply - Accra-Tema	IDA	3.5							
Water Supply II	IDA				4.0				

IBRD				26.0					32.0
IDA	14.8	24.5	25.0	15.0	22.5	18.0	10.0		79.3
Total	<u>14.8</u>	<u>24.5</u>	<u>25.0</u>	<u>41.0</u>	<u>22.5</u>	<u>18.0</u>	<u>10.0</u>		<u>111.3</u>
No.	4	3	5	5	2	3	1		18

LOAN COMMITTEE

April 7, 1970

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SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Mexico - Fourth Road Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 7, 1970 from the Central America and Caribbean Department, entitled "Mexico - Proposed Loan for Fourth Road Project" (LC/0/70-49).
2. Comments, if any, should be sent to reach Mr. Bochenski (ext. 2631) by 5:00 p.m. on Friday, April 10.
3. It is planned then, if the Committee approves, to inform the Government, in due course, 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, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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

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LC/0/70-49

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April 7, 1970

SEP 09 2014

WBG ARCHIVES

Memorandum from Central America and Caribbean Department

MEXICO - Proposed Loan for Fourth Road Project

Introduction

1. Attached for consideration by the Loan Committee is Report No. PTR-47, dated March 20, 1970, "Appraisal of a Fourth Road Project - Mexico," recommending a loan of about \$18.5 million equivalent to cover the estimated foreign exchange cost of the project, the total cost of which is tentatively estimated at about \$56.2 million. Firm figures will only be available after the review of the detailed engineering of one project road and several bridges which is to be completed and checked by a Bank mission during the latter part of April, but no major changes are expected. This project is the remaining operation for the current fiscal year in the lending program for Mexico, a copy of which is attached for information.

2. The Bank has previously financed the following five projects for the expansion and improvement of the Mexican highway system:

<u>Purpose</u>	<u>Amount</u> (US\$ million)	<u>Date of Loan</u>
Federal Highways	25.0	October 1960
Toll Transport Facilities	30.5	June 1962
Federal Highways	40.0	September 1963
Toll Transport Facilities	32.0	February 1965
Federal Highways	27.5	January 1968

Both the 1960 and 1962 loans have been fully disbursed and the projects completed. The 1963 project was delayed, mainly because of insufficient engineering preparation, but also as a result of difficulties in acquiring the right of way and some unusually bad weather; the last 5 percent of the project will be completed in 1970. The second Toll Transport Facilities project has been completed about one year behind schedule; delays resulted mainly from increases in quantities. In the case of the 1968 project there have been delays in submitting disbursement applications, but construction is generally proceeding on schedule.

3. Since the Bank's first road loan to Mexico, good progress has been made in building up a modern highway system in the country, and the length of paved roads has increased from 24,000 kms in 1958 to 39,000 kms in 1968. There can be no doubt about the need for further large investments in main roads in Mexico, as well as in feeder roads,

to keep pace with the rapid growth of the economy, but now that the basic road network has been largely completed, priorities are less obvious than they were in the past, and there is increasing need for a well coordinated overall strategy of transport development, which has not existed in the past. The Mexican Government recently requested the Bank's help in carrying out a transport sector study, and a mission is presently visiting Mexico for this purpose with a view to producing a report before the new Government takes over in December 1970.

4. A report on the "Current Economic Position and Prospects of Mexico" (Report No. WH-194a) was distributed to Executive Directors last December. The principal conclusions of the report were endorsed at a Country Program Review held in March. The five-year lending program visualizes the Bank continuing to lend to Mexico around \$100 million a year on average, but there is expected to be something of a hiatus in our lending in FY 1971 because of the pending change of administration in Mexico.

The Project

5. The project consists of the improvement and paving of five roads totalling 580 kms and the construction of another five totalling 455 kms. The roads are scattered over the country, but fit well into the existing network, which they supplement and in some cases shorten. Economic rates of return for the various roads, based mainly on road user savings and in one case also on agricultural benefits, range between 11 percent and 29 percent.

6. On the basis of a 20 year economic life of the roads and a 4-5 year construction period, a term of 25 years, including a grace period of five years, is recommended in the appraisal report. For previous highway and toll facility loans to Mexico, the terms have been 19 or 20 years, including 3 to 4½ years of grace.

7. The Bank has long been concerned over the unsatisfactory financial position of the Toll Authority ("Caminos") which operates the facilities financed under two of our previous loans. Various things have been done at the Bank's suggestion to improve this situation, but the Government has not yet completed the action for the rescheduling of Caminos' large debt to the Bank for Public Works and Services (BNOSP), which is essential if the finances of Caminos are to be put on a sound footing. We are therefore proposing that the rescheduling of this debt should be made a condition of presenting the new loan to the Executive Directors. A mission is presently reviewing Caminos' financial situation; we expect that it will recommend further steps to resolve this problem, which we will wish to discuss with the Government.

8. We may have some difficulties with the Mexicans over the reduction in the size of the proposed loan, which was earlier expected to be about \$21 million. There are two main reasons for this reduction: (a) in previous loans for federal highways the foreign exchange component, to which Bank financing has been attached, has been calculated at 36 percent of total cost on the assumption that 25 percent of the work would be carried out by foreign contractors, but we are now assuming that this latter proportion will be only 10 percent (even this may be optimistic), and this reduces the foreign exchange component to 33 percent; and (b) engineering costs, which have been included in our previous highway loans, are now excluded because the engineering will have been carried out by the staff of the Ministry of Public Works before the loan is signed. There are no special country arguments in favor of increasing the amount of the loan (e.g. by including interest during construction), and we are not proposing to include any local cost financing in this case. We shall therefore take the position with the Mexicans that the size of the loan is directly related to the foreign exchange component of the project, and that this has been calculated according to the usual Bank rules.

9. In an effort to provide the broadest possible basis for international competitive bidding, provisions were agreed under the last highway loan (528-ME) for more frequent invitations to contractors to qualify, for more widespread invitations to pre-qualified contractors, for an increase in the minimum size of contracts and for the awarding of contracts for complete road sections rather than by type of work. These measures have not, however, resulted in increased foreign participation. The appraisal report now recommends that, insofar as practicable, bids will be allowed on the basis of "packaging of contracts" whereby contracts of a size suitable for local contractors could be grouped into packages which could also become attractive to foreign bidders. This arrangement is designed to attract larger firms and contribute to a lowering of the cost of the works. It was discussed with the government officials during the appraisal mission and tentatively agreed.

Recommendation

10. I recommend that the Bank inform the Mexican Government that it will be prepared to begin negotiations early in May for a loan of about \$18.5 million for a fourth road project on the basis set forth in the appraisal report.

Edgar Gutierrez
Director

Attachments

IVa. MEXICO - 5 YEAR LENDING PROGRAM

Population: 49 m
GNP Per Cap: \$615

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Irrigation V	IBRD				40.0				
Livestock III	IBRD			50.0					
Livestock IV	IBRD						50.0		
Fisheries I	IBRD			15.0					
Fisheries II	IBRD						15.0		
Forest Industries I	IBRD			15.0					
Forest Industries II	IBRD						25.0		
Industry II	IBRD			25.0					
Industry III	IBRD					25.0			
Power X	IBRD	125.0							
Power XI	IBRD			80.0					
Power XII	IBRD					60.0			
Tourism I	IBRD		10.0						
Tourism II	IBRD				10.0				
Highways VI	IBRD	18.5							
Highways VII	IBRD			20.0					
Highways VIII	IBRD				30.0				
Ports I	IBRD				10.0				
Ports II	IBRD						10.0		
IBRD		143.5	10.0	205.0	90.0	85.0	100.0	367.5	513.5
No.		2	1	6	4	2	4	8	14

LOAN COMMITTEE

DECLASSIFIED

April 7, 1970 SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Karachi Port Trust and Consulting Services Project

Attached for information is a memorandum from the Director of the South Asia Department to the Chairman of the Committee, dated April 7, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for the Karachi Port Engineering and Consulting Services Project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: April 7, 1970

FROM: I.P.M. Cargill *W. J. Cargill*SUBJECT: PAKISTAN: Proposed Credit for Karachi Port
Engineering and Consulting Services

1. Attached for your approval are copies of (i) the draft Report and Recommendation of the President on a Proposed Credit to Pakistan for the Karachi Port Engineering and Consulting Services Project; (ii) the draft Credit Agreement, and (iii) the draft Project Agreement.
2. We are planning to distribute the Report and Recommendation of the President and the Appraisal Report to the Executive Directors on April 9 so that the credit can be considered on April 21, 1970.
3. The Appraisal Report (No. PTR-35) was distributed to the Loan Committee on January 12, 1970, together with a memorandum from the Area Department (LC/O/70-2) proposing that the Association consider making a credit of about US \$1 million to the Islamic Republic of Pakistan to be relent to the Trustees of the Port of Karachi (KPT), to finance the foreign exchange costs of engineering and consulting services. The credit amount had been estimated by the Bank's mission during appraisal. As the Area Memorandum mentioned, it was expected that by the time the credit would be presented to the Executive Directors, KPT would have negotiated satisfactory contracts with consultants, and that reasonably firm cost estimates would have emerged from these negotiations.
4. During credit negotiations it became clear that two, or possibly three contracts, out of a total of four, amounting to about 40 percent of the proposed credit amount, might not be finalized by early April to meet the original forecast date, April 21, 1970 for presentation of the credit to the Executive Directors. However, KPT have recently informed us that the major contract (US \$500,000 for the design of the berths and sheds) has been finalized, that negotiations on the remaining three are proceeding satisfactorily, that the price on other elements totalling about US \$270,000 is reasonably firm, and that only one item (the oil handling facilities) which we estimate to require about \$130,000 is still uncertain. To delay Board presentation for finalization of the remaining contracts would mean a delay in implementation of the major contract, which in turn would delay the Third Karachi Port Construction Project, for which a provision of US \$15 million is included in the approved Country Program Paper for FY 1971. The actual figure for the finalized contract, and KPT's latest estimates for the remaining three, confirm the original estimate of the Appraisal Report. The contingency provision of US \$70,000 is adequate to take care of any possible variations that could still occur. For these reasons, I propose to circulate the project to the Executive Directors now.

April 7, 1970

5. During negotiations the Pakistani delegation proposed enlarging the scope of the engineering and consulting services slightly to include (i) prequalification of tenderers as well as invitation and evaluation of bids for the cargo berths and sheds (Draft Credit Agreement, Schedule 3, Para. 3), and (ii) final engineering designs, drawings and cost estimates for the selected method of handling oil traffic (ditto, para. 6). The cost of these items would be minor and I find them justified. The documents have been amended accordingly.

6. Except for the minor changes referred to above, the Appraisal Report (not attached) remains substantially unchanged.

7. An economic report entitled "Current Economic Position and Prospects of Pakistan" (SA-4a) dated April 18, 1969 was distributed to the Executive Directors. An economic mission is just returning from Pakistan and will produce its report in May, 1970. In accordance with Section 6.09, para. 19 of the Operational Manual, the Report and Recommendation of the President contain no section on the economy of Pakistan.

8. I propose that the credit be presented to the Executive Directors by Mr. R.T. Fares of this Department; the theme of the presentation will be the importance of the port of Karachi for the economy of Pakistan and the Bank Group's past and future assistance to the port's development.

9. I would appreciate your giving any comments you may have to Mr. Fares (Ext. 2069).

Attachments

cc: Mr. McNamara
Mr. Cope
Loan Committee (without attachments)