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Operations Evaluation -
Memos to Mr. McNamara (2-37)
November 1970 - December 1971



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Operations Evaluation - Memoranda to Mr. McNamara

Mr. R. S. McNamara

December 21, 1971

C. R. Willoughby

Operations Evaluation Report: Electric Power

I attach herewith our best effort to meet your request of July 1971 for an evaluation of the Bank's past work in electric power on the basis of a sample of ten selected borrowing utilities in various countries. I am also sending copies of this preliminary draft to Messrs. Chadenet, Weiner and Henderson.

cc: Messrs. Knapp
Aldewereld
Chenery
Adler

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

DATE: December 21, 1971

FROM: C. R. Willoughby *CRW*

SUBJECT: Operations Evaluation Report: Electric Power

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 1, 1971

FROM: John H. Adler

SUBJECT: Operations Evaluation Division

Mr. Willoughby wrote the attached memorandum in response to your request (to me) to prepare a work program for the Operations Evaluation Division. As you can see, the memorandum proposes an interim program only, which I hope you will approve as soon as possible.

Chris' memorandum refers somewhat obliquely in para. 4 to a morale problem in the Evaluation Division. I am afraid it is more serious than the passage indicates. The people in the Division worked very hard to meet the deadlines. They now feel rather let down because, aside from comments, mostly on a personal basis, from staff members of various Projects Departments they have not had any official reaction to the Colombian report. On top of it, they do not know what they are supposed to do next.

I suggest two steps to alleviate the situation. One is that you meet with Chris, perhaps together with Mr. Knapp, Mr. Chadenet and myself, to talk to him about the Colombia report, even before you receive the Power Study which, as you know, will be ready in a few days. The second is that you approve the interim program as outlined in Chris' memorandum. The people involved are eager to move as quickly as possible.

Attachment

JHA/mwm

CRW

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara (through Mr. J. H. Adler)

DATE: November 30, 1971

FROM: C. R. Willoughby CRW

SUBJECT: Immediate Next Steps in Evaluation Work

1. On November 1, as you know, we finally issued the Preliminary Draft of the whole Colombia Operations Evaluation Report. After that extremely demanding effort we moved straight into melding together the previous work we had done on electric power projects in six countries, power lending in Mexico and the Bank's activities in the power field in Colombia into a report reviewing, on the basis of this sample, the Bank's past work in electric power and making recommendations for the future. As I had indicated, this proved difficult because of the very different perspectives adopted in the Colombia study and in the cross-country power study, and because of the more limited objectives originally established for the latter. Moreover some of my staff and I are tired. Nevertheless we are making progress. Attachment 1 shows the organization and chapter headings of the report we are now preparing. Fourteen of the 19 chapters are virtually complete, and the other five are under way; we are of course drawing very heavily on research already done in connection with Colombia. I would hope that the report, which will have to be printed in two or three separate books in its Preliminary Draft form, will be issued about two weeks from now.

2. Six of the chapters, constituting the bulk of Part I on the outline attached, are redrafts of those issued last July in our first report. The redrafts will take account of the comments received from the Projects Departments; changes will be minor except in the case of SEGBA in Argentina, although even on that company our basic views remain unchanged. The Colombian chapters (Part II of the outline attached) are mainly rewrites of work already presented in our comprehensive Colombia report, minor in the case of the first chapter but extensive in the case of the others; the last chapter of the Colombia section will be mainly new. I have asked Mr. Marot, the author of the Power Volume of the Colombia report, to obtain the comments of the Public Utilities Department on that volume at the earliest opportunity, initially piecemeal if necessary, so that he may take them into consideration as soon as possible; I understand Mr. Howell, of the Public Utilities Department, will assist in this manner. The Introduction of the new power report and all chapters in the last Part will be mainly new, although drawing heavily on our Colombia work.

3. How long it may take to revise the forthcoming power report in light of comments received from the Projects Departments or others depends on many factors, including the time required for them to prepare their comments, the depth of the comments, the extent of any further

research required to reach sound judgments, and the extent to which I myself am diverted onto other issues relating to Colombia. Comments on the six chapters issued in July have generally been minor and not very time-consuming to deal with. This may not be the case with the inherently more difficult and controversial other chapters.

4. What has just been said about the power report applies a fortiori to the comprehensive Colombia report. It will be difficult to sustain staff morale through the likely lengthy process of discussion and evaluation of comments received. But hopefully, the comments of the other Departments will be prepared in the same constructive way as the report itself was conceived.

5. Those of the Division's staff who were concerned with the Colombia study (almost all) are now engaged either on the power work or on preliminary discussion of findings with the Projects Departments. Most of them have not yet had time to look at other parts of the Colombia report beyond those for which they were directly responsible, or to consider what lessons they think should be drawn from our pilot phase.

6. However, as you know, we began to plan in July 1971 a comparative highway project evaluation, to follow up on the comparative power study, and we hired one man out of the Young Professional program to work on this, which he has since been doing, under direction of Mr. Israel, our transport economist. They have made good progress and prepared the attached study proposal (Attachment 2) on the basis of preliminary review of past highway lending and discussions with Transportation Projects Department. The focus of the study would be two Bank-financed highways in each of four countries (Ethiopia, Mexico, Thailand and Yugoslavia), with special emphasis on (a) cost-benefit analysis, (b) development benefits, transport industry structure and consequent distribution of benefits and (c) effect and effectiveness of Bank conditions, with special attention to institutional change. This is, of course, a much smaller sample of projects than we have taken in the case of power, partly because of the greater difficulty of getting any reasonable indicator of benefits in the case of highways and partly because, once the time has been invested to get that far, it seems appropriate to take advantage of the projects reviewed to follow up, on a comparative basis, the above-mentioned topics which experience has shown to be important. We see this approach not only as laying the foundation for subsequent expansion to cover other highway projects along similar lines but also as a possible model for later, focussed cross-country studies of projects in other sectors.

7. Work in the past few weeks on this study has been particularly concentrated on the Thailand case which we wish to proceed with immediately, to some extent as a pilot phase insofar as Mr. Israel has experience and contacts there, having done work on Thai railways in the past. The Mexican case we would hope to start in January, with the aid of a consultant, under supervision of Mr. Israel. On present plans, and with initiation now, the report on the eight roads should be ready late next calendar year.

8. In view of the extreme uncertainties referred to above about the amount of work remaining to be done on the draft Colombia and Power studies, it is not possible to make any firm plans for the next few months, since all remaining staff (including Mr. Israel himself) would be involved in this work. The first priority, beyond discussion and review of these drafts, is for each man to consider what he has learned from our experience and to contribute to formulation of longer term plans. The second priority is to develop proposals for further cross-country sector studies which would be submitted to you for approval and put into execution as and when work on the existing draft reports tails off. Presently, partly because of the interests and capabilities of the staff which I have, I have in mind proposing, beyond highways, cross-country studies of selected projects in telecommunications and education. Each such study would probably cover 3 - 5 past projects, following fairly closely the broad lines of the attached highways proposal and requiring, like it, about a year to execute. While I presently have men who could capably handle most of the work on each such study, whether I would need additional manpower (other than consultants) I cannot tell until we develop the proposals.

9. When my colleagues have been able to review their experience and we have a better idea of the work yet to be done on existing studies I would expect to come with a much fuller, longer-range plan of action for fulfilling all the three types of evaluation which you have asked us to undertake -- country, sector and individual project -- on present expectation, by January 31, 1972. Naturally we have been devoting some thought to this and presently we would propose, in broad terms, further treatment of individual projects in a sector on a cross-country basis and early initiation of a second country study. The work program which I plan to send you by the end of January will also address itself to the staffing requirements.

10. In summary, I request your approval for
- (a) immediate initiation of the proposed comparative highway project study
 - (b) preparation, as early as possible, of a long-range plan for evaluation work
 - (c) preparation, as early as possible, of detailed proposals for small-scale comparative studies in telecommunications and education broadly similar to the attached highways proposal.
11. In accordance with your request to Mr. Adler I am sending copies of this memo to Messrs. Knapp and Chadenet (in the absence of Mr. Aldewereld to obtain their concurrence with the proposal regarding the highway study.

cc: Mr. Knapp
Mr. Chadenet
Mr. Adler
Mr. Blaxall
Mr. Aldewereld (o/r)

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cc: Mr. Knapp
Mr. Chadenet
Mr. Adler
Mr. Blaxall
Mr. Aldewereld (o/r)

OPERATIONS EVALUATION REPORT: ELECTRIC POWER

Summary and Conclusions

I. Introduction

PART I - Seven Major Borrowers

- II. SEGBA - Argentina
- III. Furnas - Brazil
- IV. EELPA - Ethiopia
- V. VRA - Ghana
- VI. NEB - Malaysia
- VII. CFE - Mexico
- VIII. PUB - Singapore

PART II - Power in Colombia and the IBRD

- IX. The Power Sector in Colombia
- X. Bogota Power Company (EEEB) - Colombia
- XI. Medellin Power Company (EPM) - Colombia
- XII. CVC/CHIDRAL - Colombia
- XIII. The Colombian Transmission Interconnection

PART III - The IBRD in Electric Power

- XIV. Comparative Performance under the Loans
- XV. Institutional Development in Electric Power
- XVI. Power Tariffs and Tariff Structure
- XVII. Alternative Means of Foreign Financing
- XVIII. The Need for a Broader View
- XIX. Recommendations

November 30, 1971

Operations Evaluation Study of
Highway Projects

Study Proposal

Introduction

1. Through FY 1971, the Bank Group has lent \$3.0 billion, or about 15 per cent of its total lending, for highway construction. In the next five years (FY 1972-1976) it plans to lend an additional \$ 2.1 billion. The issues related to selection, composition and appraisal of highway projects are, then, of primary importance for Bank operations. For these reasons, we propose to undertake a comparative ex-post evaluation of selected highway projects financed by the Bank in the past.

Objectives and Scope

2. The broad objectives of the study are to assess the impact of Bank-financed highway projects on the development of the countries concerned and to learn from experience how to improve Bank lending in the highway sector. Because of the vast scope of the subject and its complexity, we propose to make a start by selecting a small number of roads, concentrating on a few issues which the Transportation Projects Department has considered to be of special importance and thereby developing approaches which could subsequently be extended to further projects and countries. The study will have three major parts:

- a) a conventional reappraisal of each of the projects selected, including aspects such as the calculation of an ex post internal rate of return, estimated and actual construction costs and reasons for delays and cost overruns.
- b) study in as much detail as possible, within reasonable time constraints, of three issues: the impact of each road on regional development; the distribution of the benefits among the different groups in the population and the role of the trucking industry in that distributive process; and the impact of road-rail competition, when applicable.
- c) review of the final influence of the Bank loan conditions, especially in relation to institution building, and the Bank influence in shaping each of the projects, that is, in which way the project was different as a result of the Bank's involvement.

Some other aspects of highway projects, such as contracting procedures, procurement and consultants' performance, will also be analysed but will not be the subject of special studies. Design standards will not

be evaluated, because the Bank is already undertaking a major study on the subject. The emphasis of the study will be on the comparison among countries and not so much on the individual characteristics of each project.

Selection of Projects for Evaluation

3. Given the large number of Bank highway projects, we have to limit our study to a small sample. The basis for selection was the full list of 162 Bank Group-financed highway projects from FY 1947 to FY 1971. A first selection, considering only trunk road projects signed before FY 1965 and including only one project per country, reduced that list to 26 projects (See list in the Note to Annex 1). We decided to concentrate only on projects containing trunk roads (main highways), excluding feeders, toll roads and expressways, to have comparable investments and to analyse the type of roads which have been and probably will be the most important in Bank highway lending. We considered only projects signed before FY 1965 because we wanted to evaluate roads that would by now have been in their operating phase for a few years. Finally, we limited the selection to one project per country to include as many countries as possible. Out of the preselected 26 projects, we selected 10 for which studies could be done (taking account of availability of data and on-going Bank relations with countries).

4. The next stage was a review in some detail of these 10

projects, analysing their main objectives, their implementation and main points of interest. Annex 1 summarizes the results of our investigations. Still these 10 projects included 66 roads, and given the proposed scope of the evaluation we could only select eight roads to make the study feasible, within the present staff and time constraints. We therefore decided to select four projects and two roads in each. The four projects finally selected were Loan 166-ET of 1957 to Ethiopia; Loan 268-ME of 1960 to Mexico, Loan 341-TH of 1963 to Thailand and Loan 344-YU of 1963 to Yugoslavia. We chose these four projects because they were in four large and important countries, each in different continents, where the issues we were interested in were particularly relevant: i.e. mainly, the expected development impact (according to appraisal reports) and the structure of the road transport industry (availability of data).

5. Two of these projects were made to finance a large number of roads. The one in Mexico included 13 and that for Ethiopia eight. Once these four projects for evaluation were chosen, we selected two roads in each project, based mainly on their expected development impact (according to appraisal report). The evaluation effort will be focussed on those eight roads.

6. Annex 2 contains a summary of the characteristics of the four projects and Annex 3 of the eight roads selected. The maps at the end of this proposal show the location of these roads in each country. The two roads in Ethiopia were supposed to have an impact on agricultural

production, one of them especially on coffee exports, and the project included a sizable effort to train the Ethiopian staff in the Highways Department. The Mexican roads were justified mainly in terms of increased agricultural production, but the road from Compostela to Puerto Vallarta has had an interesting effect on tourism, not foreseen at the time of the appraisal. The highways in Thailand and Yugoslavia were justified mainly in terms of savings in vehicle operating costs, but one of the roads in Thailand was supposed to have had an impact on rubber exports, and the Adriatic Highway (Vodice-Bar) in Yugoslavia has had a spectacular effect on tourism, mentioned but not quantified at the time of the appraisal.

7. An additional reason for selecting the project in Yugoslavia is the fact that everything went according to schedule and no cost overruns or delays at any stage took place. We want to study the reasons for such a good performance and contrast them with the reasons for delays and cost overruns in the other projects.

Methodology

8. The main unit of analysis will be the roads selected for evaluation and not the projects as such, which in many cases contain several roads in different parts of a country. The calculation of the ex post internal rate of return will be done through conventional methods, based on estimates of vehicle operating costs and time savings already existing in each country, and without attempting an application of a highway simulation model, as was done in the Colombia study, since

it would entail a very large effort in terms of time and resources. The only possible exception could be Thailand, where efforts to apply a model of that nature are already under way.

9. The main effort will be directed to assessing the impact of the roads on the region served by them, including the distribution of benefits among the different groups of the population. This assessment will require special regional studies for each of the roads selected. Many of the roads raise some special issues in relation to their development impact: for example, tourism in Yugoslavia and Mexico, rubber production in Thailand, and agricultural development in Ethiopia. We propose to subcontract part of these studies with university groups in each country, an approach that we consider more useful from several points of view than the use of consultants. The analysis of the distribution of benefits also requires a rather detailed analysis of the trucking industry, in aspects such as pricing, regulation and structure of services. This information seems to be available, in general, in the four countries selected, but it will probably be necessary to carry out special investigations in relation to the trucking activities on the roads selected for evaluation. The issue of road-rail competition is fully relevant only in the case of Thailand and partially in Yugoslavia. In this respect, the Thailand case will be an extension of the reappraisal carried out in the Economics Department of a railway project in that country.

10. A special study will be attempted of the final impact of some of the loan conditions and of their gestation and negotiation at the time of the loan. The emphasis will be on institution building conditions, and probably the effort will be largely concentrated on the case of the improvements in the structure and operations of the Ministries of Public Works and on the training efforts attempted in connection with the loans to Ethiopia and Thailand. The full analysis of this problem will almost surely require extension of the study beyond the limits of the project selected for evaluation, to be able to appreciate the evolution and impact of these institution building efforts over a reasonable period of time.

11. Annex 4 contains a summary of the points to be treated in the evaluation of each of the four projects selected. In the comparative analysis that will follow the completion of each of these separate studies, we also plan to include the conclusions on highway investments obtained in the Colombia study, but without attempting further work on that country.

Staff Requirements and Timing

12. Preliminary estimates, based on an assessment of the amount of time that would be needed to deal with each of the components listed in Annex 4, showed that each of the four projects will require one professional and one research assistant for a period of five to six months. This means that the study will take about ten months to be completed, involving two professionals and two research assistants. These estimates

assume that a substantial portion of the analysis of the development impact of the roads will be subcontracted with universities in each country, or with a consultant, if that proves to be impractical. The nature of the effort to be made to evaluate the institution building components of the projects in Ethiopia and Thailand has not been fully assessed, but it will probably require another professional for three or four months.

13. We propose to begin the study immediately with a preliminary phase concentrated in Thailand, and to initiate work on the other three projects in January, 1972. This approach means that the study will be completed by October, 1972. The reason for choosing Thailand is the availability of a sizable amount of data collected in relation to the previous reappraisal of a railway project and the existence of several useful contacts among Thai authorities.

Budget

14. The study will require 24 professional man-months and 24 man-months of research assistants. Including the possibility of subcontracts with universities and travel expenses, a cost estimate of the study is as follows:

24 man-months professional	\$
at \$2000 per man-month	48,000
24 man-months research assistants	
at \$1000 per man-month	24,000
University contracts and consultants	50,000
Travel expenses (2 trips per country, at \$2000 per trip)	16,000
Contingencies	12,000
Total	140,000

ANNEX 1

THE 10 PRE-SELECTED HIGHWAY PROJECTS

	ARGENTINA	COSTA RICA	ECUADOR	ETHIOPIA *	INDIA	IRAN	LIBERIA	MEXICO *	THAILAND *	YUGOSLAVIA *
A. Bank's Participation in Highway Sector:										
1. Number of Loans	3	2	3	4	1	5	1	6	4	5
2. Total Amount of Loans ^{a/}	141.0	26.7	40.0	54.7	60.0	173.0	4.25	176.8	123.0	150.0
B. Pre-Selected Highway Project:										
1. Basic Data	1st	1st	2nd	2nd	1st	2nd	1st	1st	1st	1st
Loan (or Credit) Number	288-AR	299-CR	176-EC	166-ET	(3-IN)	381-IRN	368-LBR	268-ME	341-TH	344-YU
Date of Loan Agreement	JUN 61	OCT 61	SEP 57	JUN 57	JUN 61	JUN 64	JAN 64	OCT 60	JUN 63	JUN 63
Effective Date	JAN 62	MAY 62	JAN 58	AUG 57	AUG 61	NOV 64	MAR 64	SEP 61	JUL 63	NOV 63
Original Closing Date	DEC 65	APR 65	DEC 61	JUN 61	MAR 65	MAR 68	JUN 67	MAR 65	JUN 68	JUL 66
Actual Closing Date	FEB 69	DEC 67	JUN 63	JUN 64	JUN 67	SEP 69	JUN 69	DEC 66	APR 69	JUL 66
Date of Completion of Project	FEB 69	JUN 71	FEB 69	MAR 66	DEC 67	SEP 69	MAY 69	DEC 68	SEP 69	JUL 66
Original Amount of Loan ^{a/}	48.5	11.0 ^{b/}	14.5	15.0	60.0	18.5	3.25	25.0	35.0	35.0
Amount Cancelled (or Supplement) ^{a/}	17.5	0.95	0.0	0.0	0.53	1.8	(1.0)	0.125	13.1	0.0
Original Cost Estimate ^{a/} of Project ^{c/}	110.0	16.7	32.1	37.8	77.0	44.2	4.55	68.6	62.6	98.0
Actual Cost of Project	n.a.	n.a.	n.a.	n.a.	104.0	n.a.	7.0	87.5	n.a.	100.0
2. Project Roads (Appraisal Report)										
Number of roads	10	15	4	8	7	4	2	13	3	2
Total length (Km)	2,600	670	525	1,200	1,050	680	100	3,150	630	590
Main Objectives - Justification:	improvement of existing roads - savings in operating costs.	improvement of existing roads - savings in operating costs.	improvement of existing roads plus opening up of fertile land.	opening up areas with large agricultural potential.	improvement of the national highway system.	maintenance savings and reductions in operating costs due to upgradings and shortened distances.	80 km new road to develop a logging area - 20 km new road to shorten distances in major rubber area.	improvement and extension of the Federal Highway System.	savings in operating costs and stimulus to agricultural production.	completion of the two most important highways - Adriatic and Central.
3. Implementation (Supervision Reports)										
Overall delay (years)	3	6	7	5	3	1½	2	4	1	0
Major changes:	due to shortage of local funds, 800 km were cancelled from the Project.	program reduced to 510 km.	the completion of the 4 roads was included in the 3rd project.	replacement of 3 project roads by the lengthening of 1.	35% cost increases.	cancellation of one project road.	50% cost increases - no logging by the area's concessionaire.	27% cost increases - addition of 8 access roads (110 km).	program reduced to 330 Km.	no major changes.
4. Common Points of Interest (XXX)										
Design Standards			XXX	XXX			XXX			
Procurement and Construction Method	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Traffic Counts and Composition	XXX			XXX	XXX	XXX		XXX	XXX	XXX
Trucking Industry				XXX		XXX		XXX	XXX	XXX
Rail Competition	XXX	XXX		XXX	XXX	XXX		XXX	XXX	XXX
Development Benefits			XXX	XXX	XXX		XXX	XXX	XXX	XXX

^{a/} All amounts are in millions of US dollars.

^{b/} Of which US\$ 5.5 million from IDA (Credit 10-CR)

^{c/} Including contingencies.

Note: 26 Bank Highway Projects met the criterion of selecting only "trunk road projects signed before FY 65 and one per country." The above 10 projects were pre-selected after eliminating the 16 others on "country" grounds (relationship with Bank and geographic distribution). These 16 projects were in the following countries: Chile, Colombia, Congo K, El Salvador, Guatemala, Honduras, Israel, Nicaragua, Niger, Pakistan, Panama, Paraguay, Peru, Spain, Tanzania and Uruguay.

Source: Appraisal and Supervision Reports.

*These are the four highway projects selected, on which further details are given in Annexes 2 and 3.

ANNEX 2

THE 4 SELECTED HIGHWAY PROJECTS

	<u>ETHIOPIA</u>	<u>MEXICO</u>	<u>THAILAND</u>	<u>YUGOSLAVIA</u>
<u>A. Country Basic Data</u>				
1. 1970 Population (million)	25	50.5	37.7	20.5
2. 1970 GNP per capita (US \$)	63 <u>a/</u>	654	150 <u>a/</u>	625
3. 1961-65 GDP annual average growth <u>b/</u>	4.4	7.6	7.3	7.1
4. 1966-70 GDP annual average growth <u>b/</u>	4.5 <u>c/</u>	6.9	8.9	4.6
5. 1970 Manufacturing output (% GDP)	12.0	19.9	14.8	32.3
<u>B. Bank Participation in Transport Sector <u>d/</u></u>				
1. Highways: number of loans <u>e/</u>	4	6	4	5
amount (US \$ million)	54.7	176.8	123.0	150.0
2. Railways: number of loans	-	1	3	3
amount (US \$ million)	-	61.0	37.0	155.0
3. Ports: number of loans	-	-	3	-
amount (US \$ million)	-	-	23.0	-
<u>C. Selected Highway Project: Main Components <u>f/</u></u>				
	166-ET	268-ME	341-TH	344-YU
1. Road construction and improvement	construction of new all-weather roads (850 Km) and improvement of existing ones (350 Km)	construction of new Federal highways (2,700 Km) and reconstruction of existing ones (450 Km)	construction of new primary national roads (78 Km) and improvement of existing ones (550 Km)	completion of the Adriatic Highway (420 Km) and the Central Highway (170 Km)
2. Road maintenance	maintenance of the highway system during 3 years	maintenance of the project roads	purchase of maintenance equipment	-
3. Detailed studies	survey and engineering of 1,000 Km of roads	-	engineering and economic studies of 1,034 Km of roads	-
4. Training of Staff of the Department of Highways	training of Ethiopian staff	-	training of Thai staff	-
<u>D. Selected Highway Project: Government's Agreements</u>				
1. "Standard" agreements	to award all construction contracts through international competitive bidding, to build roads to design standards satisfactory to the Bank, to promptly provide or cause to be provided adequate local financing, and to employ consultants satisfactory to the Bank			
2. Organization and Management	to cause IHA <u>g/</u> to have organization and management such as to carry out the project efficiently	-	to reorganize the Department of Highways along the lines of the PAS <u>h/</u> recommendations	-
3. Road Use and Maintenance	to maintain fully and adequately all national roads at all times after 1960, and to adopt and enforce appropriate motor vehicle regulations	-	to appoint consulting engineers acceptable to the Bank to help draw up and implement an adequate future highway maintenance program	to maintain and repair the project roads adequately and to ensure their proper use
4. Others	to postpone or eliminate first, if necessary, the road Shashamanna - Soddo as being of lower priority than the others	-	to arrange for the collection of statistics relevant to the economic and technical aspects of the 8 - year highway development program	-

a/ 1969

b/ in constant prices

c/ 1966-69

d/ as of June 30, 1971

e/ of which 2 credits from IDA amounting to US \$ 21.2 million

f/ original components (at the end of the negotiations)

g/ IHA (Imperial Highway Authority) was created under the first highway loan to Ethiopia (1950); the third highway project (1963) provided for consultants' services, and the fourth highway project (1967) required the reorganization of IHA according to those consultants' recommendations.

h/ PAS (Public Administration Service) is an U.S. consulting firm, which made a study of the organization and administration of the Thai Department of Highways, under the auspices of USAID in 1962.

ANNEX 3

SELECTED PROJECT ROADS

	ETHIOPIA		MEXICO		THAILAND		YUGOSLAVIA	
	BLUE NILE -BURIE	JIMMA -AGARO	PINOTEPA ESCONDIDO	COMPOSTELA -VALLARTA	CHIENGMAI LAMPANG	PATTANI -NARADHIWAT	VODICE -BAR	BELGRADE -PARACIN
A. BASIC DATA								
1. Date of Beginning of Works	DEC 60 a/	DEC 60 a/	SEP 61	SEP 61	SEP 65	JAN 66	NOV 63	NOV 63
2. Date of Completion of Works	DEC 64	DEC 63	JAN 68 a/	DEC 68	SEP 69	FEB 68	JUL 66	DEC 65
3. Construction Time (Years)	4	3	6	7	4	2	3	2
4. Overall Delay (Years)	3	2	4	4	2	0	2	0
5. Original Cost Estimate b/ c/	4.07	0.68	3.60	4.96	15.39	n.a.	61.4	24.0
6. Actual Cost b/	n.a.	1.24	4.88	7.54	11.36	5.45	69.5	22.9
7. Length (Km)	207	44	143	131	105	98	422	153
8. Width of Surfacing (m)	6.0	6.0	5.5	6.1	6.5 d/	6.5	7.0	7.5
9. Width of Embankment (m)	8.0	8.0	7.0	8.0	11.5 d/	11.5	9.0	10.0
10. Design Speed on Flat (Km/h)	n.a.	n.a.	50	60	90	90	75	100
11. Loan Number	166-ET		268-ME		341-TH		344-YU	
B. JUSTIFICATION (Appraisal Report)								
1. Direct Benefits	--	--	--	--	Savings in vehicle operating costs due to upgradings		road maintenance savings and reductions in vehicles operating costs due to upgradings	
2. Development Benefits	Increased agricultural production (oilseeds, grain, pulses, hides and skins, some coffee and cotton)	Increased coffee exports	Increased agricultural production (corn, sesame, fruits)	Increased agricultural and livestock production (corn, beef)	Increased production of cash crops, livestock and timber	Increased rubber output	Increased agricultural and industrial production tourism promotion	promotion of exports and tourism
3. Economic Rate of Return (Only Direct Benefits)	--	--	--	--	9% Chiengmai-Lampoon(27Km)	17%	11%	15%
C. IMPLEMENTATION								
1. Contractors	IMPRESIT e/ (Italy)	SOLEL BONEH (Israel)	various local contractors		VIANINI (Italy) MAEDA(Japan) MAHATHAI(Thailand)	HYUN DAI (Thailand)	various local contractors	
2. Main Reasons for delays	Soil movements (Viaduct)	Shortage of crushed stones	Increases in earthwork quantities and heavy damages caused by cyclones		poor performance of MAHATHAI	-	-	-
D. PARTICULAR POINTS OF INTEREST	IHA's f/ new Board (1958) shifted the emphasis of the Project from the Jimma area to the Burie area: the Burie Road was extended to Lake Tana and Gondar.	upgrading from gravel to paved under 4th project in 1967	Influence of the near highly developed area of Acapulco	extension from Vallarta to Barra de Navidad (22Km) under 4th Project in 1970	Competition of the new road Lampoon-Lampang(78Km) with a parallel railway line	improvement of the road Sangkhla-Pattani deleted from the project	impact on balance of payments	Competition with parallel railway line

a/ Only Approximate Data

b/ Amounts in million of US dollars equivalent (using exchange rates at the time of the appraisal - during the project implementation only the Yugoslav currency was devalued)

c/ Excluding contingencies

d/ The Section Chiengmai-Lampoon (27 Km) has slightly higher standards

e/ Only the Blue Nile Gorge Road (39 Km) was built by IMPRESIT; the remaining was built by IHA's own forces

f/ Imperial Highway Authority

-- No direct benefits mentioned in the Appraisal Report

Source: Appraisal and Supervision Reports

Annex 4

Outline. Tasks Related to Each Project.

1. Background. The country's development and Bank participation.
 - a) Overall development pattern
 - b) Amount and nature of Bank lending and Bank relations with the country.
2. Background. The Transport Sector
 - a) Regulation and institutional framework
 - b) Investments
 - c) Traffic evolution
 - d) Intermodal competition
 - e) Bank participation in the sector. General view.
(investments and policy)
3. Road Transport
 - a) Evolution of institutional framework (more in detail)
 - b) Detailed investment pattern. Vehicles and infrastructure.
 - c) Pricing and regulation of services and infrastructure.
 - d) Vehicle operating costs.
 - e) Investment financing and Bank participation in road transport (with some detail)
4. The Trucking Industry (at Sector Level)
 - a) Organization and ownership
 - b) Pricing
 - c) Structure of services

5. History of the Project

- a) Initial negotiations, selection of roads
- b) Project preparation. Detailed studies. Appraisal
- c) Negotiations. Government's proposal and Bank's modifications. Issues raised during negotiations.
- d) Loan Agreement. Final conditions. Description of the project.
- e) Project implementation (probably focussed on the roads selected for detailed analysis). Summary of main difficulties encountered and issues raised during construction: procurement, consultants.

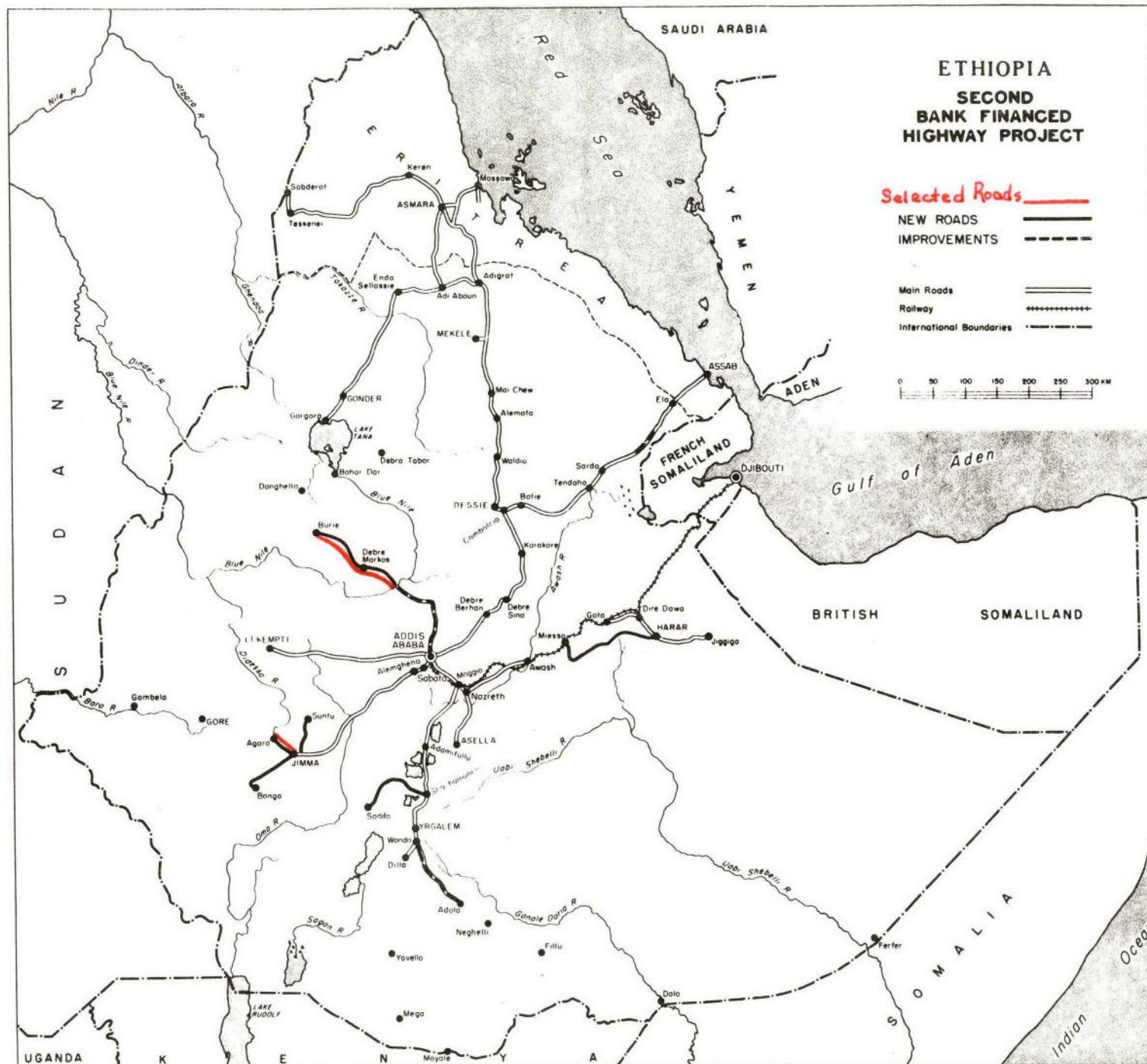
6. Costs and Schedules of Selected Roads.

- a) Forecast and actual costs. Reasons for cost overruns.
- b) Forecast and actual construction schedules. Reasons for delays.
- c) Disbursements

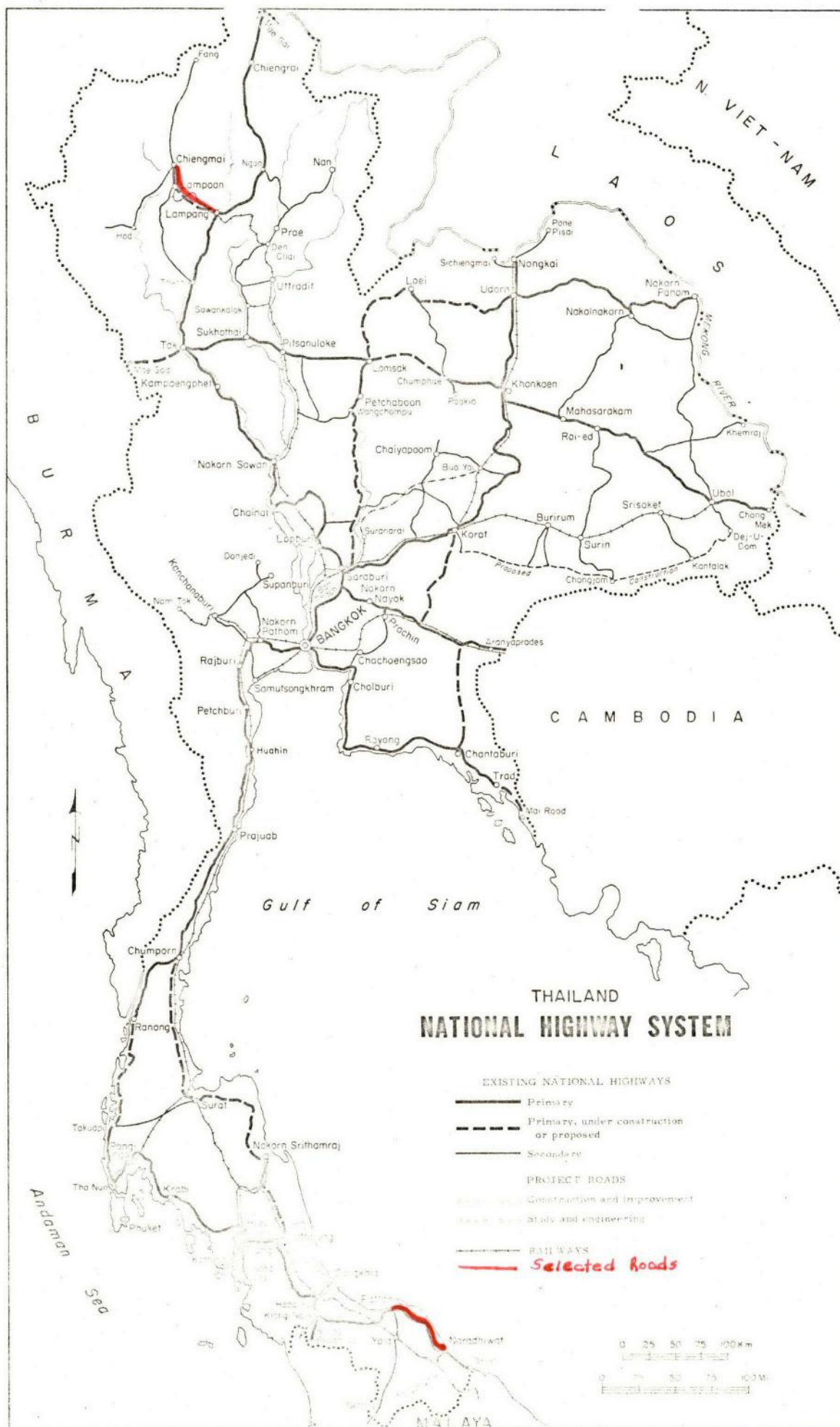
7. Direct Benefits of Selected Roads

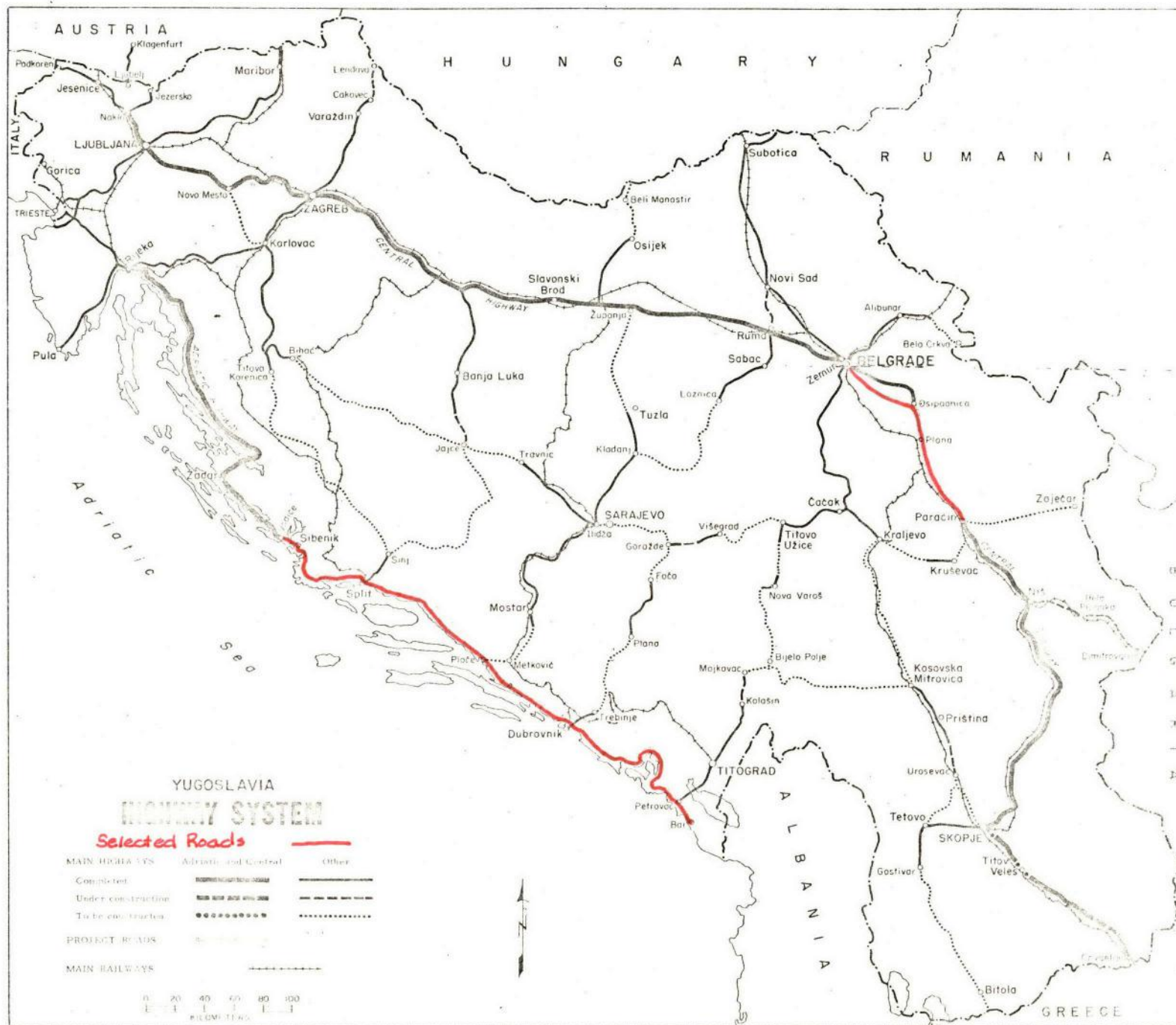
- a) Traffic evolution
- b) Savings in vehicle operating costs and road maintenance
- c) Time savings and reduced losses.
- d) Benefit - Cost Analysis

8. Development Impact of Selected Roads
 - a) Description of the road's area of influence
 - b) Increases in production attributable to the road
(unused resources and better use of existing resources)
Impact on employment and balance of payments
 - c) Reasons that reduced the road's potential impact.
Bottlenecks in other sectors. Institutional rigidities.
 - d) Comprehensive benefit-cost analysis
9. Distribution of Benefits for selected roads.
 - a) Proportion of benefits passed to the user
 - b) Proportion of benefits presumably received by producers and consumers
 - c) Influence of marketing
10. Competition of selected roads with railways (when applicable)
 - a) Traffic diverted from rail to road
 - b) Impact of traffic diversion on total transport costs.
11. Impact of the project (Bank) on institutional development
12. Impact of Loan Conditions
 - a) Conditions related to institutional improvement.
measurement of their actual impact.
 - b) Conditions related to road maintenance
 - c) Conditions related to procurement methods.
 - d) Others (See each case)









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ANNEX 1

THE 10 PRE-SELECTED HIGHWAY PROJECTS

	ARGENTINA	COSTA RICA	ECUADOR	ETHIOPIA *	INDIA	IRAN	LIBERIA	MEXICO *	THAILAND *	YUGOSLAVIA *
A. Bank's Participation in Highway Sector:										
1. Number of Loans	3	2	3	4	1	5	1	6	4	5
2. Total Amount of Loans ^{a/}	141.0	26.7	40.0	54.7	60.0	173.0	4.25	176.8	123.0	150.0
B. Pre-Selected Highway Project:										
1. Basic Data	1st	1st	2nd	2nd	1st	2nd	1st	1st	1st	1st
Loan (or Credit) Number	288-AR	299-CR	176-EC	166-ET	(3-IN)	381-IRN	368-LBR	268-ME	341-TH	344-YU
Date of Loan Agreement	JUN 61	OCT 61	SEP 57	JUN 57	JUN 61	JUN 64	JAN 64	OCT 60	JUN 63	JUN 63
Effective Date	JAN 62	MAY 62	JAN 58	DEC 57	AUG 61	NOV 64	MAR 64	SEP 61	JUL 63	NOV 63
Original Closing Date	DEC 65	APR 65	DEC 61	JUN 61	MAR 65	MAR 68	JUN 67	MAR 65	JUN 68	JUL 66
Actual Closing Date	FEB 69	DEC 67	JUN 63	JUN 64	JUN 67	SEP 69	JUN 69	DEC 66	APR 69	JUL 66
Date of Completion of Project	FEB 69	JUN 71	FEB 69	MAR 66	DEC 67	SEP 69	MAY 69	DEC 68	SEP 69	JUL 66
Original Amount of Loan ^{a/}	48.5	11.0 ^{b/}	14.5	15.0	60.0	18.5	3.25	25.0	35.0	35.0
Amount Cancelled (or Supplement) ^{a/c/}	17.5	0.95	0.0	0.0	0.53	1.8	(1.0)	0.125	13.1	0.0
Original Cost Estimate ^{a/} of Project ^{c/}	110.0	16.7	32.1	37.8	77.0	44.2	4.55	68.6	62.6	98.0
Actual Cost of Project	n.a.	n.a.	n.a.	n.a.	104.0	n.a.	7.0	87.5	n.a.	100.0
2. Project Roads (Appraisal Report)										
Number of roads	10	15	4	8	7	4	2	13	3	2
Total length (Km)	2,600	670	525	1,200	1,050	680	100	3,150	630	590
Main Objectives - Justification:	improvement of existing roads - savings in operating costs.	improvement of existing roads - savings in operating costs.	improvement of existing roads plus opening up of fertile land.	opening up areas with large agri-cultural potential.	improvement of the national highway system.	maintenance savings and reductions in operating costs due to upgradings and shortened distances.	80 km new road to develop a logging area - 20 km new road to shorten distances in major rubber area.	improvement and extension of the Federal Highway System.	savings in operating costs and stimulus to agricultural production.	completion of the two most important high-ways - Adriatic and Central.
3. Implementation (Supervision Reports)										
Overall delay (years)	3	6	7	5	3	1½	2	4	1	0
Major changes:	due to shortage of local funds, 800 km were cancelled from the Project.	program reduced to 510 km.	the completion of the 4 roads was included in the 3rd project.	replacement of 3 project roads by the lengthening of 1.	35% cost increases.	cancellation of one project road.	50% cost increases - no logging by the area's concessionaire.	27% cost increases - addition of 8 access roads (110 km).	program reduced to 330 Km.	no major changes.
4. Common Points of Interest (XXX)										
Design Standards			XXX	XXX			XXX			
Procurement and Construction Method	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Traffic Counts and Composition	XXX			XXX	XXX	XXX		XXX	XXX	XXX
Trucking Industry				XXX		XXX		XXX	XXX	XXX
Rail Competition	XXX	XXX			XXX	XXX		XXX	XXX	XXX
Development Benefits			XXX	XXX	XXX		XXX	XXX	XXX	XXX

a/ All amounts are in millions of US dollars.

b/ Of which US\$ 5.5 million from IDA (Credit 10-CR)

c/ Including contingencies.

Note: 26 Bank Highway Projects met the criterion of selecting only "trunk road projects signed before FY 65 and one per country." The above 10 projects were pre-selected after eliminating the 16 others on "country" grounds (relationship with Bank and geographic distribution). These 16 projects were in the following countries: Chile, Colombia, Congo K, El Salvador, Guatemala, Honduras, Israel, Nicaragua, Niger, Pakistan, Panama, Paraguay, Peru, Spain, Tanzania and Uruguay.

Source: Appraisal and Supervision Reports.

*These are the four highway projects selected, on which further details are given in Annexes 2 and 3.

THE 4 SELECTED HIGHWAY PROJECTS

	ETHIOPIA	MEXICO	THAILAND	YUGOSLAVIA
A. Country Basic Data				
1. 1970 Population (million)	25	59.5	37.7	20.5
2. 1970 GNP per capita (US \$)	63 ^{a/}	654	150 ^{a/}	625
3. 1961-65 GDP annual average growth ^{b/}	4.4	7.6	7.3	7.1
4. 1966-70 GDP annual average growth ^{b/}	4.5 ^{c/}	6.9	8.9	4.6
5. 1970 Manufacturing output (% GDP)	12.0	19.9	14.8	32.3
B. Bank Participation in Transport Sector ^{d/}				
1. Highways: number of loans ^{e/}	4	6	4	5
amount (US \$ million)	54.7	176.8	123.0	150.0
2. Railways: number of loans	-	1	3	3
amount (US \$ million)	-	61.0	37.0	155.0
3. Ports: number of loans	-	-	3	-
amount (US \$ million)	-	-	23.0	-
C. Selected Highway Project: Main Components ^{f/}				
	166-ET	268-ME	341-TH	344-YU
1. Road construction and improvement	construction of new all-weather roads (850 Km) and improvement of existing ones (350 Km)	construction of new Federal highways (2,700 Km) and reconstruction of existing ones (450 Km)	construction of new primary national roads (78 Km) and improvement of existing ones (550 Km)	completion of the Adriatic Highway (420 Km) and the Central Highway (170 Km)
2. Road maintenance	maintenance of the highway system during 3 years	maintenance of the project roads	purchase of maintenance equipment	-
3. Detailed studies	survey and engineering of 1,000 Km of roads	-	engineering and economic studies of 1,034 Km of roads	-
4. Training of Staff of the Department of Highways	training of Ethiopian staff	-	training of Thai staff	-
D. Selected Highway Project: Government's Agreements				
1. "Standard" agreements	to award all construction contracts through international competitive bidding, to build roads to design standards satisfactory to the Bank, to promptly provide or cause to be provided adequate local financing, and to employ consultants satisfactory to the Bank			
2. Organization and Management	to cause IHA ^{g/} to have organization and management such as to carry out the project efficiently	-	to reorganize the Department of Highways along the lines of the PAS ^{h/} recommendations	-
3. Road Use and Maintenance	to maintain fully and adequately all national roads at all times after 1960, and to adopt and enforce appropriate motor vehicle regulations	-	to appoint consulting engineers acceptable to the Bank to help draw up and implement an adequate future highway maintenance program	to maintain and repair the project roads adequately and to ensure their proper use
4. Others	to postpone or eliminate first, if necessary, the road Shashamanna - Soddo as being of lower priority than the others	-	to arrange for the collection of statistics relevant to the economic and technical aspects of the 8 - year highway development program	-

^{a/} 1969^{b/} in constant prices^{c/} 1966-69^{d/} as of June 30, 1971^{e/} of which 2 credits from IDA amounting to US \$ 21.2 million^{f/} original components (at the end of the negotiations)^{g/} IHA (Imperial Highway Authority) was created under the first highway loan to Ethiopia (1950); the third highway project (1963) provided for consultants' services, and the fourth highway project (1967) required the reorganization of IHA according to those consultants' recommendations.^{h/} PAS (Public Administration Service) is an U.S. consulting firm, which made a study of the organization and administration of the Thai Department of Highways, under the auspices of USAID in 1962.

SELECTED PROJECT ROADS

	ETHIOPIA		MEXICO		THAILAND		YUGOSLAVIA	
	BLUE NILE -BURIE	JIMMA -AGARO	PINOTEPA ESCONDIDO	COMPOSTELA -VALLARTA	CHIENGMAI LAMPANG	PATTANI -NARADHIWAT	VODICE -BAR	BELGRADE -PARACIN
A. BASIC DATA								
1. Date of Beginning of Works	DEC 60 a/	DEC 60 a/	SEP 61	SEP 61	SEP 65	JAN 66	NOV 63	NOV 63
2. Date of Completion of Works	DEC 64	DEC 63	JAN 68 a/	DEC 68	SEP 69	FEB 68	JUL 66	DEC 65
3. Construction Time (Years)	4	3	6	7	4	2	3	2
4. Overall Delay (Years)	3	2	4	4	2	0	1/2	0
5. Original Cost Estimate b/ c/	4.07	0.68	3.60	4.96	15.39	n.a.	61.4	24.0
6. Actual Cost b/	n.a.	1.24	4.88	7.54	11.36	5.45	69.5	22.9
7. Length (Km)	207	44	143	131	105 d/	98	422	153
8. Width of Surfacing (m)	6.0	6.0	5.5	6.1	6.5 d/	6.5	7.0	7.5
9. Width of Embankment (m)	8.0	8.0	7.0	8.0	11.5 d/	11.5	9.0	10.0
10. Design Speed on Flat (Km/h)	n.a.	n.a.	50	60	90	90	75	100
11. Loan Number	166-ET		268-ME		341-TH		344-YU	
B. JUSTIFICATION (Appraisal Report)								
1. Direct Benefits	--	--	--	--	Savings in vehicle operating costs due to upgradings		road maintenance savings and reductions in vehicles operating costs due to upgradings	
2. Development Benefits	Increased agricultural production (oilseeds, grain, pulses, hides and skins, some coffee and cotton)	Increased coffee exports	Increased agricultural production (corn,sesame, fruits)	Increased agricultural and livestock production (corn, beef)	Increased production of cash crops, livestock and timber	Increased rubber output	Increased agricultural and industrial production tourism promotion	promotion of exports and tourism
3. Economic Rate of Return (Only Direct Benefits)	--	--	--	--	9% Chiengmai-Lampoon(27Km)	17%	11%	15%
C. IMPLEMENTATION								
1. Contractors	IMPRESIT e/ (Italy)	SOLEL BONEH (Israel)	various local contractors		VIANINI (Italy) MAEDA(Japan) MAHATHAI(Thailand)	HYUN DAI (Thailand)	various local contractors	
2. Main Reasons for delays	Soil movements (Viaduct)	Shortage of crushed stones	Increases in earthwork quantities and heavy damages caused by cyclones		poor performance of MAHATHAI	-	-	-
D. PARTICULAR POINTS OF INTEREST								
	IHA's f/ new Board (1958) shifted the emphasis of the Project from the Jimma area to the Burie area: the Burie Road was extended to Lake Tana and Gondar.	upgrading from gravel to paved under 4th project in 1967	Influence of the near highly developed area of Acapulco	extension from Vallarta to Barra de Navidad (22Km) under 4th Project in 1970	Competition of the new road Lampoon-Lampang(78Km) with a parallel railway line	improvement of the road Sangkhla-Pattani deleted from the project	impact on balance of payments	Competition with parallel railway line

a/ Only Approximate Data

b/ Amounts in million of US dollars equivalent (using exchange rates at the time of the appraisal - during the project implementation only the Yugoslav currency was devalued)

c/ Excluding contingencies

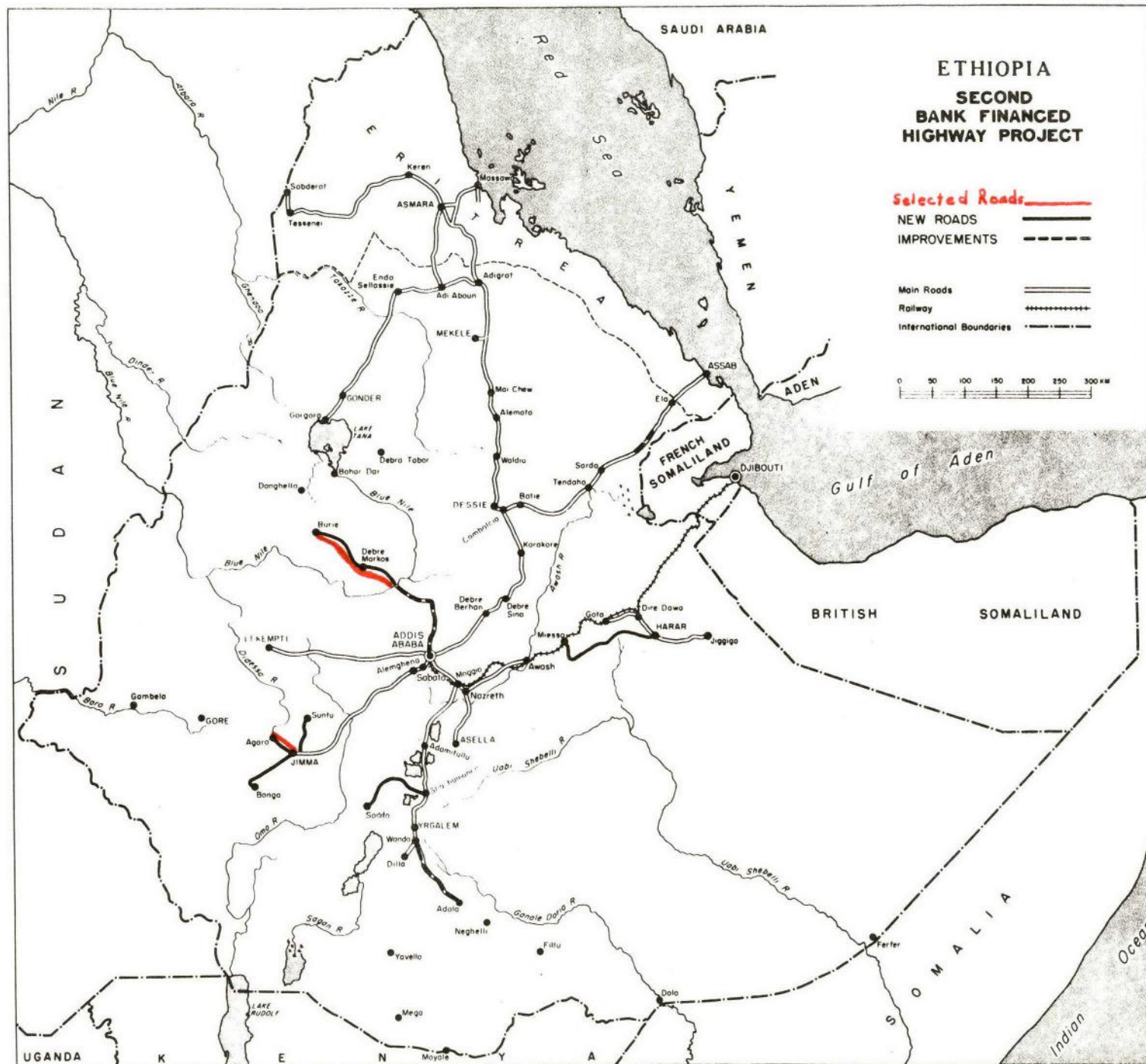
d/ The Section Chiengmai-Lampoon (27 Km) has slightly higher standards

e/ Only the Blue Nile Gorge Road (39 Km) was built by IMPRESIT; the remaining was built by IHA's own forces

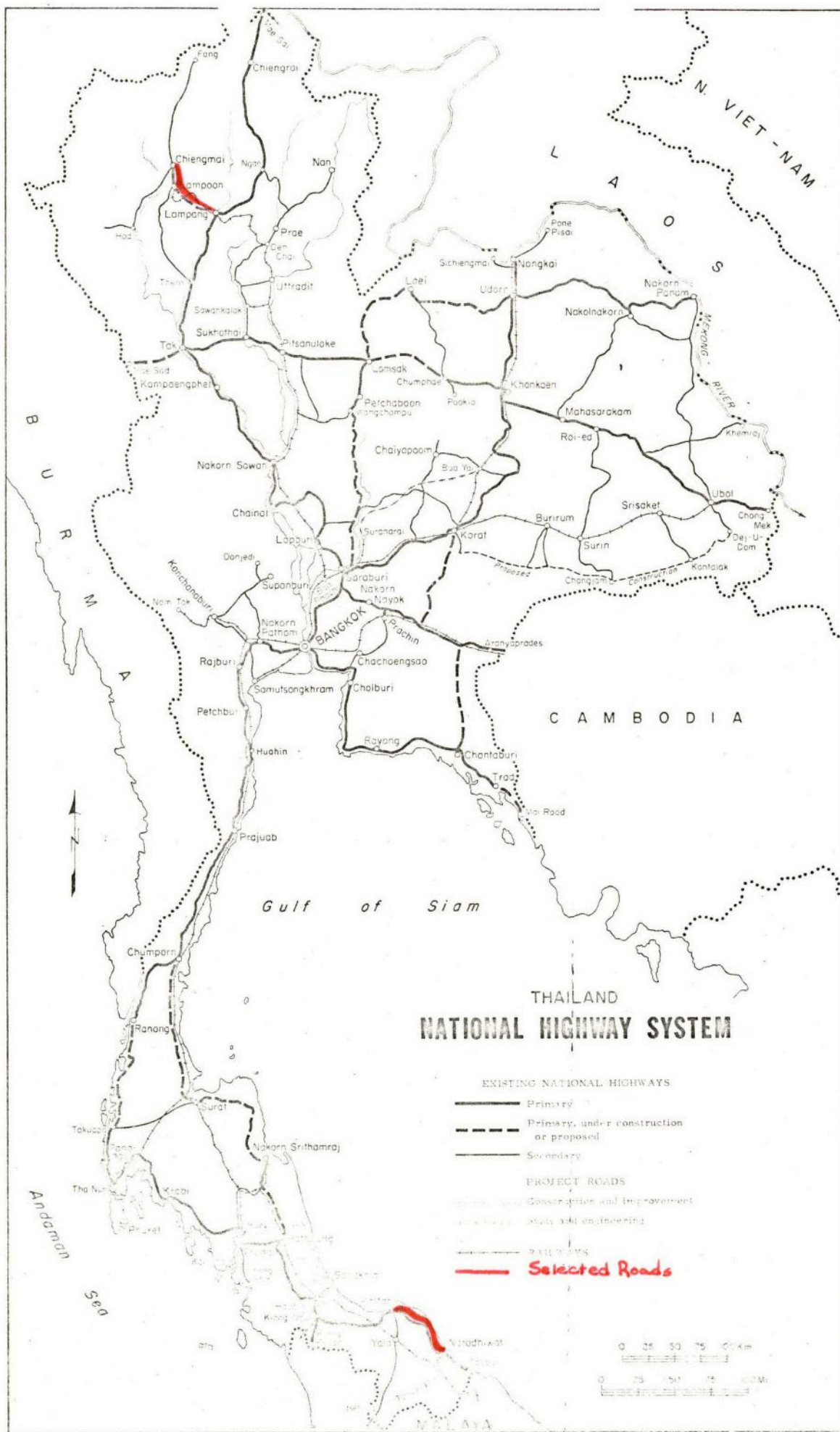
f/ Imperial Highway Authority

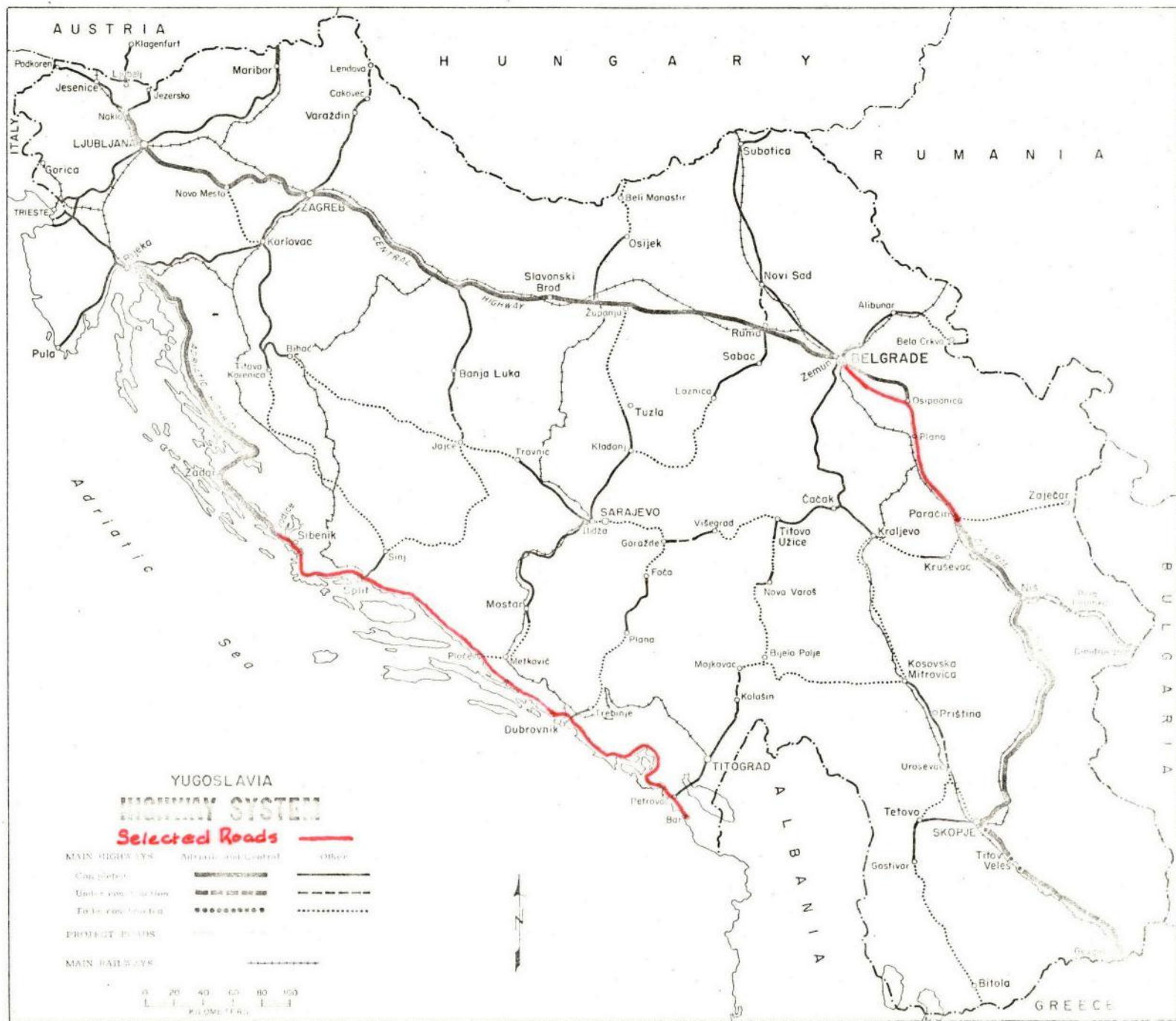
-- No direct benefits mentioned in the Appraisal Report

Source: Appraisal and Supervision Reports









OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

DATE: October 7, 1971

FROM: C. R. Willoughby *CRW.*SUBJECT: Progress in Operations Evaluation Work

At the discussion which we had following the Turkey CPP meeting a few weeks ago I promised to send you a memo about progress in the operations evaluation work and especially about the ten-company power report once my colleague Mr. Ettori had returned from vacation and we saw more clearly the amount of work involved and the progress on the Colombian power studies.

Mr. Ettori has now been back a few days and in touch with the Projects Departments about his report; the Colombian power report is more advanced; and almost all the rest of the Colombian report is accomplished. Hence we have been able to review much more precisely the prospects ahead of us.

As I mentioned at the P & B meeting yesterday afternoon five volumes of the eight-volume Colombia Report are already back from the Print Shop and 13 of the 14 chapters of the Main Report (Volume I) are in final draft or very close to final draft. The Agriculture Volume of the Colombia report is also practically ready for sending to the Print Shop. The remaining difficulty is over the Power Volume and the power chapter of the Colombia report; extensive drafts of both exist, with a lot of good work put into them, but there is still a couple of weeks' work required to finalize them. I had done my best to supplement the staff devoted to this work, so as to expedite it, but, as you can appreciate, my scope for doing this has been very limited because everybody has been fully committed for the past months completing their own parts of the Colombia report. With most of the volumes now done this problem is receding.

I have carefully reassessed the situation on power with my colleagues in light of progress to date and foreseeable requirements for revision and other problems, and I have decided that the best schedule for delivery of reports to you would be: —

- Nov. 1 - Colombia, in all eight volumes
- Nov. 30 - Power, covering ten companies (including Mexico and three Colombian companies) and other chapters on special topics, particularly the Colombian Interconnection

Until today I had hoped to bring both reports somewhat earlier than the stated dates but it is clear that, to allow adequate time for each of the

President has seen

components of the Power report and for printing it, a reasonable but still quite tight target for completion would be November 30. As regards Colombia I could get it out somewhat earlier but I have decided that it would be much more sensible for me to devote the whole of next week to the power chapter rather than to push the latter through in a hurry. The work done, as I said, is good but it needs tying together and firming up.

The above schedule does assume that my colleagues on the power work will not be diverted by extensive discussions ensuing upon publication of the Colombian report. I think this is a reasonable assumption since the power part of the Colombia report will probably be one of the least controversial. However I hope that I myself will not be too diverted by such discussions either, since the schedule does assume that I would put most of my own time between now and November 30 into power, for Colombia and for the Power Report itself.

I plan to assign staff who cannot help on the Power Report to the small comparative highways study which we are just starting. This would be a study focussing on (a) actual rate of return on the highway and usefulness of loan conditions and (b) development benefits and transport industry structure. It is being planned in close collaboration with the Transportation Projects Department and is envisaged to cover some four or five countries and an average of two highways in each. I would hope to come with a full-scale proposal around the time of delivery to you of the Colombia report.

There is one substantive point regarding Colombia on which I would like to take the opportunity of commenting. I understand that the Colombian Government has requested a large program loan and that consideration is being given to this request. I have not studied the details of the request or the merits of the specific case for such a loan at this particular moment in time. However I feel I should point out that the general tenor of our report and its recommendations is likely to be highly adverse to this mode of lending in Colombia (except in the special circumstances of 1957-58 which do not seem to be paralleled now). You will recall that one of the questions to be answered in our study was:

Could the institutional and policy improvements in which the Bank participated have been attained equally with program lending combined with sectoral and other technical assistance?

This is a difficult question to answer, but our overall conclusion is that, despite all the mistakes made, the answer is clearly negative; and could be even more so in the future with adoption of some of the recommendations we make. Basically we feel that institutional and structural obstacles have been and remain the prime effective constraints to Colombian development, and that the type of conditions that are normally attached to program loans cannot deal very effectively with these constraints. Also our studies give rise to certain concerns about the real contribution to Colombian investment, and about the efficiency of allocation, of those Bank loans most closely approximating program loans in many respects -- the loans which have been made to provide credit to the private sector (agriculture and industry). I do not want to go beyond these remarks at the present stage because we are still finalizing our conclusions and some emphases might change, but I did feel that I should draw to your attention the trend of our thinking and our drafts. On November 1 you should receive a fully elaborated presentation of our complete case.

cc; Mr. Knapp
Mr. Aldewereld
Mr. Adler
Mr. Blaxall

MEMORANDUM FOR THE RECORD

Messrs. McNamara, Knapp, Aldewereld, Chenery, Cope and Chadenet met with Mr. Willoughby on September 16 to hear Mr. Willoughby's report on progress in finalizing the two evaluation reports currently in process in his unit (Colombia's development performance and selected Bank-financed power projects). It was agreed that:

- (a) Mr. Willoughby would prepare a revised time schedule for the completion of these two reports and send copies of it to all present at the meeting (schedule expected to be ready by October 7).
- (b) The final report should be read very carefully by the above to judge whether member governments could have access to the reports.
- (c) Thereafter Mr. McNamara would wish to receive advice from those present as to what work program Mr. Willoughby should undertake next.

LEC
September 23, 1971



Record Removal Notice

The World Bank Group
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& Records Management

File Title Operations Evaluation - Memoranda to Mr. McNamara		Barcode No. 30069309		
Document Date 17 August, 1971	Document Type Letter			
Correspondents / Participants To : Dr. Virgilio Barco From : C. R. Willoughby				
Subject / Title Seeking comments on a report on Colombia				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Vlada Alekankina</td><td>Date 31-Aug-12</td></tr></table>	Withdrawn by Vlada Alekankina	Date 31-Aug-12
Withdrawn by Vlada Alekankina	Date 31-Aug-12			

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

FROM: C. R. Willoughby *CRW*

SUBJECT: Attached Letter from Dr. Virgilio Barco

DATE: August 10, 1971

I attach a copy of a letter received today from Dr. Virgilio Barco, which John Adler and I have discussed and feel we ought to draw to your attention. Yesterday I had lunch, at his suggestion, with Sam Yohai, a young Colombian who was until recently head of the Government's Accion Comunal program and is now a Young Professional assigned to Special Projects Department. Mr. Yohai, who I had met once in Colombia, said that he had been in contact with Dr. Barco, and that it had been agreed between them that Yohai would warn me possibly to expect a letter such as the attached from Dr. Barco before his departure for Bogota tomorrow. Yohai also led me to understand that Dr. Barco's main concern had been and remains to protect his own political position in Colombia, especially important in the fluid political situation now existing there. This was all based on the assumptions that (a) the gist of our report would certainly leak out and (b) the report might be quite critical, especially, by implication, of Liberal Governments who are claimed to have been the main borrowers from the Bank.

I have not myself been in contact with Dr. Barco over the last few months. Early in our effort I consulted him several times regarding contacts and his suggestions about points we should examine. I took to heart his viewpoint, reiterated at the Board, that the evaluation effort should be ruthlessly objective. I sent him, at one point — in February or March — a note I had written raising questions about the effect of the Bank's operations in Bogota, thinking that, as a former Mayor, he would be interested and anxious to follow up his earlier suggestions of commenting on our plans. He promised a reply, but I received none. Since then, it appears, according to Yohai, as though the only thing that Dr. Barco had heard about our study is certain gossip, partly fallacious, about the views of our man studying the agricultural projects. This gossip, implying views not based on fact, may be the other principal reason for Dr. Barco's disquiet.

I don't think there is anything in this to be very concerned about, though it would seem to re-emphasize the need for (a) the strict confidentiality we have been following and (b) releasing eventually as much as possible, but only when we have had your approval and are ready. I plan to reply to Dr. Barco simply by thanking him for his letter and for his earlier help on contacts and saying that I understand his desire not to be attributed any responsibility for our report, which I hope he will yet find interesting and useful. I do not plan to disabuse Dr. Barco about the gossip.

cc: Mr. Adler

President has seen



Record Removal Notice

World Bank Group
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& Records Management

File Title Operations Evaluation - Memoranda to Mr. McNamara		Barcode No. 30069309		
Document Date 09 August, 1971	Document Type Letter			
Correspondents / Participants To : Mr. Christopher R. Willoughby From : Dr. Virgilio Barco				
Subject / Title Declining to give comments on a report about Colombia				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Vlada Alekankina</td><td>Date 31-Aug-12</td></tr></table>	Withdrawn by Vlada Alekankina	Date 31-Aug-12
Withdrawn by Vlada Alekankina	Date 31-Aug-12			

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

DATE: July 29, 1971

FROM: C. R. Willoughby *CRW*

SUBJECT: Progress in Power Aspects of Evaluation Work and a Proposed Further Report.

After the meeting which we had on the afternoon of Tuesday, July 27 with John Adler you called me in part to draw the contrast between statements I had made at the meeting and those I had made in a memo dated March 25, 1971. At the meeting I said that we hoped to deliver to you by mid-August a good draft report on IBRD lending to six power utilities, including a chapter on each company, an Introduction and a Conclusions. I also said that it would take at least until October 31, 1971 to prepare a report evaluating the Bank's past work in the electric power field on the basis of experience with loans to ten power companies. By contrast, in the memo of March 25, I said that we were hoping to complete by June 30, 1971 a report on the growth of some ten "selected power utility companies since they began to receive IBRD assistance, including aspects such as problems of overruns on construction periods and costs, trends in self-financing, technical assistance provided by IBRD, and trends in management efficiency as summarized by certain indicators."

My statements of Tuesday afternoon were based on a number of developments since late March which I feel I should note and also on differences between the report described in my memo of March 25 (and more fully in my memo of November 25, 1970) and that which I understood you to be requesting Tuesday afternoon. Early in May we had a conversation in which I reported to you on the progress of our evaluation work, focussing mainly on the various Colombian project studies. In the course of that meeting I mentioned the considerable difficulties that we had had in gathering some of the simplest information (eg. about actual vs. forecast costs) for some of the Colombian power projects and I also referred to the difficulties that had arisen in the experiment we had been making, principally in connection with the Colombian power studies, of cooperating closely with the Colombian National Planning Department and doing joint studies with them based on their computer programs. Joint studies with Colombian entities had been an approach to evaluation which we had wanted to test and which I had mentioned in my earlier presentations to you and to the Board. But they were causing certain delays (and have continued to do so) and I then said that my first measure to cope with these delays was to concentrate efforts on the full analysis for purposes of the Colombian report and to defer from our program the more limited presentation of certain of the results that we had originally envisaged for inclusion in the report on the cross-country power study. I understood that I had your agreement to this procedure and so, although we have

July 29, 1971

continued in the Colombian work to prepare tables similar to those being used in the cross-country power study, we have been bending all our efforts to complete, as two separate exercises, the power volume of the Colombian Evaluation Study on the one hand and the report on the cross-country study, of more limited scope, on the other. We were aiming to complete both, along with all the rest of the Colombian study, by July 31st, the overrun date you kindly consented to at our meeting early in May. These arrangements were recorded in the note of which I sent you a copy, in lieu of a progress report, on June 21 (attached) and which I received back with a note to the effect you had seen it; the last paragraph refers specifically to the cross-country power report. (Some details of the Colombian report composition have subsequently been modified, but the note still gives a correct impression of the thoroughness, significance, heavy project concentration, breadth and depth of understanding, which we are attempting, with a view to producing a document that is unrestrainedly critical where necessary and nevertheless presentable outside; when it says "the transport sector" or other sectors, it refers of course to IBRD activities in connection with that sector, against the background of the overall development of the sector.)

During the month of July it became apparent that we would not be able to meet our deadline of July 31 for all reports. As regards the cross-country power study, we would almost meet it, but only by postponing completion of the highly complex Mexican case until after summer leave for Mr. Ettori who had been working extremely hard on the study despite sickness. I discussed this with John Adler and we agreed that, in view of your desire to get a good report as early as possible, it would be best to concentrate effort on completion of a full report (including Introduction and Conclusions) on the six remaining power companies by July 31 or as soon after that as possible, and to leave Mexico for addition later. This we hope still to fulfil, by delivering to you a good draft report on the six companies by mid-August.

During July we also ran into difficulties in connection with Colombia and it became clear that, particularly in respect of the overall analyses and integrating chapters for which I myself am largely responsible and the power studies, we would run substantially over July 31. Family obligations in England then called me away, as you know. Consequently I had to report to you Tuesday afternoon that we would unfortunately need further extension of time. We wanted to try to complete a really good but truly difficult draft Colombian report by August 31; some volumes could be ready earlier but we would prefer to present the whole report to you simultaneously.

So much for the delays, which certainly called for explanation.

As regards the more important issue for the future of the nature of the reports to be produced I understand that you would like to treat the six-company evaluation due mid-August as an interim report and to receive a report on ten companies, approaching an overall evaluation of the Bank's work in electric power, as soon as possible thereafter, without however interrupting either completion of work on the present Colombia program or vacations.

Where I had envisaged the report on ten companies (subsequently reduced to six, with the later addition of Mexico, making seven) as a study of selected power companies designed to answer the question "whether our funds were well spent in the sense of whether they were spent to the ends for which the Board approved the loans and credits in question" (original proposal of November 25, 1970), I understand that you would now like to have a report definitely on ten companies, focussing still on the individual projects for which the Bank has loaned, but attempting to be an overall evaluation of past IBRD work on power. I list below the ten companies, of which the first six are those on which you should receive draft chapters shortly. The list also shows the number of projects for which disbursements are completed or nearly completed, the amount of the related loan commitments and disbursements, as well as the total number of loans and amount of commitments made to each company.

The ten companies will account for: 20% of total number of power loans and credits committed through December 31, 1970, 35% of total dollar amount of such lending, 19% of total number of power loans/credits fully or nearly full disbursed through December 31, 1970 and 35% of disbursements on such loan/credits. In other words the total sample will account for about one-fifth of the total number of loans and credits for electric power and slightly more than one-third of the total amount of loans and credits for power. Relative to all loans and credits for power to developing countries (IDA Part II) the sample accounts for a little over one-fifth in terms of numbers and about two-fifths in terms of amounts. The average size of project included in the sample is much greater than the average size of all Bank power projects; the sample was never selected with a view to being representative in this sense, but rather, reasonably representative of companies with which the Bank had been connected in an important way in different parts of the world.

The projects susceptible to evaluation are the 28 fully or nearly fully disbursed. However aspects such as broad company performance, general Bank contributions to development and company adherence to Loan Covenants

Table 1

IBRD Power Lending to Ten Companies Selected for
Evaluation and Total IBRD/IDA Power Lending

<u>Company</u>	<u>Loans for "Projects" Completed</u>			<u>All Power Loans Through 12/31/70</u>	
	<u>No. of Loans</u>	<u>Tot.Amt.a/ of Loans</u>	<u>Disbursements Through 12/31/70</u>	<u>No.</u>	<u>Total Amount a/</u>
Brazil-Furnas	2	130.0	125.2	5	271.3
Ghana-Volta	1	47.0	47.0	2	53.0
Singapore-PUB	3	38.9	37.6	4	59.4
Malaysia-NEB	3	111.2	105.4	5	142.7
Ethiopia-EELPA	1	23.5	23.5	2	46.6
Argentina-SEGBA	<u>2</u>	<u>144.4</u>	<u>144.4</u>	<u>3</u>	<u>204.4</u>
Sub-Total	12	495.0	483.1	21	777.4
Mexico-CFE	6	417.8	411.0	7	542.8
Bogota-EEEB	2	67.6	67.6	3	85.6
Medellin-EPM	3	73.0	67.9	3	73.0
Cali-CVC/Chidral	<u>5</u>	<u>44.6</u>	<u>44.6</u>	<u>5</u>	<u>44.6</u>
Grand Total	28	1,098.0	1,074.2	39	1,523.4
<u>Total IBRD/IDA Lending:</u>					
IBRD	139	3,008.1	2,917.1	181	4,188.7
IDA	9	108.7	104.6	14	164.9
Total	<u>148</u>	<u>3,116.8</u>	<u>3,021.7</u>	<u>195</u>	<u>4,353.6</u>
<u>Total IBRD/IDA Lending to Part II Countries:</u>					
IBRD	119	2,517.5	2,426.5	161	3,698.1
IDA	9	108.7	104.6	14	164.9
Total	<u>128</u>	<u>2,626.2</u>	<u>2,531.1</u>	<u>175</u>	<u>3,863.0</u>

a/ net of cancellations.

can be considered in relation to all the 39 loans made to the companies listed. Because of the program nature of the Mexican loans it will probably not be possible to treat each of the generation and transmission projects which the Bank has helped to finance there in quite the same degree of detail as for the other companies.

As regards the coverage of the various companies, each of the ten would be dealt with from the following points of view:

- costs of completed or nearly completed projects supported by the Bank, actual versus forecast
- unit cost of generation equipment procured with Bank funds, with some comparison with costs of equipment procured under other financing in some instances
- construction schedules of completed or nearly completed projects supported and construction schedules
- adherence to Loan Agreement covenants
- Company financial performance and some indicators of management efficiency (eg. trends in distribution losses, sales per employee, self-financing, financial rate of return, receivables as percent of billings)
- major institutional and organizational developments and role of of Bank or Bank-supported consultants therein
- demand and energy sales, forecast versus actual; was the power generated by the IBRD-supported projects saleable?
- any other issues of outstanding importance in particular cases, eg. ecological, rural electrification, joint financing.

All of these issues will be dealt with alike for all companies covered, though perhaps in somewhat greater depth and with more background in the case of the three Colombian companies.

In addition, the chapters on the Colombian companies would take up, to some extent, three additional issues, on an illustrative basis:

- tariff structures — an important aspect of utility performance, although not a matter of much Bank interest in the past.
- alternatives to Bank-financed projects: did the generation/transmission projects supported by the Bank in fact turn out, in light of actual costs, construction schedules and load growth, to be probably the cheapest way of meeting the demand that materialized?

Balance of investment allocation in a region or country: urban versus rural power, power versus other services in a city.

In connection with Colombia, we would also hope to make a few illustrative comments and calculations on the costs of industrial self-generation, in some cases an important and expensive alternative to Bank-supported public power supply.

In addition to the ten chapters on each of the individual utilities, with supporting standard tables, maps and charts, we would propose to include one chapter, of quite different, more political and less quantitative nature, on the negotiations leading up to the creation of the Colombian Interconnection Company and the granting of Bank loans to that Company. As you know, the Bank played a very major role in the formation of this Company, and we feel it is a good illustration of some of the best of Bank institution-building efforts.

Finally, all of these eleven specific chapters will be sandwiched between an Introduction placing Bank assistance for electric power development in the developing countries over the 22 years ending December 31, 1970 in world-wide context and the particular companies selected for evaluation in a Bank-wide context, and a Conclusion chapter about the overall accomplishments of Bank power lending and its strengths and weaknesses as visible from the sample of companies selected.

My colleagues and I have formulated this program and gone over it together and we have concluded that it would be reasonable to shoot for a deadline of October 31, 1971 for submission to you of a draft report along the lines described. This allows for interim completion of the Colombian report — early in September — and vacation plans — and some 13 manweeks of professional staff-time to prepare this specific Power Report.

I hope that the first part of this note clarifies the evolution of part of our experimental program over the past few months and the second part will be a record of understanding of our commitment. I would appreciate your comments on the content and nature of the new proposed Power Report so that we may bring it as completely into line with your wishes as we can.

With your approval, I propose to put my colleagues, as they become free from other assignments and have had a few days of compensatory leave,

July 29, 1971

to work on cross-country project evaluations in the fields of highways and telecommunications. With respect to the highways I suspect that from the point of view of internal learning and help to Bank policy it might be more useful to put our next transport effort into railways projects around the world rather than highways projects; this is certainly the view of our transport specialist and I have reasons to expect it might be the view of the Transportation Projects Department. Our analyses of the Colombian Railways projects have yielded highly interesting results, relating to both the economic and institution-building sides. These results are apparently being of some use in connection with further lending to Colombian Railways now under discussion. They relate to problems that are not uncommon in Railways lending. On the other hand, from the point of view of our own work and responsibilities, Highways projects have been a great deal more important than Railways in total past Bank lending. Moreover there are some issues of critical importance in connection with such projects: particularly construction standards (Bank standards too high?) and development benefits (adequately taken account of in assessing priorities among highways?). Consequently I plan for the immediate future a very selective program of investigation of highway projects, treating a very few projects in overall detail and with special reference to the above two issues in cases where they are relevant. This could yield a report on our total highways lending similar to that which we are now aiming at for power, but based on far fewer projects. I would appreciate your comments on, and approval of, these tentative ideas.

cc: Mr. John Adler

OFFICE MEMORANDUM

TO: Messrs. Israel, Marot, Faltas, Hexner,
Raphaeli & Roumani

DATE: June 21, 1971

FROM: C. R. Willoughby *CRW*

SUBJECT: Make-up of Draft Operations Evaluation Report on Colombia

I give below, subject to your comments and to any other changes, my current thinking about the volume numbering for the draft of the Operations Evaluation Report on Colombia that we are targetting for completion on July 31. I also give greater details than previously about the chapters of the General Report (Volume I), some of which will be based directly upon your own reports; the chapter layout is still fairly tentative.

Volume I - General Report

Approximate
No. of pages

3	Preface	
5	Introduction	
15	Chapter I	- The Setting (CRW)
20	Chapter II	- The Development Accomplished (CRW & Jim Wallar)
20	Chapter III	- The Development Issues (CRW & Jim Wallar)
5	Chapter IV	- The Role of Foreign Assistance (Luis Landau & CRW)
20	Chapter V	- The Role of the IBRD (Tomas Hexner & CRW)
15	Chapter VI	- The Transport Sector (Arturo Israel)
10	Chapter VII	- The Power Sector (Antoine Marot)
5	Chapter VIII	- The Paz del Rio Steel Mill (CRW)
6	Chapter IX	- The Corporaciones Financieras (Ediana Harahap & CRW)
10	Chapter X	- The Agricultural Sector (Nabil Faltas)
10	Chapter XI	- Institutional Development and the IBRD (Nimrod Raphaeli)
10	Chapter XII	- Urban Growth and the IBRD - main reference to water supply and to Bogota (Jacques Roumani & CRW)
5	Chapter XIII	- The Consultative Group (CRW)
20	Chapter XIV	- Conclusions (Tomas Hexner & CRW)
10	Chapter XV	- Summary Recommendations (Tomas Hexner & CRW)

Volume II - The Transport Sector (Arturo Israel, with Tomas Hexner, Leon Miller, Morris Miller, Marie-Noelle Mulin, Eleanor Levy)

Messrs. Israel, Marot, Faltas
Raphaeli & Roumani

- 2 -

June 21, 1971

- Volume II
Annex I - Technical Annexes, to be bound in a separate volume.
- Volume III - The Power Sector (Antoine Marot, with Arne Paulson)
- Volume IV - The Paz del Rio Steel Mill (Bernard Decaux, CRW and Jim Wallar)
- Volume V - The Corporaciones Financieras (Robert Repetto & Ediana Harahap)
- Volume VI - The Agricultural Sector (Nabil Faltas & Santiago Rueda)
- Volume VII - Institutional Development and the IBRD - main reference to transport and electric power (Nimrod Raphaeli & William Raiford)
- Volume VIII - Special Papers
 - A. The Role of the IBRD in Education (Eleanor Levy)
 - B. The Contribution of the IBRD to Urban Development (Jacques Roumani)
 - C. Public Health & Family Planning & the IBRD (Stanley Johnson)
 - D. Prices in the Operations Evaluation Study (CRW)

This does not refer to the other report, also targeted for completion by July 31, reviewing the role of the IBRD in some seven power companies around the world, and under preparation by François Ettori & Nick Anderson. That report will consist of an Introduction, a chapter about each power company and a Conclusion and Recommendations.

cc: Mr. McNamara (through Mr. J. H. Adler)
Mr. Adler
Mr. Blaxall

Messrs. Landau
Ettori
Paulson
Anderson
Wallar
Misses Levy
Mulin
Harahap

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

DATE: October 19, 1970

FROM: C. R. Willoughby *CRW*SUBJECT: Selection of Colombia as first country for study by Operations Evaluation Unit

Before you went away in September we had agreed on the advantages of taking a country with a diversity of Bank/IDA projects in the operating phase as the subject for the pilot phase of the new Operations Evaluation effort. We had not finally decided the country, although I had proposed East Africa (Kenya, Tanzania, Uganda) which you found acceptable and suggested I discuss further with Mr. Chadenet.

Discussion with Mr. Chadenet and Mr. Rovani and others led me to favor Colombia for the following principal reasons: ---

- a. The principal projects that are operational in Colombia --- in power and transportation --- are of considerable intrinsic interest, and we have had a major role, particularly through these projects, in the gradual integration of the country --- in face of strong regional loyalties, specially initially.
- b. We have been rather heavily involved in Colombia from the earliest days of the Bank's operations, and continuously in the electric power and transportation fields.
- c. A wealth of information is available in Washington, particularly following the recent major Economic Mission led by Mr. Avramovic, and with the presence in the Bank of a number of Colombians from the Planning Office.
- d. The proximity of the country is a decided advantage for the pilot phase of Operations Evaluation.
- e. My concern about Spanish (I read but do not speak) was allayed by Mr. Chadenet and Mr. Frost. The Bank's Resident Representative in Bogota, as well as the Planning Office should be able to help us.
- f. The fact that there are no Bank/IDA-financed agriculture or education projects in effective operation is a disadvantage but also an advantage in that it enables concentration of the difficult methodological effort required for the evaluation undertaking initially on the sectors with which we in the Bank as a whole are most familiar.

Mr. S. Aldewereld

- 2 -

October 19, 1970

Mr. Frost was visiting Colombia shortly after I spoke with him and he tells me he had a favorable response when he sounded out the Planning Office and some of the Power Companies on the idea of having the first effort there.

Since we have chosen Colombia specifically as a pilot phase for the Unit, from which we should learn a lot, we do not have firm plans for subsequent work. Assuming that the country-based approach does prove worthwhile we would presumably go on in the middle of next year to re-evaluate operations in further countries. Presumably we could double the effort to cover two countries simultaneously. No doubt it would be important to select countries having projects in education and agriculture at this stage.

CRW/lmh

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara, through Mr. J. H. Adler

FROM: C. R. Willoughby *CRW*

SUBJECT: Progress and Prospects for Operations Evaluation

DATE: March 25, 1971

1. I have arranged a meeting in your office to discuss the following report on Tuesday, March 30, from 2:45 p.m. to 3:15 p.m.

2. My last progress report was dated February 4. I have delayed preparation of the current report beyond the normal one-month interval partly because of absences from Washington, but more because work is proceeding fairly smoothly and problems requiring resolution have not arisen.

Power Sector Study

3. The cross-country power study finally got started on February 16, as expected in my last report. Mr. François Etti, who is in charge of the study, and his assistant are working very hard at it -- mostly on data collection within the Bank so far. Visits to utilities are starting now. We finally decided not to make the arrangements previously envisaged with outside consultants for additional assistance, but rather to concentrate effort on the collection and compilation of the minimum amount of information required to answer the question whether the direct purposes for which the loans and credits were made were achieved. There are naturally considerable problems in gathering even this minimum amount of information and making it reasonably comparable between companies, but these problems are being overcome as best they can.

4. Mr. Etti's report, targeted for June 30 completion, should cover the growth of selected power utility companies since they began to receive IBRD assistance, including aspects such as problems of overruns on construction periods and costs, trends in self-financing, technical assistance provided by IBRD, and trends in management efficiency as summarized by certain indicators. Assuming lags in the provision of data by the companies themselves are not too great, Mr. Etti should be able to cover the following countries: Brazil (Furnas only - 5 loans), Mexico (7 loans), Argentina (Segba only - 3 loans), Singapore (3 loans), Pakistan (Karachi only - 4 loans), Malaysia (5 loans), Ghana (2 loans) and Ethiopia (2 loans). All these companies have been contacted. In addition we plan a contribution to this report from our Colombian effort; this would probably cover at least two of the three principal power utilities to which we have made loans -- Bogota (3 loans), Medellin (3 loans) and Cali (5 loans). Thus in total some 36 Bank power 'projects' should be covered.

.2/

President has seen

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5. Inasmuch as there are considerable difficulties in collecting even some of the simplest comparative material required for this exercise -- such as on actual costs against expected costs -- so too the effort, if successful, should result in compilation of a rather unique set of material. As the report on the current phase of work nears completion in June it may well appear worthwhile to use this material as the basis for a second phase.

Colombia

6. As you know, our principal evaluation effort is of course going into Colombia, on which we hope to have a fairly comprehensive evaluation report by June 30. I have found the delimitation of effort to pre-1966 projects (Roads, Railways, Power and Steel-Mills), which I had envisaged earlier, increasingly artificial, and our effort is now to cover in effect all Bank-Colombia relations 1949-70, though still with considerably more economic work on the earlier projects since they are the main ones which have entered the operating stage. As of now principal economic effort is going into the railway projects (particularly Atlantico railroad), highway projects, electric power, Paz del Rio steel mill, the Corporaciones Financieras (DFCs) and the various agricultural projects. Major emphasis on the institution-building side is going into power (including tariff policy questions) and transport. At a more general level we are covering education, water supply and telecommunications and, of course, non-project matters such as the Consultative Group and macroeconomic policy advice.

7. Work is proceeding reasonably well on all the topics mentioned. The most serious difficulties are not those of methodology as such but of obtaining expeditiously the necessary data and adjusting the methodologies in light of shortage of good data. There is no question but it will be difficult to bring together all the strands of work now underway into a balanced, authoritative and comprehensive report by June 30, but that is still very much our target, with drafts of the sector contributions due at latest by May 31.

8. I have mentioned to you before our special interest in the social effects of projects and the distribution of project effects among different social groups. I also said that the main technique we were developing for this aspect was a kind of miniature socio-economic survey. We have now

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contracted such surveys and studies with five Colombian groups, and work is underway. Two of the places under study -- Silvania some 50 miles from Bogota and Socorro some 150 miles from there -- are rural towns, principally interesting from the point of view of the effects of highway development. A third place -- Itagui, part of the metropolitan area of Medellin -- is interesting from the point of view of urban socio-economic development and the effects of trunk transport and very good public power supply. A fourth area is a much more rural region down near the Atlantic coast, affected to some extent by power and transport development but more by the INCORA irrigation project "Atlantico 3" which has been supported by the Bank. Fifthly, as part of an attempt to deal with the Bank's contribution to the development of the area that has expanded most rapidly of all -- Bogota -- we have underway a special study regarding the growth of public services there (not only the power, water and long-distance telecommunications directly financed by the Bank), the development of welfare indicators, and the distribution of each through the city. All of these studies are highly experimental in nature but we believe that the groups undertaking the studies (mainly connected with universities) are likely to come up with some interesting insights on socio-economic effects of infrastructure projects.

Budget

9. Our present staff complement is five professionals, including myself, and four research assistants; all but one of each are working on the Colombian exercise. For Colombia we also have the assistance of some six individual consultants for periods of several months each and five professionals from other parts of the Bank. The Programming and Budgeting budget for next year, the relevant part of which has been built on the very tentative assumption of doing within the year four complete country studies of countries where the Bank has been a good deal less heavily involved than in Colombia, includes provision for a total of 8 professional and 7 non-professionals, together with 5 consultants, each for several months, per country study.

Plans for FY1972

10. All the work currently under way has been expressly designed as experimental and part of its purpose is to identify the best next steps in evaluation. We have so far only learned a small proportion of what we hope to derive in this connection from our experimental phase. On the other hand, for purposes of future planning and staff-recruitment, it is important to formulate now some better ideas as to what our work program for FY 1972 should be.

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11. Experience to date seems strongly to indicate that our principal effort should continue to be put into country studies; only in the framework of such a comprehensive approach can we hope really to get far in evaluating the contribution of our project-work to development and the socio-economic validity of the projects we have financed and in identifying any useful improvements in procedures. On the other hand, once hypotheses are developed on the basis of deep study of one particular country, there may be increasing need to check more quickly and briefly the relevance of these hypotheses to other countries. And, as I pointed out, the present cross-country power study shows promises of producing a fund of information that will repay further comparative analysis and study. Hence I believe we should continue both basic dimensions of our effort.

12. Some of the most obvious countries for the next phase of work are the members of the East African Community, especially Kenya and Tanzania. These two countries are among the relatively few that qualify on all four criteria that I have tested in trying to select further countries for priority study: (1) at least one IDA project completed, (2) past lending for agriculture, (3) past lending for education and (4) continuing IDA recipient. Yet to study these countries separately, or separately from Uganda, would seem foolish in view of their association, comparability, and the substantial past Bank lending for common services -- ports, railways and telecommunications.

13. One tentative conclusion we have come to in the course of our current studies is that comprehensive country evaluation work should be based on long lead-time planning, so that basic data collection and special studies can be started well ahead of the main phase of the work. It would therefore seem sensible to plan a major study, taking all of the resources we would then have available (i.e. equivalent to two country studies) of the three East African Community countries for January - June 1972. We would make a preliminary mission about July of this year to make first acquaintances, solicit Government interest, and start off data collection and special studies either by Governmental institutions or under contract.

14. A side aspect of a major effort on East Africa is that we could probably arrange there a joint evaluation effort with the Swedish SIDA. We were in contact with SIDA officials last fall when Mr. Blaxall and I

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went to the DAC Conference on Ex-post Evaluation and Mr. Adler visited Stockholm. At one point we expected to have a very capable SIDA man cooperate on our Colombian effort, but they finally decided against that since SIDA involvement in Colombia has been minimal. It is very likely that they would be interested, however, in cooperating with us in a study of East Africa in view of their considerable involvement there in financial and technical assistance.

15. For the remainder of this calendar year, apart from the above-mentioned preliminary mission to East Africa, we could do a number of things. First, we shall certainly have at the least some finalizing to do in connection with present studies -- eg. firming up or elaborating any recommendations, and also preparing for presentation to the Board. Second, there are several diverse exercises which may warrant top priority in the second half of this year but which cannot be specified in any detail at this time:

- (i) Follow-up in Colombia (preferably mainly by consultants) on any particular issues identified in our current effort as requiring further work;
- (ii) Brief cross-country comparative studies focussing on a particular issue, identified in current studies as important and potentially relevant to Bank-wide policies or procedures;
- (iii) Extension of cross-country power study, either to cover more countries or to review in greater depth a particular aspect, such as the effects of technical assistance for accounting or management reporting;
- (iv) Closer specification of any changes in present regular project progress reporting systems which recommend themselves in our current studies -- eg. shift towards more 'built-in evaluation.'

It is very hard to foresee, at this stage, the number or dimensions of such relatively small-scale efforts that may prove worthwhile in the later part of this year. Another uncertainty relates to the speed with which we would be able to recruit the additional staff required to come up to our FY1972 budget level mentioned above; in this connection we are making several contacts but we need to decide about the East African suggestion above before reaching final decisions.

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16. If Colombia completion and East Africa initiation together take the equivalent of about half a country study in the second half of this calendar year then we would have available for other uses staff equivalent to about one fairly small-scale country study -- or slightly more assuming full recruitment up to FY1972 budget limits early in the fiscal year. We could spend this either on special small-scale studies of the type identified above or on a country study -- or we could try to recruit additional staff and do both, perhaps with some lag related to lag in staff recruitment.

17. I would suggest a number of possible countries for country study:

(i) Ethiopia, where commitments through 12/31/70 total \$133 million and disbursements \$89 million (including \$23 million IDA). We have financed 15 projects (in six sectors), of which 7 are completed. Main work would be on roads and telecommunications in both of which we have been involved since the early 1950s, and in particular on the training and institution-building aspects in these.

(ii) Tunisia, where commitments through 12/31/70 total \$120 million and disbursements \$45 million (including \$16 million IDA). We have financed 13 projects (in six sectors), of which three are completed, including one in education. Main work would be on education, transportation and the development finance company, as far as past lending is concerned. A disadvantageous aspect of Tunisia for present purposes is that we have been a relatively minor factor there by the side of A.I.D., but, on the other hand, some of the project work has been especially interesting (eg. Land Transport Survey).

(iii) Thailand, where commitments through 12/31/70 total \$394 million (all IBRD) and disbursements \$263 million. We have financed 22 projects, of which 13 are completed. Principal emphasis would be on transport (all three major modes), irrigation and power. This country is rather complex for a 'small' study and has no IDA projects, but it has been suggested for early review, partly because of the apparent low return to some of the irrigation projects to date.

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(iv) Taiwan, where commitments through 12/31/70 total \$275 million and disbursements \$107 million, including \$13 million IDA (all IDA credits fully disbursed). Although the Bank's effort here started only in the 1960s, we have as many as eight projects completed, in six different sectors. We have been involved in 9 sectors altogether to date. One argument against studying this country is that we have been, until recently, a minor factor compared with the U.S. aid programs; one argument for is that it would be interesting to see what we could learn from the apparent success and efficiency of Taiwan's development.

18. As regards Taiwan, there is a question of whether it might not be better to take Korea, still an IDA country. However we only made one loan/credit there before 1967 (railways credit in 1962) and commitments have been made only in the last two years for five out of the total of eight projects we have there; so this will have to be left till 1973 or 1974.

19. One other type of study worth keeping in mind would be a comprehensive review of lending for Development Finance Companies in different countries. The Development Finance Company is a technique of lending largely developed by the IBRD. However there are considerable difficulties with evaluation of such loans, as we are finding in our Colombian exercise. The lack of information is particularly serious here. But another problem is that the effectiveness of such financing in contributing to development can really only be studied within the context of an overall review of Government policies affecting credit and mobilization of savings on the one hand and industrial development on the other (protection, exchange rate and interest rate policy, etc.); this institutional and policy framework may be more important than the efficiency of the Development Finance Company itself as a development banking institution. So, before making further plans along these lines, it is probably best to see how successful we are in this aspect of our Colombian effort and what we learn about appropriate techniques of evaluation for this sector.

20. In conclusion, I would like to have your viewpoint on the following:

(i) Do you agree with our East African proposal and may we approach the Area Department and Governments for their agreement?

(ii) How much prima facie importance do you attach to doing another country study in the second half of this calendar year, as against studies of the type mentioned in paragraph 15?

March 25, 1971

- 8 -

(iii) If you think we should make a major effort to accomplish another country study in the second half of this year, either in place of paragraph 15 studies or by increasing the staff-budget, which country would you choose?

In relation to the last question my recommendation would be Taiwan, partly from the point of view of regional balance. Taiwan is not a current IDA recipient and the only education project there is far too recent to repay much evaluation, but there are several agricultural projects and the apparent success of the country is interesting. As an alternative, Ethiopia is important and would be convenient when we were preparing for an East African study. I would definitely consider Thailand too large and complicated to be sandwiched between Colombia and East Africa, unless we were to deal only with the irrigation projects -- which in turn I would not favor.

cc: Mr. Knapp
Mr. Aldewereld
Mr. Chenery
Mr. Adler
Mr. Blaxall

cc for information: Mr. Broches/Nurick

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

NOTE DATE

This news story appeared on page 9 of the 2nd January '71 issue of:

- ☐ THE NEW YORK TIMES
☐ THE WALL STREET JOURNAL
☐ THE JOURNAL OF COMMERCE
☐ THE WASHINGTON POST

- ☐ THE CHRISTIAN SCIENCE MONITOR
☐ THE TIMES
☐ THE FINANCIAL TIMES

☒ DAILY NEWS, WASHINGTON D.C.

GAO reports aid failures

By JAMES R. WHELAN
Scripps-Howard Staff Writer

Since World War II, the United States has ladled out \$131 billion in foreign aid around the world.

Just how effective has that money been in helping struggling nations to become sturdy and self-reliant, the world's poor to escape poverty and the politically oppressed to win freedom?

A new study done by the General Accounting Office—the agency which watchdogs federal spending — indicates that we haven't done so well.

The study covered in depth a decade of Alliance for Progress aid to Honduras, the most backward of the six Central American nations. From 1961 to 1970, that country received \$149 million in U.S. direct and indirect aid.

The GAO study is the first ever done on a timely basis and then made public setting out the total impact of all U.S. aid programs on an entire country. Other studies scrutinize specific aspects or projects within overall aid programs.

CONTINUING STUDY

The study was part of a continuing effort to find a model for measuring the effectiveness, ingenuity and potential of U.S. aid programs. GAO's major findings:

- The \$149 million in direct and indirect U.S. assistance to Honduras—a country the size of Pennsylvania with a population (2.6 million) roughly equal to Connecticut's—failed to meet Alliance goals for speeding economic growth.

- "There was no evident acceleration of its (Honduras') overall social or political development during the Alliance years of 1961 to 1970 when compared with the 1950s."

- Honduras failed to do enough to help itself, particu-

larly in the area of tax reform.

- Honduras "assigned lower priorities to social development needs such as land reform, distribution of income, education, health, and housing during the decade than to economic development needs."

- The U.S. and other international lending agencies pumped aid money into Honduras faster than the country could absorb and spend it. At the beginning of this year, Honduras had available external assistance funds "equal to 120 per cent of the total Honduran central government revenues in 1968."

- Total foreign aid to Honduras during the period studied equalled about 37 per cent of Honduran central government revenues, and the United States contributed about 73 per cent of all foreign aid.

GAO's findings flow from premises spelled out in the Alliance for Progress charter and U.S. foreign aid legislation.

In GAO's view, Honduras' development efforts offer "a test of the ingenuity and effectiveness of U.S. assistance techniques, and the possibility of accelerating economic and social development in an underdeveloped economy by introducing large amounts of outside capital and technical resources over a relatively few years."

TOOLS 'PRIMITIVE'

GAO admits, however, that its measurement tools are somewhat primitive in the shadowy world of foreign aid programs.

And Rep. Dante B. Fascell, D-Fla., chairman of the House subcommittee on inter-American affairs, said he and other congressional leaders have been trying for years to come to grips with the frustrations of knowing whether we are spending our aid money well.

"I'm all for controls and close review," he said, "but I still haven't seen a workable system for applying broad, academic standards to specific and complex situations."

The Honduras study reflects that dilemma. Many of the criteria GAO applied to the U.S. aid programs were ideal standards the alliance since has discarded as unworkable or unreachable.

Honduras itself also presents a questionable model for any such study. The country is poor, sparsely populated, mountainous and sorely lacking in trained managers and planners. It has a high rate of illiteracy, low health standards and poorly developed governmental institutions. Its economy is also based heavily on a single crop—bananas—so that world market conditions have more impact on the country than do internal self-help efforts.

Also, in terms of foreign aid, Honduras actually was one of the less favored Latin nations. Of the six Central American nations, Honduras ranked fourth in the amount of aid money given during the study years.

Furthermore, GAO's appraisal of Honduras' performance was not shared by the Inter-American Development Bank, main funnel of Alliance funds. In its 9th annual report last year, the bank referred to the "relatively rapid rate of growth of the economy in recent years and the impact of a series of administrative and tax reforms."

"Look," one diplomatic source said. "The bookkeeping approach assumes we really know how to develop societies. We're discovering right in this country we don't even know how to manage the most developed one of all. The business of helping other nations simply is not science, nor even much of an art—yet."

have you seen?
Can we get?

SECRET
Report to Congress
Effectiveness of US
Military and Ec Aid
to Honduras
10/3/70
Dec

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara, through Mr. J. H. Adler DATE: March 25, 1971

FROM: C. R. Willoughby *CRW*

SUBJECT: Progress and Prospects for Operations Evaluation

1. I have arranged a meeting in your office to discuss the following report on Tuesday, March 30, from 2:45 p.m. to 3:15 p.m.

2. My last progress report was dated February 4. I have delayed preparation of the current report beyond the normal one-month interval partly because of absences from Washington, but more because work is proceeding fairly smoothly and problems requiring resolution have not arisen.

Power Sector Study

3. The cross-country power study finally got started on February 16, as expected in my last report. Mr. François Ettori, who is in charge of the study, and his assistant are working very hard at it -- mostly on data collection within the Bank so far. Visits to utilities are starting now. We finally decided not to make the arrangements previously envisaged with outside consultants for additional assistance, but rather to concentrate effort on the collection and compilation of the minimum amount of information required to answer the question whether the direct purposes for which the loans and credits were made were achieved. There are naturally considerable problems in gathering even this minimum amount of information and making it reasonably comparable between companies, but these problems are being overcome as best they can.

4. Mr. Ettori's report, targeted for June 30 completion, should cover the growth of selected power utility companies since they began to receive IBRD assistance, including aspects such as problems of overruns on construction periods and costs, trends in self-financing, technical assistance provided by IBRD, and trends in management efficiency as summarized by certain indicators. Assuming lags in the provision of data by the companies themselves are not too great, Mr. Ettori should be able to cover the following countries: Brazil (Furnas only - 5 loans), Mexico (7 loans), Argentina (Segba only - 3 loans), Singapore (3 loans), Pakistan (Karachi only - 4 loans), Malaysia (5 loans), Ghana (2 loans) and Ethiopia (2 loans). All these companies have been contacted. In addition we plan a contribution to this report from our Colombian effort; this would probably cover at least two of the three principal power utilities to which we have made loans -- Bogota (3 loans), Medellin (3 loans) and Cali (5 loans). Thus in total some 36 Bank power 'projects' should be covered.

Keep on project eval's. branch next fly

.2/

IBRD used to tell world bank ca. timing OK on balance: use World money well —

IBRD financed 20% of world power gen cap.: so carry on with this. —

method of eval'n, test of future pol formulation & might strengthen, report to public, further power — how about transport? — TRY To do 2.

Give attn to inv. - dev.

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5. Inasmuch as there are considerable difficulties in collecting even some of the simplest comparative material required for this exercise -- such as on actual costs against expected costs -- so too the effort, if successful, should result in compilation of a rather unique set of material. As the report on the current phase of work nears completion in June it may well appear worthwhile to use this material as the basis for a second phase.

Colombia

6. As you know, our principal evaluation effort is of course going into Colombia, on which we hope to have a fairly comprehensive evaluation report by June 30. I have found the delimitation of effort to pre-1966 projects (Roads, Railways, Power and Steel-Mills), which I had envisaged earlier, increasingly artificial, and our effort is now to cover in effect all Bank-Colombia relations 1949-70, though still with considerably more economic work on the earlier projects since they are the main ones which have entered the operating stage. As of now principal economic effort is going into the railway projects (particularly Atlantico railroad), highway projects, electric power, Paz del Rio steel mill, the Corporaciones Financieras (DFCs) and the various agricultural projects. Major emphasis on the institution-building side is going into power (including tariff policy questions) and transport. At a more general level we are covering education, water supply and telecommunications and, of course, non-project matters such as the Consultative Group and macroeconomic policy advice.

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20. In conclusion, I would like to have your viewpoint on the following:

(i) Do you agree with our East African proposal and may we approach the Area Department and Governments for their agreement?

(ii) How much prima facie importance do you attach to doing another country study in the second half of this calendar year, as against studies of the type mentioned in paragraph 15?

March 25, 1971

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(iii) If you think we should make a major effort to accomplish another country study in the second half of this year, either in place of paragraph 15 studies or by increasing the staff-budget, which country would you choose?

In relation to the last question my recommendation would be Taiwan, partly from the point of view of regional balance. Taiwan is not a current IDA recipient and the only education project there is far too recent to repay much evaluation, but there are several agricultural projects and the apparent success of the country is interesting. As an alternative, Ethiopia is important and would be convenient when we were preparing for an East African study. I would definitely consider Thailand too large and complicated to be sandwiched between Colombia and East Africa, unless we were to deal only with the irrigation projects -- which in turn I would not favor.

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OFFICE MEMORANDUM

TO: Mr. R. S. McNamara, through Mr. J. H. Adler DATE: February 4, 1971

FROM: C. R. Willoughby *CRW*

SUBJECT: Progress on Operations Evaluation

For purposes of our meeting on Friday, February 5, I am attaching a draft of my proposed presentation to the Executive Directors next Tuesday and also taking the opportunity to report briefly on progress.

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cc: Mr. Knapp
Mr. Aldewereld
Mr. Chenery

OPERATIONS EVALUATION: REPORT TO THE EXECUTIVE DIRECTORS
FEBRUARY 9, 1971

The Bank's Operations Evaluation Unit was created last September. It is located in the Programming and Budgeting Department, under the responsibility of Mr. John H. Adler.

The Unit has a single broad responsibility -- to evaluate the contribution of the Bank's operations to development. It might equally have been called an Audit Unit, for its function is precisely to audit the effectiveness of the Bank's operations in a rather broad sense, with the principal aim of discovering how policies and procedures might be improved in the future. Its work, focussing on the eventual results of our activities, is intended to be complementary to that of your own Audit Committee and the Office of the Internal Auditor, concerned more with financial controls.

But let me make it clear from the start that our orientation is, in no sense, to try to dredge up mistakes from the past in order to attribute responsibility for them. We do not pretend to be an investigative unit in this sense. Our aim is more ambitious. Our objective is to study past experience in order to learn how the practices of the Bank might be improved in the future. History is our field, but history is not our interest.

The Bank has, as you know, always placed great emphasis on close control of disbursements and supervision of construction, with a view to ensuring effective use of the proceeds of loans and helping to sort out problems that arise in the project implementation phase. We have not, however, in the past made systematic efforts to review in retrospect the ultimate effectiveness of our projects in their operating phase. Some excellent studies of individual projects and sets of projects have been made by the Sector and Projects Division of the Economics Department in connection with their responsibility for advising on

improvement of appraisal methodologies. Experience gathered by operating departments on supervision missions, sector and economic missions and appraisals of follow-on loans has always fed back into operations. But systematic review of the overall impact of our activities on development and of the effectiveness of the combination of all the various techniques of assistance we have developed has not been done.

Over the last ten years net flows of financial resources from the Bank Group to the developing countries have risen from some 3 - 4% of total flows from foreign public sources to nearly 10%; this percentage will undoubtedly rise further in the coming years -- perhaps to some 15% by 1973. For some recipient countries the role of the Bank Group is already much greater. From the points of view of both developing and developed countries it is thus even more important now than it was in the past to assess the real effects of our projects on member countries' development policies, investment and consumption patterns and development achievements.

While the main effort of evaluation, like the main work of the Bank in past years, must go to projects which we have financed we do not want to neglect from our review other activities. We intend to take a look at aspects such as Bank advice on macroeconomic and sector policies, work on technical assistance studies, training through EDI, advice on planning institutions, cooperation through Consultative Groups and joint financing arrangements with other Governments supplying foreign capital for development. It is important to look at these because they may be important in the total impact of the Bank Group on development and because they are often closely interrelated with the projects which we finance. Thus our definition of Bank Group operations is rather comprehensive, extending beyond lending operations.

I should also comment on the meaning we assign to the word 'contribution'

in the description of our functions. With regard to projects, we intend to evaluate not only the anticipated monetary benefits but also, as far as we can identify them, those expected non-quantified benefits which weigh heavily in our selection of projects and also any unexpected side-effects of our projects and advice, such as the establishment of new enterprises, changes in consumption patterns, changes in attitudes and skills of the people and institutions involved. We are particularly interested in specific Bank Group contributions -- in other words what might not have been done had the projects been financed from other sources. I am thinking here of aspects such as Bank advice on project composition and formulation, Bank insistence on tariff changes, Bank financial conditions and Bank assistance in connection with training and consultants, etc.

All of these activities and contributions we want to review from three points of view, each of equal importance -- economic, institutional and administrative. The economic point of view covers, as I pointed out, indirect as well as direct effect and also includes the distribution of project effects -- benefits and costs, gains and losses -- among different social groups and institutions. The institutional point of view covers the growth and development of organizations and managerial techniques which promote or hamper socio-economic advance, including any transfer of knowledge from agencies with which we were directly concerned to others. The administrative point of view refers to the efficiency of the Bank as a channel for resources of men and money assigned to development, and a special focus here is on delays, their causes, the purposes which they served and possible means of reducing them.

These objectives are ambitious, especially when we recognize how dimly we perceive the meaning and mechanics of the development we are pursuing. They are ambitious, too, because despite Governments' substantial efforts at evalua-

tion of the effects and effectiveness of public expenditures, no very satisfactory techniques have yet been found. We have to conquer the methodological problems as we go along.

Recognizing that we have so much to learn that we should not expect to reach really sound procedures for several years, we are starting out in a very experimental way. We are beginning with a pilot phase, to last no more than six months, through the first half of the current calendar year. The pilot phase has two dimensions: one, a major study, to which we are devoting most of our resources, of the impact of the Bank on the development of Colombia since 1949 when the first loan to that country was made; second, a much smaller-scale study concentrating on about ten selected power utilities, each of which has received several loans, with a view to answering the question whether the objectives, institutional as well as physical, for which the loans were made were achieved on schedule and if not why not. The deadline for completion of both studies is the middle of 1971. In order to meet this tight deadline our strategy has been to put each part of the work in the hands of very competent people and then, as work proceeds and problems unfold, to set priorities among the numerous questions we want to answer in light of the costs of reaching sound answers, on the one hand, and the intrinsic importance of the questions for operational purposes, on the other. This is part of what we mean by a pilot phase.

The staff of the unit itself consists of about five professionals. We are making considerable use of consultants from outside the Bank and we are also receiving staff support from the Development Services Department, the Economics Department and the Economic Development Institute. Because of the audit nature of our work we have been anxious to ensure that none of those working on our review should have been significantly involved in the operations under study in the past.

Although a certain amount of preliminary work for our major exercise on Colombia was accomplished in the last months of last year the major field work began only in January. And the main effort on the cross-country power study is only just now beginning. So I do not have any results to report.

Nevertheless you may be interested in hearing a few more of the details of the progress of our work on Colombia. We chose that country for our first major effort because of the length and importance of the Bank Group's involvement with its development and because of the ready consent of the Government to cooperate with the study. We are in fact working to a considerable extent with Colombian institutions and organizations and we have so far received very fine cooperation on virtually all sides. We are working particularly closely with the Government's Planning Department which has allocated several people to work full time with our staff; some former Bank borrowers are not only preparing data for us but also carrying out particular studies on their own as contributions to our efforts; and we are planning arrangements with a few groups in Colombia for some miniature socio-economic studies of a few particular places, designed to reach a deeper understanding of the effects of our projects.

Through 1965 our loans and credits to Colombia were mainly for electric power and transportation (railways and highways); there were also two small loans for agricultural credits for mechanization and one large one for industry (expansion of the Paz del Rio Steel Mill). Almost all of these loans -- some 25 in number -- are fully disbursed and these are therefore the projects which are suitable for thorough evaluation from all the points of view I mentioned before. Since 1965 we have made loans in several other fields -- development finance companies, education, irrigation, livestock and water supply, but none of these are yet fully disbursed. We shall be giving some of these loans -- especially the three for the development finance companies -- considerable attention, but the economic

evaluation must necessarily be rather more limited than for those projects on which there has already been several years' operating experience.

From a broader point of view some of these fields which we have only entered with financial commitments since 1965 are of course important in the earlier period. For one question must be whether it was right for us, in the Colombian context, to concentrate as much as we then did on transportation and electric power or whether we could have done more to promote development by greater activity in other fields, such as those we have entered in Colombia more recently. To help answer this kind of question we are planning to use 'control groups' of various sorts, in a loose sense of that term. One of those 'control groups' is the activity of other suppliers of public foreign capital to Colombia. While it is not part of our function to evaluate their activities we do expect to be in touch with them in connection with the Consultative Group and also to discuss with them the principal projects in which they have been involved. In preliminary contacts with some they have been very cooperative.

Our most intensive economic effort on projects and sectors is going into transport and electric power. The Bank has been heavily involved with both sectors since the early 1950s. It has played a major role in the gradual upgrading of the trunk highway system, the integration of the railway network and its extension to the Atlantic Coast, and, more recently, the integration of most of the principal electric power systems. We are preparing to make considerable use of two sets of computer models -- the so-called Harvard Transport Model and also the Jacoby Power Model, as elaborated and extended by the Colombians -- to deal with the basic question whether the investments partially financed by the Bank were the most efficient means of meeting traffic and energy requirements. Beyond these we are using various techniques -- integration indices, measuring changes in regional patterns of consumption and production, regional studies,

power and transport price/cost studies, detailed socio-economic case studies of selected towns -- in order to give us a fuller grasp of development effects and the distribution of costs and benefit among different groups.

To conclude, let me re-emphasize that the basic approach in all our work is to ask, with all due humility: how can we, the Bank Group, do better? Whether we will reach sufficient depth of understanding to answer that question in a constructive manner, the only one that interests us, remains to be seen, but on the way we hope at least to reach an answer as to how well we are doing.

By the end of the current phase of work we hope to have not only reports on our two studies but also some tools - undoubtedly still quite rough -- with which to make a better approach to further evaluation work. Exactly how we should proceed next fiscal year is one of the things we hope to learn from the present experimental phase; we are making no decisions now. However, for planning purposes, we are assuming that in the first half of next fiscal year we would attempt a second major country evaluation study, plus either another country study or an expansion of the sector approach, either extending the work on electric power or moving over to another sector.

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara, through Mr. J. H. Adler DATE: February 4, 1971

FROM: C. R. Willoughby *CRW*

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cc: Mr. Knapp
Mr. Aldewereld
Mr. Chenery

President has seen

MR. WILLoughby

OFFICE MEMORANDUM

File
Progress Report

TO: Mr. R. S. McNamara, through Mr. J. H. Adler

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cc: Mr. Knapp
Mr. Alderson
Mr. Chenery

*Mention change in
appraisal techniques*

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

FROM: C. R. Willoughby *CRW*

SUBJECT: Dr. Lauchlin Currie

DATE: January 13, 1971

We have prepared, as you suggested, a brief note referring to Dr. Currie's recent visit and outlining, without comments, his major points relevant to the performance of the IBRD.

cc: Mr. S. Aldewereld
Mr. H. Chenery
Mr. J. Adler
Mr. J. Blaxall
Mr. E. Gutierrez
Mr. R. Frost
Mr. B. Lehbort

President has seen

COLOMBIA OPERATIONS EVALUATION

VISIT TO IBRD OF DR. LAUCHLIN CURRIE, JAN. 6-7, 1971

1. Dr. Lauchlin Currie headed the Bank's General Survey Mission to Colombia in 1949 which produced a report entitled "The Basis of a Development Program for Colombia" (IBRD, 1950) which was published and widely circulated. This was the first General Survey Mission sponsored by the IBRD. Dr. Currie has lived in Colombia for many of the years since 1950, has observed its development from close at hand and has been intimately involved in many subsequent studies relating to the country's development.
2. Dr. Currie kindly came over to the IBRD on January 6-7, 1971 (from Simon Frazer University in British Columbia where he is now teaching) for discussion with the group attempting the Colombian Operations Evaluation. This note is not a summary of Dr. Currie's presentation but rather a selective record concentrating on the major points that he made relating directly to the activities of the IBRD in Colombian development.
3. In reviewing the history of Colombian development during the past twenty years, Dr. Currie feels that despite the significant increases in GNP, the benefits of development have accrued to rather narrow strata of the Colombian population and improvements in welfare have not reached the Colombian masses.
4. Dr. Currie suggested that the techniques he had attempted for converting the General Survey Mission Report into a Colombian document and translating its recommendations into specific action steps supported by Colombian citizens were good and should probably have been used more widely by the IBRD. Towards the end of work on the General Survey Mission Report he suggested establishment of an Economic Development Committee composed of prominent Colombians. The then President of Colombia reacted well to the

suggestion and, partly because he was himself leaving office, largely accepted Dr. Curries's recommendations as to the 6 prominent private citizens (3 Liberals and 3 Conservatives) who should be chosen for the Committee. The Secretariat of the Committee, headed by Dr. Currie, included several people who had been on the General Survey Mission and others suggested by IBRD. The Committee met twice a week for nine months and produced many good recommendations (eg. devaluation, National Airport Corporation, road program, power program). It might not be possible to parallel these techniques exactly now, but Dr. Currie was sorry that his idea (based a little on British Royal Commission) had not been used after other General Survey Missions, and he felt it possible that some such means of securing serious domestic consideration, review and redrafting of foreign missions' reports might still be useful means of translating these reports into concrete steps proposed by the people of the country and then undertaken.

5. Dr. Currie had envisaged that the work of the Economic Development Committee on the IBRD Report might culminate in a kind of 'Summit Meeting' with the highest officers of the Bank. At this meeting the IBRD would undertake to support the overall development program and strategy (covering all sectors) coming out of all these studies with financing of a certain dollar amount over a period of years which would be gradually committed against specific projects (in selected sectors) agreed between IBRD and Colombians. In return, for this major financial support Colombia would commit itself to fulfilment of tough reforms included in the program -- particularly in the field of public administration, not only in the sectors for which the IBRD would be lending. This kind of summit meeting never took place: the Bank greatly narrowed its sights to just those projects which it would itself finance and its criteria for selection of such projects were rather narrow-

minded (eg. firm refusal to finance water supply in Barranquilla); the Bank missed the opportunity to be a development institution and chose to operate more along the lines of a traditional investment bank.

6. Dr. Currie laid considerable stress on his impression that the Bank had greatly underused and misused its potential leverage. He was extremely impressed by the influence that the Bank potentially could have had. He noted the contrast between the weight he had enjoyed in connection with the General Survey Mission and the Economic Development Committee when he had the support of the IBRD and the weight he had on other occasions when not connected with the IBRD. In the first case many proposals had been accepted and implemented and he had nearly succeeded even in stopping Paz del Rio. Of the second case an example was his work with the Public Administration Mission in 1951-52; the report had had extremely little impact in Colombia and found its main impact as a text-book in Puerto Rico. Another example was his work with the Ministry of Public Works in 1965. Called in to advise on improvements in organization, he early discovered that there were 45 steps to be covered in completing contracts but despite major efforts he left the Ministry with the same 45 steps as when he had started.

7. The Bank could have obtained far greater leverage by using the program approach described in paragraph 5: i.e. agree on a comprehensive development program for a period of years and make a commitment for a kind of line of credit covering those years and apply the funds to specific projects gradually over the years. The Bank had rather frittered away its leverage on rather narrow project conditions, important but not of very broad significance (eg. raising power rates), or on isolated major macro-economic steps (eg. exchange rate policy) rather than agreement on comprehensive programs of development, for instance urban or regional programs.

8. Dr. Currie made a second major attempt to get to this kind of program lending in the late 1950s and early 1960s by proposing to the Colombians formation of a consortium of lenders headed by IBRD. This was taken up by the Bank but was diverted into the idea of a Consultative Group, with the project shopping list and each project still treated basically independently of the others; it was a long way from the kind of joint program effort with major commitments on the Colombians' side which he had envisaged.

9. Dr. Currie's views about use of program approach seemed closely connected with his suggestion that the Bank might have been a good deal more adventurous. The Barranquilla water supply projected rejected by the Bank on grounds it was 'social' rather than 'economic' was one example. In general IBRD had been loathe to tackle difficult tasks even in the public utilities in which it was prepared to invest (which may in turn, of course, have exacerbated regional imbalances). Major programs were required for housing, to take advantage of unutilized resources used to meet desperate needs in the country; association of the IBRD in an unorthodox solution to this problem (which would not be solved otherwise) could secure the critical element of public confidence for such a program. The type of "aid requirement" projections made now were quite unrealistic as to what could be achieved insofar as they assumed unchanged the distribution of income and related import requirements.

10. Dr. Currie felt that little had been achieved over the years 1950-70 in improvement of Public Administration. He had early identified it as a problem and attempted the second mission specifically on this topic. It was a tragedy that the Bank had withdrawn support. Of course part of the Public Administration problem arose from the very rapid growth of pop-

ulation so that it was difficult for the machinery to catch up. Nevertheless rather little had really been achieved in institution-building, for instance in the highways sector.

11. Dr. Currie felt that, in some respects on the other hand, problems had arisen from his report and the proposals of the Economic Development Committee eventually being taken as too much of a blueprint in later years without proper revaluation of the situation. The Bank had tended to continue programs even when changed circumstances made them less relevant. For instance Dr. Currie was quite critical of the 1961 decision largely to complete the original Plan Vial rather than prepare a revised program. He felt specifically that it would have been far better to make a concentrated effort on the road across the Cordillera Oriental to Villavicencio in Meta -- which had already become obvious as the future breadbasket of Colombia -- than, as was done, to continue work on the road from Bogota to Neiva (in Huila), as a lightly travelled road maintained in the program merely because it had been there before.

12. Besides failures to reevaluate the situation in the light of interim developments Dr. Currie also identified failures to take a long and thorough enough look into the future in planning projects. An instance of this was the side effects of the Magdalena Valley Railroad. As construction proceeded, completely uncontrolled slash-and-burn cultivation spread down the valley, destroying vast forest resources of great value.

13. A large part of the responsibility for these failures lay with the engineering consultants who had done the feasibility studies -- and hence with the Bank for not insisting that economists have a larger role than engineering consultants. The first Magdalena Valley Railroad project was investigated as thoroughly as possible within the prevailing data limitations; it had been recommended by the Economic Development Committee. The

extension of the railroad from Gamarra to Santa Marta, on the other hand, was recommended by Madigan-Hyland without any real economic studies. And then, what was much worse, commitments rapidly ensued for upgrading of the parallel road via Barbosa and Bucaramanga toward Santa Marta -- again without economic studies of the transport system as a whole. Dr. Currie was also critical of the lack of economics in the 1960-61 transport studies by OLAP and, more especially, by Parsons, Brinckerhoff; the latter study he considered very largely superfluous.

14. With regard to agriculture in general Dr. Currie expressed the view that the right policy for the Government was to concentrate on creating a framework of price structure and flow of technical innovations (research) which would enable the private sector to respond effectively. In this light the Bank's 1949 loan for agricultural credit (for machinery) was extremely important in that it sparked off the modernization and mechanization of agriculture, which had been so important in permitting agricultural production growth. Dr. Currie was quite critical on the other hand of the Bank's more recent attempts at a more active policy in agriculture: the sub-loans for livestock, he alleged, had mainly permitted the recipient farmers simply to put their own savings elsewhere, and the Atlantico Irrigation project was far too expensive per unit of area and family benefitted. In general Dr. Currie felt that the very small amount of Bank lending in the 1950s and early 1960s for agriculture (and none for education) and the heavy concentration on infrastructure was correct.

15. In regard to population -- which was a very serious problem -- the Bank could have done little more. In the 1950s he had worked with the Colombians on the publication of a book about rhythm method of family planning but even this had finally been considered unacceptable. The situation

is changing greatly now.

16. One of the most important possible contributions of the IBRD to the development of Colombia was in persuading the Government to stop or not start projects that were not worthwhile. Good examples were the successes of the General Survey Mission and Economic Development Committee in stopping construction of the very expensive Ibagu -Armenia rail link (through the Central Cordillera) which had already been started and also the railway line Bogota to Barbosa and Bucaramanga. Dr. Currie felt that these successes -- which were quite hard won -- were illustrative again of the leverage that the Bank had when it looked as though it was going to use a program approach.

17. The Committee for Economic Development probably spent quite some time trying to dissuade the Government from the relatively large Paz del Rio project finally chosen; and the Committee nearly succeeded in stopping it. The difficulty was that, because the program approach (paragraph 5) had been rejected by the Bank, the scheme had to be dealt with on an isolated project basis. Thus, all that Dr. Currie as head of the Secretariat had to offer in its place was an indication by the IBRD that if a feasibility study was undertaken by the Colombians showing one of the alternative smaller steel projects to be economically viable then the Bank would probably be prepared to finance it. Such a vague possibility was not much of a counter-balance against the certain offer of supplier credits from France and Germany for the large scheme. If the Bank had taken a stronger position even on a project basis -- for instance IBRD will finance feasibility studies of alternatives and also definitely finance any project which does prove economically attractive -- then it might have been more successful.

INTERNATIONAL BANK FOR
RECONSTRUCTION DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Monday
January 11, 1971

TO: Mr. Christopher Willoughby (o/r)
FROM: John H. Adler

At today's meeting of the President's Council, Mr. McNamara announced that on your return he wants you to speak about the work of the Operations Evaluation Unit to the Senior Staff Meeting and to the Board.

He also commented on today's story in the Washington Post, according to which an internal memorandum of the IDB which was critical of some IDB-financed irrigation project in Mexico was given to a UPI correspondent before it ever went to the EDs. This, according to Mr. McNamara, indicates the "dynamite" character of the work done by your Unit. Also according to him, this was no reason not to continue the work, but to emphasize constantly the pilot character of the whole operation; it will take at least five years before the work of the OEU will "graduate" from the pilot to the fully operative stage.

JHA/mwm



Bank Criticizes Loan For Mexican Project

By Charles E. Flinner
Associated Press

The Inter American Development Bank has discovered it has been lending money to irrigate land where most crops can't grow anyway—water or no water.

A staff report circulated among bank officials reports disappointing results from heavy bank lending for many Mexican irrigation projects. A draft of the summary was obtained by United Press International.

The loans for the projects number 23 and involve \$273.3 million, equal to 7 per cent of all the bank's lending and more than half of its loans to Mexico.

The staff report says that one of the projects under-

taken with the development loan might be successfully converted to fish farming with some more investment but "gale force winds blow daily during nearly half of the year, restricting the adaptability of hybrid grains and other crops which are top-heavy and thus susceptible to blow-downs."

In another case, the bank not very successful because the land involved was too hilly for the type of irrigation undertaken.

The bank has been criticized frequently for its weaknesses in loan-making procedures

staff found that irrigation was which should avert such un-economic development projects.

The bank, mostly run by the borrowers—the Latin American members—has been urged to get on a more businesslike basis before.

It is now in a stage of transition. Its original and only president, Felipe Herrera, a Chilean, has resigned to return to Chile.

The president-elect, Antonio Ortiz Mena, a former Mexican finance minister, is due to take office March 1.

Last fall, Libya negotiated increases in oil income tax rates to a range of 54% to 58%, from a previous range of 50% to 55%, varying by company. It also negotiated a 30-cent-a-barrel increase in the posted price, and additional two-cent-a-barrel annual increases through 1975.

Using the old 50% tax rate (which applied to all except one company), a posted price of \$2.23 a barrel, a production cost of 35 cents a barrel, and the 12½% royalty, Libya got \$1.08 a barrel. At the 55% tax rate (which currently applies to most companies), and a posted price of \$2.55 a barrel, Libya gets \$1.35 a barrel. At the proposed 60% tax rate and \$3.15 posted price, Libya would get \$1.84 a barrel and require another 25 cents a barrel of profit to be reinvested in Libya.

An industry source said that actual market prices of Libyan oil ranged from about \$1.50 a barrel to \$1.75 a barrel prior to the record high tanker rates of the past six months resulting from a world oil supply crisis. Prices currently range from about \$1.95 to \$2.50 a barrel, he estimated. This would indicate that many companies wouldn't have any profit left for repatriation to stockholders under the proposed new terms, and some would actually be losing money on Libyan operations, industry sources said.

Should Libya be successful in gaining most of its new demands, it would almost certainly force increases in both foreign crude oil and refined product prices, oilmen say. It takes about a one-cent-per-gallon rise on all refined products to offset about a 42-cent-a-barrel rise in oil

taxes. The net result could be a reversing of a long-time industry condition, in which foreign refining and marketing subsidiaries have traditionally lost money while foreign producing subsidiaries have accounted for foreign profits.

Libya is conducting its initial talks with the producers considered most vulnerable to its demands, Occidental Petroleum Corp. and Nelson Bunker Hunt, Dallas oilmen. Both are principally reliant on Libya for crude oil production. Occidental was the initial target in last fall's negotiations. It already pays a 58% tax rate.

Reportedly about 25 cents a barrel of the new demand by Libya for a new 60-cent-a-barrel price boost would represent the transportation cost advantage of Libyan oil compared with Mideast oil hauled around Africa from the Persian Gulf to European markets. This charge would apply as long as the Suez Canal remains closed.

World Bank Gets Loan From Bank of Japan

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — The World Bank said it signed an agreement for a loan from the Bank of Japan equal to \$100 million in Japanese yen.

The 7.43% loan is to be repaid in three equal instalments from January 1975 to January 1976. It is the third loan the Bank of Japan has made to the World Bank; the other two were also equal to \$100 million each.

WSS 11/17/71

Oil Firms' Conflicts With Libya, Algeria Take Turn for Worse

Boost of 50% in Take Per Barrel Demanded by Libya; Algeria Bars French Tankers; Pipeline Shut

11/13/74

A WALL STREET JOURNAL News Roundup

Relations between oil companies and two major North African oil nations, Libya and Algeria, took a serious turn for the worse.

Libya is demanding oil tax and price increases and other concessions that would raise by more than 50% the Libyan government's take per barrel of production, the French daily newspaper *Combat* reported in Paris. U.S. oil sources confirmed that the demands listed by *Combat* would do just that, and would pose a serious threat to the industry.

In Algeria, the prolonged dispute between French oil companies and the Algerian government has spawned a mounting battle between Algeria's state-owned oil agency, Sonatrach, and France's state-owned oil agency, *Entreprise de Recherches et d'Application Petrolières*, also known as Erap. Sonatrach has blocked loading of Erap tankers at the port of Arzew, and Erap has cut off pipeline deliveries to Sonatrach at the port of Skhirra.

Libya is asking a boost in its oil income tax rate to 60%, an increase in the posted price of Libyan crude oil (used to determine taxes and royalties) to \$3.15 a barrel, and reinvestment of 25 cents a barrel of oil company profit in Libyan oil exploration, *Combat* reported. Previously Libya has said it also is seeking petroleum products at cost for Libyan use.



How can you have an ulcer? We're not civilized yet."

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

mtg meeting Jan 8, 1970

Board Presentation.

Staffing:

Feb 1.

Humility.

Jan 20.

debates re Holland analysis.

20 years into the future what would we
have done? What could you have done

For audit of specific no. of projects —
Presentation careful & balanced.

Program lending by others permitted as to
do projects. Donors together.

Effects of this from reports on over lenders.

Availability of reports.

INTERNATIONAL BANK FOR
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clear a lot
explosive. - impr.

free go to get the
system OK, operational.

Let's assume results and
go to Board

SA agree Bd not know, even
if it is ^{not} equally applicable.
Job of constant rather than
discrete.

Careful in presentation:

A month or 2 from now ^{a written} ~~an~~ present to
Bd.

Op Ennis.

To Board.

Coop'n w.
Colombians.

OFFICE MEMORANDUM

CW

TO: Mr. Robert S. McNamara

DATE: January 5, 1971

FROM: John H. Adler

NA

SUBJECT: Progress on Operations Evaluation, and Meeting

1. We have arranged a meeting in your office to discuss progress on Operations Evaluation on Friday January 8 at 5 p.m.
2. I attach a copy of Mr. Willoughby's progress report. Completion of it has been somewhat delayed by uncertainties about the cooperative arrangements with the Colombian National Planning Department, which now seem to be resolved (para 6).
3. The paper makes no reference to the parallel cross-country power sector study and also dwells at some extra length on the details of the cooperative arrangements made with Colombian entities. This is principally because Mr. Willoughby is sending copies of his progress report to the concerned agencies in Colombia as a means of cementing the agreements reached and of informing them generally of progress.
4. We have been making considerable efforts, both here and abroad, to recruit a satisfactory man to carry out the proposed power sector study and although we have talked seriously with a number of people we have not so far had success. We have further initiatives underway, however, and I hope that we may be able to report some progress at the meeting on Friday.
5. At our last meeting on evaluation, at the end of November, you authorized three additional professional positions (beyond the three initially established for Operations Evaluation), to be created this FY only if and when filled this FY. The original three positions are now filled with Messrs. Willoughby, Israel and Marot. We have not yet used any of the advance recruitment authorizations because we have not found a need to and we intended them more as positions to be filled for the power sector study or in the coming months with persons who would help us mainly on the next country we attempt to study in depth. We do now find an immediate need for further research assistant positions. The present establishment is only one research assistant position for Operations Evaluation which is filled. We would like advance recruitment authorization for two additional research assistant positions (mentioned in para 11 of Mr. Willoughby's Progress Report) which we intend to fill as soon as possible. Establishment of these positions will create the anomaly of a one-to-one ratio between professional and research assistant positions, but this should be a temporary phenomenon resulting from our heavy dependence at present on professional staff borrowed from other departments or hired as temporary consultants.

cc
6/1

cc: Messrs. Knapp Aldewereld, Chenery, Christoffersen, Willoughby

CRW:jd

Attachment

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, through Mr. J. Adler

DATE: January 5, 1971

FROM: C. R. Willoughby *CRW**met Jan 8*SUBJECT: Operations Evaluation - Colombia - Progress Report

1. The main events of the month of December 1970 have been the warm reception afforded by the Colombian authorities to our plans and helpful preliminary discussions with them; commitments of support from several Colombian entities; strengthening of staff especially on the side of transport and DFCs; initiation of various major parts of the work, both in Colombia and the United States.

First Visit to Colombia

2. Various members of the group accompanied me on a preparatory visit to Colombia early in December. Messrs. Frost and Favilla of the South America Department discussed our study with the principal Colombian authorities and introduced us to those directly relevant to it. President Pastrana, the Ministers of Finance, Development and Public Works and the Director of the National Planning Department all warmly welcomed the Bank's initiative. Senior officials of the Bank's principal borrowers -- the Power Companies of Bogota, Medellin and Cali, the National Railways, the Ministry of Public Works (for highways), INCORA and Acerias Paz del Rio -- whom we visited were equally open and cooperative.

3. A preliminary Scope of Work for our study was given in the paper entitled "World Bank Group Operations Evaluation Unit - Pilot Phase: Colombia" which I sent to you on November 18 and which we discussed on the following days. I gave copies of this paper to the concerned agencies in Colombia. There was considerable interest in Colombia in all aspects, and the Bank's preparedness to carry out thorough investigations to see how policies and procedures might be improved was welcomed.

4. In the course of our discussions a number of specific apparent problems were mentioned as meriting our attention -- for instance, IBRD rigidity on financing local procurement of power equipment, incompatibility between temporary restriction or suspension of lending for macro-economic reasons and sustained institution-building, alleged pauperization of the countryside and excessive urbanization as a result of heavy trunk highway investment, and poor IBRD cooperation in face of cost overruns. Several references were made, too, to continuing difficulties on highway design and maintenance; we were present in the country when upwards of 100 people were killed as a result of a major landslide on a section of the Medellin-Manizales highway financed by the Bank Group. All these points fit within the Scope of Work referred to, and we shall do our best to deal with them.

The overall strategy of the Colombia pilot phase of our effort remains, as it was, to put each major aspect of the work under the charge of a capable man, and then, as work proceeds and problems unfold, to set priorities among specific questions in light of both the feasibility of answering them and also their intrinsic importance for Bank policies and procedures.

5. The one major area that I now believe should be added to our Scope of Work is industrial financing and the Bank's role in helping establish means of channeling public foreign capital into private industry. I had previously omitted our loans to the Colombian corporaciones financieras (DFCs) from our Scope of Work along with irrigation, livestock, education and water supply on the grounds that the loans for these sectors were all too recent to permit detailed re-evaluation; these sectors could only be dealt with at the broad policy level and the projects which the bank helped finance would only be examined from the procedural and to some extent institutional points of view. The first loan for DFCs (signed in 1966) was marginal, in that it is almost totally disbursed. More important is that negotiations leading up to this kind of financing started early in the 1960s. And even more important from our point of view is that a number of people have, quite independently, stressed to me the need to try to answer some critical questions regarding the Bank's role in financing private industry -- whether it has tended to encourage growth of industry that is too capital- and import-intensive and too concentrated in ownership, whether economic as opposed to financial criteria have been given enough weight in sub-loans, whether our lending in this field has been a substitute for, or a supplement to, local savings, etc. I therefore propose to add this subject, which cannot be treated independently of overall industrial and credit policy, to our Scope of Work.

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6. Our principal point of contact in the Colombian Government is the National Planning Department (Planeacion). We had a number of very useful discussions with the senior officers of the Department; several of them have apparently subsequently resigned due to policy disagreements within the Government. However, at a meeting in Washington on January 4, the new head of the Planning Department, Mr. Roberto Arenas, evinced considerable interest in the study itself and in maintaining the cooperative arrangements made during our recent stay in Colombia.

7. It was agreed during our stay that one of our main direct contacts in the Planning Department would be Mr. Alfonso Ruan, head of the Economic Research Division. We would be in close touch with him on all our work, and he would provide advice and also organize support from Planeacion. Mr. Ruan agreed to make available a man from his Division or elsewhere in Planeacion to work with Mr. Decaux, our steel industry consultant, during his current stay in Colombia.

Mr. Ruan will also provide two or three men to work full time for about two months with our specialists on power and transport; they would be economists from his own Division and would probably focus especially on the definition of socio-economic benefits. In addition Mr. Ruan was hopeful that he would be able to provide a man to cooperate with Mr. Raphaeli, our public administration specialist.

8. It was also arranged that we should receive some support from the sectoral divisions of Planeacion -- particularly Transport and Energy. The Transport Division has been working for some time in close cooperation with the Bank on the development and application of the Harvard Transport Model and will continue to do so. A critical part of the support agreed to be provided by Planeacion concerns the Electric Power Model for Planning Generation and Transmission Investment (originally Jacoby Model). We have been anxious to use this model for reviewing the economics of power plants installed with IBRD support. Most of the data required to use the model for this purpose is already collected, but two dimensions of the model which had been discarded for recent uses (regional loads and explicit treatment of investment and operating costs) must be restored to enable it to meet our needs. The Energy Division has agreed to do this work since it is required for other purposes as well. We anticipate working with them very closely in late January and in February on application of the model for re-evaluating certain choices between alternative paths of power system expansion in the 1950s and 1960s and definition of marginal costs of bulk power supply at certain times, etc.

9. Certain of the Bank's borrowers have also kindly undertaken to carry out specific tasks which will assist our study -- apart from the normal collection and provision of available data. The Ministry of Public Works and INTRA have promised to expedite a number of jobs related to use of the Harvard Transport Model and to do some specific studies, such as a review of trucking freight rates on selected routes between 1955 and 1970. In addition, the Ministry is undertaking a major effort -- critical to our enterprise -- of collecting and analyzing data, by individual link, on actual trunk highway construction schedules, construction costs and traffic between 1950 and 1970. The national statistical office, DANE, is also doing some analyses -- particularly on commodity prices in different towns over the same period -- which will be very useful for our transport analyses.

10. A most important effort which is to be undertaken for certain selected projects is an analysis, by the recipient entity, of progress on project formulation, preparation and execution from the date of initial project conception through 1970. The analysis will focus particularly on delays and the reasons for them and on the conditions imposed by the Bank either before loan agreement or at the time of loan signature. The work will be in three parts (i) preparation of outline history of events in connection with each project, (ii) comparison of original critical path network for project construction with actual and (iii) analyses of delays over the whole path of the project, their duration, causes and usefulness and the relevance of Bank action in exacerbating or minimizing them.

Part of this work parallels what is being done by our consultants in Cambridge, Mass. on procedural questions and thus gains added value. The Cauca Valley Corporation has undertaken to carry out an exercise along the lines described for the Calima Hydroelectric project (Loans 255 and 339), Empresas Publicas de Medellin for the Nare (Guatape) project (loan 369) and Aceriaz Paz del Rio for the 1963 expansion project (loan 345). Reports on the studies, including supporting explanations and comments, are to be completed by the end of February 1971.

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11. Our staff has been considerably strengthened over the past month by arrangements with the Economics Department and conclusion of several consultant contracts. Annex 1 gives a complete list of those who are now expected to be directly involved with the study. We are presently interviewing people with a view to filling two more Research Assistant positions, and we are trying to make arrangements for some slight strengthening of staff in connection with DFC work.

Initiation of Work

12. The contract with Mr. Hexner and his firm, Feedback Inc., became effective at the beginning of December. The work-- review of project files, compilation of project summaries and preparation of analyses about delays and loan conditions, mainly with a view to reaching conclusions about procedural questions -- has gotten off to a slow start, perhaps even a little slower than expected, because of the learning process required of those working on the job. With a lot of basic learning now accomplished, Mr. Hexner is confident that the pace will increase sharply. He plans to give the assignment more of his own attention. I am optimistic that, with this and with rather close adherence to the agreed terms of reference, interesting results can emerge within the original budget set for this job.

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Marie-Noelle Mulin

Power
Francis Etori
Nicholas Anderson

ROUTING SLIP

Date

April 2, 1975

OFFICE OF THE PRESIDENT

Name

Room No.

Mrs. McNeal

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

Mae,

Do you keep forever?

We're not going to.

B.
Blanche

From

*file
Memo to
Mr. McNamara*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 18, 1970

FROM: John H. Adler

SUBJECT: Meeting on Progress in Operations Evaluation

1. Mr. Willoughby told me that you had suggested we should meet once every two months with Messrs. Knapp, Aldewereld and Chenery in your office to discuss progress on Operations Evaluation. You accepted his suggestion that the first such meeting should be at the end of the month, after Mr. Knapp's return, on the basis of the 'Scope of Work' paper he was then preparing. Accordingly we have arranged a meeting for Wednesday, November 25 at 10.15 a.m. to last up to three-quarters of an hour.
2. I attach a copy of Mr. Willoughby's Progress Report with the 'Scope of Work' attached.
3. On many occasions I have discussed Mr. Willoughby's proposed work program with him. While recognizing the importance of results being forthcoming as soon as possible I have nevertheless remained convinced that the country approach which we had originally agreed on is the correct one - for at least two related reasons. One is that it provides a basis for assessing the Bank's mainly project- and sector-oriented approach, thereby meeting head-on the criticism, sometimes heard, that the Bank is concerned too much about the success of projects and not enough about the success of development. Secondly, in the discussion I told you about with Mr. Conohan of GAO, it became clear - contrary to my expectations - that the interest of GAO was not so much in individual projects as in what they all added up to, i.e. the impact and effectiveness of the Bank's operations as a whole in country development. In this context Mr. Conohan drew a parallel between the Bank's development objectives and the Congressional mandate to U.S. A.I.D. as bases for audits. This does not mean that we should not be able to produce results without long delays; once we are fully staffed up and assuming that we do stay mainly with the country-based approach we should be able to run at least two country studies simultaneously, each study taking some five months and resulting in coverage of some 30-50 projects per annum, depending mainly on the number of projects suitable for re-evaluation in the countries in question.

cc: Messrs. Knapp
Aldewereld
Chenery
Christoffersen
Willoughby

5210 RA
Sector ch - 1.3 - Knapp's
Brown says I can stop it but then
working on this

18 01
APR 3 1971

OFFICE MEMORANDUM

TO: Mr. John H. Adler

FROM: Christopher Willoughby *CRW*

SUBJECT: OPERATIONS EVALUATION: Progress Report No. 1

DATE: November 18, 1970

Since the establishment of the Operations Evaluation Unit in September 1970 our main concerns have been: -

1. Agreement to use country-based approach
2. Agreement to select Colombia as appropriate country for pilot phase
3. Preliminary investigation of the major operations to be covered in connection with Colombia
4. Discussion and thought about scope and emphases of the audit
5. Search for staff and consultants who would be useful to the Unit, especially in its initial phase.

In furtherance of these objectives I made trips to Cambridge, Mass. and to England and attended, with John Blaxall, a timely DAC Conference on Evaluation of the Effectiveness of Aid at Wassenaar near the Hague.

The main immediate product of these efforts is the attached preliminary draft document giving a fairly full description of the Scope of Work proposed on Colombia. The document consists of one broad paper covering the whole field by way of very tentative outline of chapters^{1/} for the final report and, in addition, four annexes,^{2/} one for each of the principal sectors to be covered. The document is intended primarily to delineate and integrate the various aspects to be covered rather than to define hypotheses to be tested. The subject is clearly too complicated to make it appropriate at this time to approach it with any preconceived model in mind for testing. On the other hand it will be important to approach the studies and discussions with some tentatively formulated hypotheses and these are gradually being developed.

The document owes a great deal to what we have learned in recent discussions both in the Bank and outside, including in Europe. It is written not only as a Work Program for my own internal uses but also as a statement suitable for showing people outside the Bank what we are trying to do. In this sense it attempts to meet the criticism of those who say that to evaluate only whether the project was constructed on schedule and within cost estimates and whether its outputs were fully absorbed is to miss the main point.

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- ^{1/} Actually they are rather logical steps in the presentation than chapters, and it is envisaged that in the final outcome some of these steps may be amalgamated into a single chapter and others expanded into several chapters.
- ^{2/} Some of the annexes are still being checked by Projects and Area Departments, and some modifications may result.

The paper does not always make very clear the priorities envisaged among the subjects to be treated. The prime emphasis is intended to be on projects and sectors and our work on these. Hence "Chapters" 5 through 9 in the attached outline are planned to be a good deal more lengthy than the others. For administrative purposes it is useful to divide the work into four somewhat artificially separated subject areas: -

1. Project Economics
2. Project Institution-building
3. Bank Procedures and Techniques
4. Overall "Aid" Relationship

In the final report, as the attached outline shows, the framework will first be set by describing the context in which the IBRD was operating (as a means to help clarify what was exogenous) and by dealing with the overall "Aid" relationship including here the macroeconomic aspects (Government development strategies, Bank policy advice, determination of total amounts of lending, etc.). After this introduction, the bulk of the report will consist of detailed treatment of items (1), (2) and (3) above. Macroeconomic matters will be covered in the report insofar as they are essential for weighing Bank effectiveness and for understanding project selection, evolution, interaction and outcomes. This appears to be the best way of implementing the 'country-based approach'. The main focus, as in the Bank's operational effort, will be on sectors and projects.

Coverage will include, in some depth, developments 1949-70. However it will obviously not be possible to review in any detail the results of loans made in 1966 and since, none of which are yet fully disbursed. This excludes from detailed review of project effects several important sectors - livestock, irrigation, education, Development Finance Companies, telecommunications and water supply. Generally only the pre-commitment phase of these lending operations can be covered satisfactorily. While much of the study will therefore be concerned with events of the more or less distant past, it is intended to try to avoid as much as possible descriptive history in favor of analytical history relevant to problems of the present and future. The purpose of the exercise is to help identify, on the basis of past experience, ways to improve Bank policies and procedures, rather than to contribute to the historiography of the IBRD.

Staffing plans for the Colombia study are at a fairly advanced stage. I was joined at the start of November by a Young Professional, Mr. Faltas, and in the coming weeks a number of consultants and staff will start work on the project. Staff plans fixed already are summarized schematically in the attached sheet. They omit two very important elements: -

- (a) Assistance expected from Colombians, especially in the Planning Office, in the Ministry of Public Works (Transport) and in the Power Companies
- (b) Assistance, minor in time but critical in content, to be negotiated from the Sector and Projects Division of Economics Department for (i) benefit analyses in power and (ii) use of Harvard Transport Model.

Most of the help from both these sources will fit into the "Sector/Projects Economics" block of the table and it revolves essentially around use of two sector computer models - (a) the Jacoby Power Model and (b) the Harvard Transport Model. The Jacoby (also Harvard) Power Model is believed to be fully operational and in use by the Colombians. The Harvard Transport Model is understood to be nearly operational but may need some extra push to bring it to a form in which it can produce satisfactory answers to our questions; it is particularly critical to our effort because our most dubious project from the economic point of view appears to be in this sector and because systems-wide intermodal transport comparisons are intrinsically difficult.

I consider it highly advantageous from several points of view to associate the Colombians in the overall effort to the maximum extent possible, but especially on those aspects of the study which revolve essentially around economic planning techniques. Tentative soundings made with the Colombians by Mr. Frost of the South America Department are promising. I plan to follow up with a visit to Colombia with Mr. Frost on December 1 after starting up the Feedback Inc. (Hexner) job in Cambridge November 30. We may also draw, to a minor extent, on assistance from the original inventors of these sectoral computer models, all in Cambridge, Mass.

For the Colombia effort we have set a target completion date of May 31. Some of the preliminary results on individual projects should be available before that time. I am setting March 30 as the target date for many of the component studies.

Beyond the Colombia effort, and assuming this experiment with the country approach proves fruitful, we are making plans for initiating major efforts on two other countries towards the end of the fiscal year. With a view to covering countries where IDA has figured more prominently than in Colombia, we plan fairly firmly to take Pakistan and more tentatively Ethiopia or China or Thailand (the latter not including IDA of course, but important because of problematic projects). But no approaches have yet been made to Area Departments or countries.

Various departments of the Bank have suggested to us that other dimensions of audit and evaluation effort that should be given priority are:

- (a) Thorough review of possibilities of improving information flows from borrowers to provide 'built-in evaluation'.
- (b) Very selective review of individual problem projects for which loans are planned or already made and drawn to attention e.g. by Area Departments.

My present view is that it is best to concentrate for now on the Colombian effort and to see what we learn from that before embarking on such major undertakings as these. To deal with dimension (b) especially we need to develop experience and techniques for auditing procedures and delays.

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We have naturally had difficulty in securing staff and consultants of competence at short notice for the Colombian job, though I believe that we have now assembled a very good team. Subsequent work will be greatly eased if we can take advantage of present recruiting efforts to make future commitments. With a view to expanding the effort early in the forthcoming FY I would like advance recruitment authorization for three additional positions, to be created this FY only if and when filled this FY.

In view of the experimental and complex nature of our pilot phase on Colombia I would be somewhat loath to initiate other work at this time. Nevertheless I recognize the need to show some early results. Results in a most important sense are I believe shown by the attached Work Plan. To produce hard results about the outcomes of specific loans earlier than these will emerge from our Colombian effort will be difficult. It might be done by a spot-check approach - more along my own original lines of one week and a 3-6 page note for each project visited; that would demand a lot of judgment and expertise. The only alternative which seems to me feasible and not likely to detract too seriously from the Colombia effort is that suggested by Mr. Aldewereld: to locate a single competent sector specialist to prepare the following yearly data for a selected number of power projects, comparing Appraisal Report projections with actual results: -

- (i) project cost
- (ii) project construction schedule
- (iii) load growth and customers added
- (iv) financial rate of return on average net fixed assets in operation

There are of course complications to all of these (e.g. change of project definition, interconnection, rural electrification, purchase of new established markets, revaluation of assets or lack thereof). Moreover it would not be very satisfactory to present divergences between expected and actual results without any comment; substantive comment, on the other hand, would take time. If it were possible, with the help of the Public Utilities Projects Department, to locate and hire a man generally knowledgeable about power operations, retired but still active or from a good consulting firm, it might be possible for him to do an average of two power projects per week, including very brief field visits as necessary to a few. Assuming commencement January 1, this would mean results (with minimal comments) on about 15 power projects, some of them repeaters, by early April.

I intend to submit to you my next full progress report at the end of January 1971, in keeping with Mr. McNamara's suggestion of full review every 60 days.

CRWilloughby:aj

COLOMBIA: OPERATIONS EVALUATION

MANPOWER PLAN as of 11/18/70

Field	Personnel				Chapters ^{a/}
"Aid" Relationship	Berry (12) Faltas (10)				1 - 5
	Power	Steel	Transport	Agriculture	
Project Economics	Marot (20)	Decaux (10)	^{6/} XX (20) Dumoulin (8)Miller (12).....	Faltas (15)	6 - 8
Institution-Building	Raphaeli (24)				9
Procedures	Hexner (5+ 8) + Feedback Inc. ^{c/} (30)				7

"Chapters" 10 and 11 will emerge from the remainder of the study

Personnel as yet unallocated: Goran Dahlgren of SIDA (8)
David Painter (4)

Figures in brackets represent man-weeks

^{a/} So-called "Chapters" are really logical steps of presentation and may be combined or extended.

^{b/} This is the major gap in the staffing plan for which we are currently interviewing a number of candidates.

^{c/} i.e. Mr. Hexner's firm which will carry out detailed review of project files, partly to produce answers on Procedural questions and partly to write summaries that will provide a lot of basic data for the rest of the work.

Personnel

Mr. Albert Berry, Consultant from Yale Growth Center

Mr. Nabil Faltas, Young Professional

Mr. Antoine Marot, young power and hydraulic engineer/economist

Mr. Bernard Decaux, Consultant - industrial economist with OECD, formerly with IBRD

Mr. Jean-Claude Dumoulin, economist in P & B Department

Mr. Morris Miller, economist in EDI, formerly with FAO

Mr. Nimrod Raphaeli, public administration specialist from Development Services Department

Mr. Tomas Hexner, Consultant, formerly with Harvard Advisory Group in Pakistan and closely associated with IBRD

Feedback Inc. - 5 female research assistants

Mr. Goran Dahlgren, economist on loan from SIDA (tentative)

Mr. David Painter, graduate student available for month of January.