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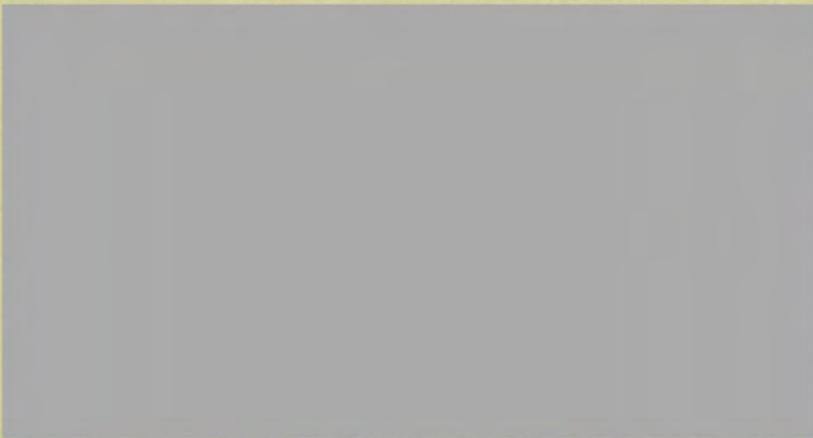
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Special Loan Committee Meeting - Minutes and Memos - 1970 - (October - November)

Classified Loan Committee meeting minutes  
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1983 Procurement Budget  
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Special Loan Committee Meeting - Minutes and Memos - 1970 - (October - November)

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# LOAN COMMITTEE

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SEP 05 2014

November 12, 1970

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## MEMORANDUM TO THE LOAN COMMITTEE

### Jamaica - Agricultural Credit Project

1. The Committee is requested to consider, without meeting, the attached memorandum of November 12, 1970 from the Central America and Caribbean Department, entitled "Jamaica - Proposed Loan for Agricultural Credit Project" (LC/0/70-117).
2. Comments, if any, should be sent to reach Mr. Davar (ext. 4843) by 5:00 p.m. on Monday, November 16.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

#### Copies for Information:

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

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LC/0/70-117

November 12, 1970

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

JAMAICA - PROPOSED LOAN FOR AGRICULTURAL CREDIT PROJECT

Introduction

1. Attached for consideration by the Loan Committee is Appraisal Report No. PA-66 entitled "Jamaica, Agricultural Credit Project", which recommends a Bank loan of US\$3.7 million to the Jamaica Development Bank (JDB), to help finance an agricultural credit project.
2. To date, the Bank has made six loans to Jamaica totalling \$42.8 million (net of cancellations), \$5.5 million for highways (1965), \$20.8 million for power (1966), \$11.2 million for telecommunication (1967, but which was cancelled in 1967 at the Borrower's request and prepaid in full), \$9.5 million for education (1966), \$5 million for water supply (1969) and \$2 million for a population project (1970). The highway and education projects are well advanced, the water supply project has been commenced and the design work for the buildings for the recent population project, has begun.
3. The proposed loan is the first lending operation in FY 1971. Two projects are, however, under preparation which should lead to lending operations in FY 1971, for education and dfc lending for industry and tourism through the Jamaica Development Bank. The Five-Year Lending Program (FY 1970-75) is attached.

Economic Situation

4. An economic mission has just returned from Jamaica. Its tentative findings, discussed during a mid-mission review in late October, support the conclusions of the 1968 economic mission that Jamaica's economic performance has been satisfactory and that the outlook for further growth is quite favorable. With the expected continuance of sound economic and fiscal policies and a more active role by the Government in supporting agriculture and dealing with the high rate of population growth, Jamaica should be considered creditworthy for further external borrowing on conventional terms.
5. The economy has continued to expand during the past two years under the impact of large investments, mainly in bauxite, manufacturing and tourism, in response to favorable government policies toward the private

sector. Growth in real terms has been a little under 5 percent. Gross investments have risen to 28 percent of GDP, of which public investments accounted for about one-fifth. Nevertheless, the relatively high levels of unemployment have remained - the absorption of under-employed agricultural labor has been limited.

6. Fiscal performance on the whole has been good. Public savings have increased sharply as a result of fiscal reforms still in process. Current revenues now come to about 20 percent of GDP. Current expenditure increases have also been rapid, and are likely to continue as increases in civil servants' salaries are put into effect over the next few years. Such increases seem on the whole to be justified, however. Partly because of low salaries and partly because of administrative deficiencies, capable technicians and administrators have been moving from the public to the private sector, placing serious constraints on public sector activities. The adjustment in salaries should help, to some extent, in retaining capable individuals in the public sector.

7. As an offset to growth in the rest of the economy, agricultural output has relatively declined in recent years. In 1968, agriculture's share in GDP had declined to about 9 percent as compared to about 12 percent in 1965. The 1969 output of sugar, Jamaica's leading agricultural crop and agricultural export commodity, was the lowest in almost a decade. Despite Jamaica's attempt to raise the quality and productivity of its second major agricultural commodity, bananas, the country's export marketing arrangement was terminated in early 1970 by the sole marketing channel for Jamaican bananas. Temporary marketing measures have now been instituted to ensure the distribution of this product.

8. To improve the performance in the agricultural sector, the Government has taken an increased interest in strengthening agriculture outside the traditional sugar and banana sub-sectors. Possibilities of increased output exist particularly for coconuts, citrus, beef and dairy products. The Jamaican Government has asked for assistance from the Inter-American Development Bank (IDB) to provide an agriculture credit for farms between approximately 5 to 99 acres. The Bank has been requested to assist in providing credit to "commercial farms" (about 100 acres and upwards). The proposed project has been the result.

#### The Project

9. The project appraised in the attached report is the first project in the agricultural sector in Jamaica for which Bank financing has been requested. The proposed loan would assist the Jamaica Development Bank (JDB) in its lending program for already established and well-operated commercial farms. Under this program, long-term capital would be made available, for the first time in Jamaica, for increasing the production of

citrus for export as also for the growing local demand, and coconuts, beef and dairy products for local consumption, in gradual replacement of imports. The proposed project covers JDB's credit program for expanding/developing about 140 farms and ranches: 50 coconut farms, 30 citrus farms, and 45 beef and 15 dairy ranches. The total acreage involved would be about 23,200 acres. The proposed project also includes provision for technical services in JDB for the operation of its agricultural credit activities. Long-term agricultural credit, 15 years including up to 6 years' grace for coconuts, 15 years including 7 years' grace for citrus, 12 years including 5 years' grace for beef and 10 years including 3 years' grace for dairy farms, would be made available to commercial farmers for investments in land preparation, planting materials, equipment and machinery, water supply, fertilizers, pesticides, fencing and livestock.

10. The project is estimated to cost US\$8.0 million. The appraisal report recommends a loan of US\$3.7 million, equivalent to 46 percent of the total cost, representing the estimated foreign exchange component of the project. On this basis, the appraisal report proposes that the Bank should finance 45 percent of the on-farm investments, JDB 35 percent and the participating farmers the remaining 20 percent. In terms of sub-loans, the Bank would then provide financing to cover 57 percent and JDB 43 percent, of each sub-loan.

11. The sub-loans extended by JDB would be for a minimum of US\$24,000. They would be made at 8-3/4 percent interest per annum, plus a commitment fee of one-half of one percent on the undrawn balance and a flat service charge of one-half of one percent before the first disbursement against the sub-loan is made. Although the current prime rate for lending in Jamaica is around 8 percent, long-term credit for commercial agriculture has not been available. The proposed interest rate of 8-3/4 percent should therefore be competitive while at the same time provide a sufficient spread to JDB for profitable operations. The proposal in the appraisal report is that the farmer should bear the foreign exchange risk, at least in respect of the US dollar, by designating the sub-loans in US dollar equivalent. This was Government's position prior to and during appraisal. However, Government now feels that the assumption of the above-mentioned foreign exchange risk might discourage farmers from borrowing. It is therefore possible that Government might propose during negotiations that the interest rate of 8-3/4 percent be maintained on the sub-loans, that the sub-loans be designated in Jamaican dollars and not in US dollar equivalent and that therefore either Government or the Central Bank (Bank of Jamaica) would take the full foreign exchange risk arising

from the proposed Bank loan. I feel that the Bank should agree to such a proposal.

12. The JDB, whose equity is held by Government and the Bank of Jamaica (the country's central bank), and through which the proposed agricultural credit would be channelled, became operational in September 1969. JDB is a successor to the Government's Development Finance Company, whose assets were taken over by JDB under the Jamaica Development Bank Act of 1969. Its Board represents a fairly diversified cross-section of private sector enterprise and civil servants. JDB has been designed as a multi-purpose development finance corporation, for encouraging investments not only in industrial and tourism sectors, but also for commercial agriculture. Prior to the appraisal of the project, the Bank reviewed the organization of JDB and assisted in formulating the Policy Statement of its Lending Procedures. To facilitate its lending activities in the agriculture field, JDB has established an Agricultural Credit Section, headed by an experienced Jamaican agriculturist with wide knowledge of the country's agriculture. In the initial stages, technical assistance would be provided to strengthen the operations of this new Section, through an experienced livestock specialist and an agricultural economist, who would be internationally recruited and would have to be satisfactory to the Bank. Additional staff would be recruited from local sources. The Agriculture Credit Section would not only assist applicants in developing viable farm plans, but also in implementing and supervising them.

13. The appraisal report also recommends that since the incumbent Deputy General Manager recently resigned, the appointment to this post, satisfactory to the Bank, should be a condition of effectiveness of the proposed loan. Moreover, the report recommends that the Bank be consulted in the future prior to any changes in the appointments of the General Manager and his Deputy. Agriculture Projects Department believes that this is necessary as JDB is a young institution, new to agricultural lending, and because of its structure, it may not always be free of political influence. Further, much of its future activities will be outside agriculture, but lending to this sector nevertheless will affect the overall soundness of JDB. Accordingly, they believe that consultation on successor appointments to top management, as well as the approval of the initial appointment of the Deputy General Manager, would be desirable. I agree with Agriculture Projects Department that it is essential to start out with a satisfactory management. On the other hand, I find it difficult to agree with the proposed broad prior consultation clause on changes in the top management for the following reasons. The agriculture credit activities of JDB, though important for Jamaica, constitute less than 25 percent of JDB's anticipated overall

lending operations. The majority of these operations will be in the industrial and tourism fields, for which Bank lending is anticipated following an appraisal in the next few months. JDB and other bilateral sources are also providing or propose providing, lines of credit for these activities. In the context of the Bank's DFC activities, it has been a well-established practice that changes in management of a DFC borrowing from us are not made subject to a legal undertaking with the Bank. Since the proposed arrangements regarding the Agricultural Credit Section provide satisfactory assurances regarding the agricultural sub-loans, I recommend that prior consultation on changes in management in the JDB should not be made a formal condition. I do expect that in practice, as under the Bank's DFC loans, we would be able to establish and maintain a close enough relationship to have a periodic process of consultation.

14. To facilitate the smooth execution of its agricultural programs, the Government has established a Coordinating Committee. The Committee consists of the Permanent Secretary of the Ministry of Agriculture and Fisheries as Chairman, and one senior official each of the Ministries of Finance and Planning, and Rural Land Development and the JDB. The Committee is to review Government programs for agriculture, to ensure that any program for agricultural credit, including that provided by JDB, is coordinated within the context of Government policies and priorities in order to facilitate an orderly and rapid development of the agricultural sector.

15. The project would have as its main direct benefits, the improvement of Jamaica's balance of payment position through the increase in export earnings (citrus), and by import substitution (vegetable oils, meats and dairy products). The annual net foreign exchange earnings and/or savings attributable to the project would be about US\$3.0 million, at the project's full development, of which, about US\$1.0 million equivalent would be export earnings. The rate of return to the economy, over an average project life of 20 years, is estimated at 17 percent. By developing and planting about 23,200 acres of mostly idle lands, the project would enlarge the country's agriculture industry and in the long run, should stimulate production beyond this acreage by making considerable earnings available for reinvestment in agriculture. Lending for coconut planting would accelerate the current program of planting Malayan dwarf coconuts which are highly resistant to the lethal yellowing disease, which is presently devastating Jamaica's tall coconut plantations. Secondary benefits such as the domestic value added by processing the project's products, the benefits of increase employment on farms and for processing facilities, which are all unquantifiable, would be in addition to the already satisfactory economic rate of return.



Recommendation

16. I recommend that the Jamaica Development Bank and the Jamaican Government be invited to negotiate a loan for the proposed Agriculture Credit Project, on the terms and conditions set forth in the appraisal report, except for the amendment proposed in paragraph 13.

Edgar Gutierrez  
Director

Attachments

Population: 1.9 m  
 GNP Per Cap: \$460

IVa. JAMAICA - 5 YEAR LENDING PROGRAM

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

IBRD	<u>2.0</u>	<u>18.0</u>	<u>20.0</u>	<u>29.0</u>	<u>15.0</u>	<u>23.0</u>	<u>48.2</u>	<u>74.0</u>
No.	1	3	3	4	2	3	4	12

# LOAN COMMITTEE

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November 12, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### India - Wheat Storage Project

1. The Committee is requested to consider, without meeting, the attached memorandum of November 12, 1970 from the South Asia Department, entitled "India - Wheat Storage Project" (LC/0/70-116).
2. Comments, if any, should be sent to reach Mr. Clevenger (ext. 3510) by 5:00 p.m. on Monday, November 16.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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LC/0/70-116

November 12, 1970

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA - WHEAT STORAGE PROJECT

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Background

1. Attached is an Appraisal Report (No. PA-64) dated October 29, 1970 recommending that the Association make a credit to India of U.S. \$5.0 million equivalent for this project. In conjunction with the Association, the Government of Sweden also intends to make a loan on IDA terms of U.S. \$5.0 million equivalent for the project.

2. The Wheat Storage Project would finance: (a) storage facilities with a total capacity of 30,000 tons; (b) the training of silo personnel; (c) an All-India Grain Storage and Distribution Study. The facilities would be located in northwest India, where wheat production has risen sharply in recent years. They would go some way towards meeting the urgent need for storage and alleviate pressure upon rail transport during the immediate post-harvest season.

3. This project, if approved, would be the first Association credit for grain storage facilities in India. A Bank identification mission discussed the project with the Food Corporation of India (FCI) and other authorities in June, 1969. An appraisal mission, which included a representative of the Swedish International Development Authority (SIDA), visited India in March/April 1970, and details of the project have been discussed subsequently in Delhi and Washington, D.C.

Bank/IDA Lending Program

4. The proposed credit will be the sixteenth lending operation of the Bank Group in support of agricultural projects in India, including the Andhra Pradesh Agricultural Credit Project negotiations for which began on November 9. It will be the seventh Indian agricultural project since February 1970. A copy of the current lending program for 1970-75 is attached (Annex 1).

### The Economy

5. The most recent economic report, "Economic Situation and Prospects of India" (SA-13, April 29, 1970), revealed favorable trends in the economy including an improved balance of payments position and rising agricultural production. In spite of these developments India requires large amounts of net aid on concessionary terms. The economic situation (see paragraphs 380-391 of the economic report) justifies financing part of the local currency expenditures of projects, such as this, the foreign exchange component of which is low.

### The Project

6. India maintains storage facilities for both operational purposes and for her contingency program. Operational stocks are those stored following the harvest for use throughout the year; contingency stocks are those retained for a period of more than one year against the possibility of future shortages owing to crop failures. The same facilities, of course, may be used for either purpose. India's present public storage requirements for operational purposes are about 3.9 million tons; in addition, the Government at present has in storage about 2.0 million tons of contingency stocks. To meet these storage requirements (5.9 million tons total) India has about 5.0 million tons of publicly-owned storage facilities, much of it unsatisfactory. Private storage is not the answer because local supply has not kept up with expanding demand. The present gap, about 0.9 million tons, is expected to widen rapidly as production increases and India accumulates contingency stocks, the target for which is five million tons. This project will, therefore, meet a small part of India's needs. It will consist of: (a) the planning, design, construction and equipping of 10 silos, each of 20,000 ton capacity, and of 10 godowns (warehouses) for flat storage, each with a 10,000 ton capacity; these facilities will be located in the states of Punjab, Haryana, Rajasthan and Uttar Pradesh; (b) the training of silo operators overseas and (c) an All-India Grain Storage and Distribution Study.

7. The principal objective of the project is to provide operational storage facilities in northwest India. Benefits would accrue primarily from a reduction in losses of wheat stored under present conditions, which are estimated in the appraisal report at 25 percent per year. The economic rate of return for the operational use of these facilities is also estimated at 25 percent. If, eventually, the project storage were used in part to keep contingency stocks, the economic rate would be about 18 percent. The location of the proposed facilities in the "wheat belt" will also reduce the strain upon the transportation system during the post-harvest period. The lack of storage at this critical period is particularly acute. At the present time wheat is placed in make-shift facilities, in schools and even in the open. Transfer of recently harvested grain quickly to proper storage is especially vital because the monsoon closely follows the harvest.

8. The estimated total cost of the project is Rs 119.3 million (US\$15.9 million). The proposed Association credit and Swedish Government loan, each of US\$5 million, would provide about 63 percent of the project cost. The contribution of the Government of India would be about Rs 44.3 million (US\$5.9 million). IDA and Swedish Government funds would be disbursed pari passu and would finance 100 percent of the CIF cost of imported items, such as equipment for fumigation, etc., (US\$500,000), the foreign exchange cost of consultants (about US\$284,000) and the training of silo operators (about US\$71,000). The combined credits would finance in addition the indirect foreign exchange component (about US\$2,145,000 equivalent) and about 50 percent of the estimated local cost of the project excluding the purchase of land. The 25 percent of costs allowed for contingencies is similar to the basis used in computing IDA credits for other recent agricultural projects. It includes a provision for price escalation over the three-year project implementation period of about 10 percent. The remaining 15 percent is required to allow for possible increased costs as a result of the lack of experience of local contractors in using the slip-form method of construction and of foreign contractors in using this technique in Indian circumstances.

9. Procedures for procurement would follow the agreements with India reached during the Annual Meeting. Domestic suppliers of equipment would be allowed a preference of 15 percent or the import duty, whichever is lower. If the Government of India asked that certain items of equipment that would normally be appropriate for international competitive bidding be reserved for domestic suppliers and this request were accepted, these items would not be financed by the IDA credit and Swedish Government loan. So far as the silos are concerned, it is proposed to use the slip-form method of construction which is unfamiliar in India. Its advantages are greater strength, less weight and, therefore, ultimately lower costs. Since FCI's engineering department lacks experience, especially in silo design and construction, it is proposed that as a condition of effectiveness FCI engage local engineering consultants, who will in turn associate themselves with experienced internationally recruited consultants, in order to help design the silos and to supervise their construction.

10. Since the project was appraised, the GOI has informed the Association that 18 of the required sites have been acquired and that the remaining two can be obtained expeditiously. Assurances will be requested that suitable sites have been chosen; at or before negotiations the criteria for their selection will be examined. If at the time of negotiations sufficient information is not available to evaluate site selection, the Association will require additional information to confirm the suitability of any questionable sites as a condition of effectiveness. The acquisition of all the sites, if not already accomplished, will be a condition of effectiveness.

11. The All-India Grain Storage and Distribution Study included in the project is highly desirable to determine that current policies in this important field are appropriate and that measures are taken to maximize efficiency in operating the present storage capacity and in planning additional investment. We would expect that such a study would be of considerable assistance in identifying and preparing subsequent projects. The Appraisal Report recommends that this study be carried out by consultants. However, since appraisal the GOI has set up a committee of senior officials to conduct a similar but less comprehensive investigation. It is unlikely that the GOI will agree to separate study by consultants, and during negotiations an attempt will be made to persuade India to expand the terms of reference of its own study and to agree to arrangements allowing for the use of consultants to complement the work of the committee and its staff. The Projects Department has agreed to this approach.

12. The Appraisal Report recommends as a condition of effectiveness appointments to the staff of FCI. These are an economist to head the Planning and Research Department and a cost comptroller responsible to the Managing Director or, alternatively, the establishment of a cost control unit. Since appraisal, the position of head of the Planning and Research Department has been filled by a temporary appointment. I have discussed this matter with the Projects Department, and we have agreed that delay in filling these posts would not warrant holding up the work on the project.

13. The Appraisal Report (paragraph 8.02) recommends that the Association require confirmation of the Government's decision that FCI should become financially self-supporting. It appears that there is some doubt about the Government's intentions. In view of the budgetary implications of the continuation of present policies and the desirability of GOI continuing to follow price policies which encourage increased agricultural production, Agricultural Projects Department have agreed that during negotiations we will seek further information about agricultural price policies and how they are expected to affect the operations of FCI.

14. The Swedish International Development Authority has examined the Appraisal Report in draft and has approved the project. SIDA agrees that procurement conditions should permit foreign firms to compete for silo contracts. The Swedish Government will be represented at the negotiations.

#### Recommendation

15. I recommend that the borrower be invited to negotiate the proposed credit on the basis of the recommendations made in the Appraisal Report.

I.P.M. Cargill  
Director  
South Asia Department

Population: 556 m  
 GNP Per Cap: \$76

IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total
		Fiscal Year					1964-68	1969-73
		1970	1971	1972	1973	1974	1975	
Agric. Credit - Punjab	IDA	27.5						
Agric. Credit - Gujarat	IDA	35.0						
Agric. Credit - Haryana	IDA		35.0					
Agric. Credit - Tamil Nadu	IDA		35.0					
Agric. Credit - Andhra-Pradesh	IDA		26.0					
Agric. Credit - Mysore	IDA			25.0				
Agric. Credit - Maharashtra	IDA			25.0				
Agric. Credit - Unidentified	IDA			25.0				
Irrigation - Kadana	IDA	35.0						
Irrigation - Cauvery Delta	IDA		21.0					
Irrigation - Pochampad	IDA		40.0					
Irrigation - Tawa	IDA		30.0					
Irrigation - Andhra-Pradesh	IDA			35.0				
Irrigation - Jayakwadi	IDA			30.0				
Irrigation - Unidentified	IDA			20.0				
Grain Storage	IDA		5.0					
Agricultural Aviation	IDA		6.0					
Agric. Industry Unident.	IDA			10.0				
Agric. Unident. (7 projects)	IDA			150.0				
Agric. Unident. (7 projects)	IDA				165.0			
Agric. Unident. (7 projects)	IDA					165.0		
Telecommunications IV	IDA		60.0					
Telecommunications V	IDA			40.0				
Telecommunications VI	IDA				40.0			
Telecommunications VII	IDA						35.0	
DFC - ICICI VIII	IBRD	40.0						
DFC - ICICI IX	IBRD			40.0				
DFC - ICICI X	IBRD						40.0	
Education - Agric. University	IDA			20.0				
Education Unidentified	IDA						20.0	
Fertilizer - Nangal (Public)	IDA			20.0				
Fertilizer - Cochin (Public)	IDA	20.0						
Fertilizer Manuf. Plant - Tata	IDA			25.0				
Fertilizer - Debottlenecking	IDA		5.0					
Iron Ore - Marcona	IDA			40.0				
Industry - Unidentified	IDA				25.0			
Industrial Imports VI	IDA	75.0						

(Contd.)



## IVa. INDIA - 5 YEAR LENDING PROGRAM

(\$ millions)

(Contd.)		Fiscal Year					Total	
		1970	1971	1972	1973	1974	1975	1964-68
Family Planning	IDA		10.0					
Power Transmission	IDA		40.0					
Power Transmission	IDA			60.0				
Power Unidentified I	IDA				15.0			
Power Unidentified II	IDA					15.0		
Power Unidentified III	IDA						60.0	
Highways II	IDA			30.0				
Railways X	IDA	55.0						
Railways XI	IDA			50.0				
Transportation Projects Unident. II	IDA				60.0			
Transportation Projects Unident. III	IDA					50.0		
Water Supply - Bombay	IDA		27.5					
Water Supply Unidentified I	IDA				15.0			
Water Supply Unidentified III	IDA					15.0		
Unallocated I	IDA			110.0				
Unallocated II	IDA				15.0			
Unallocated III	IDA					35.0		
Unallocated IV	IDA						40.0	

IBRD	40.0			40.0		40.0	189.0		
IDA	227.5	360.5	525.0	320.0	320.0	320.0	591.0		
Total	267.5	360.5	525.0	360.0	320.0	360.0	780.0		
P & B	10/16/70	No.	6	14	15	14	12	12	13

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

245.0 350.0 350.0 350.0 350.0

# LOAN COMMITTEE

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LM/M/70-44

November 10, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Venezuela - Caracas Metro Project" held at 9:45 a.m. on Thursday, November 5, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

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### Committee:

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

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

November 10, 1970

Minutes of Special Loan Meeting to discuss "Venezuela - Caracas Metro Project" held at 9:45 a.m. on Thursday, November 5, 1970 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Cope, Baum, Gutierrez, E.P. Wright, Cancio, Elkouby, Wyss, Goldberg, Schloss and Pearce (Secretary).
2. Issue: The meeting had been called to consider Mr. Wright's memorandum of November 4, 1970 to the Chairman, which reviewed Venezuelan proposals for procurement and financing for the proposed Caracas Metro project (cf. also LC/O/70-108 dated October 2, 1970 and LC/M/70-10 dated October 16, 1970). The project would be split into two parts: (a) infrastructure, contracts for which, with one exception, would be awarded in accordance with the Bank's guidelines for international competitive bidding and be eligible for Bank financing of up to about \$33 million in respect of their presently estimated foreign exchange component, and (b) rails and equipment, bids and supplier financing for which would be invited from all Bank member countries and Switzerland. The main issue for discussion was Mr. Wright's recommendation, supported by the Special Projects Department, that the Bank and the Venezuelans should agree upon general guidelines for the procurement of rails and equipment but that the Bank should not supervise the evaluation and award of contracts.
3. Discussion: The meeting noted that:
  - (a) The prospect of keen competition for rail and equipment contracts (because of large follow-up orders that would follow at later stages of the Metro's development) would probably enable the Venezuelans to obtain better terms under the type of parallel financing proposed than under organized joint financing, where supplying countries would be better able to resist a "credit race." Moreover, joint financing, implying Bank supervision of procurement, would oblige the Bank to increase the size of its proposed loan to cover not only the foreign exchange cost of infrastructure, but also part of the cost of rails and equipment as well.

- (b) However, although this was unlikely, the Venezuelans might award a contract which, in the Bank's view, was unwarranted (i.e. in a manner which did not represent an optimum use of resources or which treated a supplying country unfairly) and, while this would be strictly the Venezuelans' responsibility under the type of parallel financing arrangements proposed, the Bank could hardly ignore any action by the borrower which might prejudice the project's execution. Moreover, it was always possible that some supplying countries, particularly those not awarded contracts, would look to the Bank to redress their grievance, even though the Bank would have no formal responsibility in the matter.
- (c) In these circumstances, a requirement that the Venezuelans employ consultants to supervise the procurement of rails and equipment and a Venezuelan representation to the Bank that they would observe guidelines agreed with the Bank for tendering and bid evaluation, together with the loan agreement's usual general performance covenant, would meet the possible difficulties noted above. If it were necessary for the Bank to intervene because a contract award appeared to prejudice the project's execution, it could do so under the general covenant.

4. Decision: The Chairman approved Mr. Wright's recommendation that the Venezuelans' proposals for procurement and financing be accepted, with the addition of the two points in paragraph (c) above, and that equipment supplying countries enquiring about the proposed procurement and financing of the project be so informed.

David Pearce  
Secretary

Cleared by: Messrs. Cope  
Baum  
Gutierrez/Wright/Wyss  
Cancio  
Elkouby

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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SEP 05 2014

November 6, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Chile - Second Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum of November 6, 1970 from the South America Department, entitled "Chile - Proposed Bank Loan to Corporacion de Fomento de la Produccion (CORFO) for a Second Livestock Development Project" (LC/0/70-114).
2. Comments, if any, should be sent to reach Mr. Ahmad (ext. 4767) by 5:00 p.m. on Tuesday, November 10.
3. When the discussions proposed in paragraph 2 of the attached memorandum have reached a suitable stage, it is planned then to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on terms and conditions to be determined later.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

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

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LC/0/70-114

November 6, 1970

LOAN COMMITTEE

Memorandum from the South America Department

CHILE - Proposed Bank Loan to Corporación de Fomento de la Producción (CORFO) for a Second Livestock Development Project

1. Attached is Appraisal Report PA-65 recommending a Bank loan of US\$21 million to the Corporación de Fomento de la Producción (CORFO) with the guarantee of the Republic of Chile for a Second Livestock Development Project. The loan made in 1963 (366-CH) for the First Livestock Development Project is now nearly fully disbursed. The proposed loan would be the Bank's nineteenth operation in Chile and would bring the total of Bank lending to US\$255.6 million. Of the eighteen previous loans, fourteen have been made to CORFO with the guarantee of the Government. The last Bank loan was one of US\$10.8 million for the Second Highway Construction Project, made in June 1970. No other loans are planned for the current fiscal year.
2. The purpose of this memorandum is to elicit the Loan Committee's views on the project issues which have arisen in connection with the Appraisal Report. I am not now requesting the Committee's authorization to invite for negotiations since before this step can be contemplated discussions will have to be held with the new Government which has just taken office in Chile. In addition to determining the Government's interest in the project and its views on important project issues, we will need to try to assess how the Government's economic policies are likely to affect the creditworthiness judgments expressed in the last economic report (WH-202b) and its overall views on the future of Bank-Chile relations. I intend to invite the new Government's attention to the economic report as the basis for beginning a dialogue and to indicate that we are ready to have discussions at the Government's earliest convenience. When discussions with the Government have reached a suitable stage, I will inform the Loan Committee of the results and, assuming these are positive, make specific recommendations as to the terms and conditions on which negotiations for the proposed loan should be undertaken.

### The Lending Program

3. The current five year lending program is attached. As reviewed by Mr. McNamara on June 24, 1970, the FY-1971 program included a power loan of US\$50 million in addition to the livestock loan currently under consideration. However, because of delays on the project side and in view of the aforementioned need for discussions with the new Government, this loan has been put back to FY-1972. Besides the power loan, the FY-1972 program includes four loans in the following sectors: irrigation, fruit development, ports and railroads. The status of the entire lending program will, of course, have to be reviewed in the light of the outcome of the proposed discussions with the Government. This is likely to be particularly important for the proposed rail and port loans, which would involve a substantial measure of agreement with the Government on sector issues and institutional reforms.

### The Project

4. The proposed loan would assist in financing the continuation and expansion of the livestock development project started under the first loan. The latter loan got off to a very slow start but since re-appraisal in 1966 has progressed satisfactorily. The new loan would specifically help to finance:

- (a) development investments in about 900 farms, and assistance to contractors in acquiring machinery and equipment to provide on-farm services;
- (b) expansion of milk processing facilities to meet expected production increases from both the earlier and the proposed project; and
- (c) assistance to farmers in developing technical services and expansion of facilities for animal health and insemination services.

A new aspect of this project would be that approximately 100 loans would be made to agrarian reform settlements (asentamientos) established under the land reform law. Loans to these settlements will be made on the guarantee of the Corporación de la Reforma Agraria (CORA), the Government institution charged with the responsibility of implementing the land reform. Initially, loans would be made to 50 asentamientos, with further lending to such settlements to be on terms and conditions agreed by the Bank and the Borrower on the basis of the experience gained from the first loans.

5. The total cost of the project is estimated at about US\$59 million. The proposed loan of US\$21 million would be for 15 years including a five-year period of grace, and would finance the total foreign exchange requirements of the project. Procurement of farm machinery and equipment will be on the basis of international competitive bidding. The purchase of cattle, however, will be exempt from international competitive bidding because the type and quality of animals required are available in only a few countries. This project would be administered by the special organization created within CORFO to manage the first project. This organization is now efficient and staffed by highly qualified technicians; in order to manage both the existing and the new project the staff would be increased slightly.

#### Main Issues

6. Level of Interest Rates. The Appraisal Report proposes that loans to ranchers be fully adjusted by the cost of living index and that 9 percent interest be charged. At present, borrowers under the first project are actually paying a negative rate of interest owing to the fact that only half of each loan is indexed and that interest is computed on the unadjusted loan balance. The latter practice is a result of a law passed at the end of 1968 which forbids CORFO from charging interest on an adjusted basis. In discussions with CORFO concerning the new project it was agreed that sub-loans would have to be fully indexed and a realistic interest rate charged. CORFO indicated that it believed that a 6 percent rate would be suitable in the light of prevailing interest rates charged by other institutions for similar loans and that such a rate would be acceptable to the ranchers. This question is likely to be a sensitive one for the new Government and its views will have to be ascertained. If the 9 percent rate suggested in the Appraisal Report proves acceptable I would recommend that the project go forward on this basis. However, I believe that the establishment of the principle of maintaining adequate positive interest rates through indexing--which would mean a very substantial improvement over the first project--is a more important consideration than the precise level of the interest rate and I may wish to recommend a lower rate than 9 percent if we find the latter to be unacceptable to the borrower and the Government.

7. Indexing Mechanism. The Appraisal Report recommends that repeal of the law prohibiting CORFO from charging interest rates on adjusted loan balances be made a condition of signing. It recognizes, however, that repeal of this law may not be practicable and that the objective of assuring that positive real interest rates are charged can be attained by alternative means. While CORFO and the previous Government agreed that the law in question is unreasonable and should be repealed, they indicated that this would be politically difficult and would unduly delay the project. I propose that we reopen the question of repeal with the new Government but that if this proves unacceptable, as it very well may, we focus our discussions on reaching agreement on an



alternative mechanism for accomplishing the same end. Such an alternative, as previously discussed with CORFO, would involve charging, in addition to interest on the unadjusted balance, a "commission" which could be levied on the adjusted balance. The commission would be fixed in view of the prospective rate of inflation at a level such that farmers would in effect be paying, in interest and commissions together, the real rate of interest agreed upon. CORFO has already begun applying such commissions to certain of its agricultural loans and has assured us this is a legally valid procedure; we would, of course, ask that the legality of the commission mechanism be specifically covered in the legal opinions required for the effectiveness of the loan.

8. Technical Directors. The Appraisal Report recommends that CORFO agree to recruit "expatriate" technical directors acceptable to the Bank. While I agree that the Bank must have adequate assurance that qualified technical directors are employed, I believe it would be inconsistent with Bank policy and counterproductive in the circumstances to propose language to the Chilean Government which would exclude Chileans from consideration from these posts because of their nationality. As OM 5.04 states (para. 12), in framing management covenants "the governing consideration should be the ability and experience of the personnel involved without regard to nationality." I, therefore, propose that the condition that the technical directors be "expatriates" be dropped and instead arrangements be made to insure that suitably qualified personnel irrespective of nationality are appointed.

9. Producers' Incentives. While inadequate product prices were one of the causes of delay at the beginning of the first project, the former Government took action to improve incentives and these are now satisfactory. The analysis in the Appraisal Report demonstrates that, if existing price relations are maintained, the investments that would be financed under the loan would produce an attractive financial return to the ranchers and a high overall return to the economy. While the previous Government had demonstrated the priority it attached to the maintenance of adequate incentives, the new Government's views in this respect will have to be determined. Before recommending that negotiators be invited I will want to be satisfied that the Government intends to maintain adequate incentives and is willing to give us specific assurances on this score.

Gerald Alter  
Director

Attachment

Population: 9.1 m  
 GNP per Capita: \$470

Attachment

CHILE

FIVE YEAR LENDING PROGRAM  
 (US\$ million)

		Fiscal Year					Total	Total	
		1971	1972	1973	1974	1975	1976	1964-68	1969-73
Irrigation - Aconcagua	IBRD		15.0						
Irrigation III	IBRD					15.0			
Fruit Development I	IBRD		10.0						
Fruit/Wine Development II	IBRD						10.0		
Livestock II/Agr. Reform	IBRD	21.0							
Livestock III/Agr. Reform	IBRD				25.0				
DFC I	IBRD			20.0					
DFC II	IBRD					30.0			
Education IV	IBRD			5.0					
Education V	IBRD				3.0				
Power VI	IBRD		50.0						
Highways III	IBRD			13.0					
Highway Construction IV	IBRD						10.0		
Port Improvement	IBRD		8.0						
Ports II	IBRD						5.0		
Railroad Rehabilitation	IBRD		26.0						
	IBRD	21.0	109.0	38.0	28.0	45.0	25.0	91.1	202.9
No.		1	5	3	2	2	3	5	13

November 5, 1970  
 South America Department

# LOAN COMMITTEE

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LM/M/70-43

November 6, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Guinea - Boke Project Extension" held at 11:30 a.m. on Friday, October 30, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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

November 6, 1970

Minutes of Special Loan Meeting to discuss "Guinea - Boke Project Extension" held at 11:30 a.m. on Friday, October 30, 1970 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Aldewereld, Broches, Baum, Chaufournier, Fuchs, Knox, Delaume, Paijmans, Higginbottom, Sander and Pearce (Secretary).
2. Issue: The meeting had been called to discuss a memorandum dated October 27 from Mr. Chaufournier to Mr. Knapp which recommended that the Bank should consider financing the \$4-5 million foreign exchange cost of a proposed \$7.3 million extension to the Boke infrastructure project. The Bank had made a \$64.5 million loan in September 1969 (557-GUI) to help finance infrastructure (railroad, port and township) in connection with the mining of bauxite deposits near Boke in northwestern Guinea.
3. Discussion: In considering Mr. Chaufournier's memorandum, the meeting noted that:
  - (a) The proposed extension of the mining and associated infrastructure projects, which would permit output and handling capacity to increase from 5.1 million to 9 million tons of bauxite annually, would strengthen substantially the entire venture and justified additional Bank assistance.
  - (b) However, in view of Guinea's continued lack of creditworthiness, the Bank would require security for a second infrastructure loan similar to that negotiated for the first (557-GUI). The Government and stockholders of Compagnie de Bauxite de Guinee (CBG), guarantors of the first loan, were prepared to extend their guarantees to a second loan.
  - (c) The question whether the "8 1/2% letter," limiting the impact of high interest rates on payments to Guinea under the existing financial plan, should also apply to incremental financing for the proposed extension, was a matter for negotiation between CBG and the Government in which the Bank need not take a position.
  - (d) On the other hand, the financing of the mine extension exclusively by long-term debt would, if proposed, be a matter of concern to the Bank, which should urge that the sponsors contribute part of the necessary funds as equity or in the form of subordinated shareholders' advances. If only for presentational purposes, it was desirable that the original project's debt-equity structure be preserved for the proposed extension.

- (e) Procurement for contracts to be financed wholly or in part from the proceeds of a second loan for infrastructure extension would be subject to full international competitive bidding or, for example in the case of certain civil works, to negotiated extension of contracts originally awarded after international tender, if appropriate.
- (f) While the estimated foreign exchange cost of the infrastructure extension and the tentative amount of the proposed loan was \$5.2 million, only \$2.5 million would be directly attributable to the increased output of bauxite; the balance of \$2.7 million would be required for improvements to the entire project. The question would therefore arise whether about \$1.6 million of this latter amount - about \$848,000 for sanitation works which could be executed more economically by local manual labor and about \$429,000 and \$221,000 for furniture and air conditioning respectively - should be financed by the proposed second loan. The Chairman said that, pending appraisal of the kind of furniture and equipment involved, there was no reason in principle why, if they were necessary and modest in amount, the Bank should not finance these items.

4. Decision: The Chairman approved the Western Africa Department's recommendation that the Boke infrastructure extension project be appraised for a loan of \$4-5 million, with a view to its presentation to the Executive Directors during the current fiscal year.

David Pearce  
Secretary

Cleared by: Messrs. Knapp/Cope  
Broches  
Baum  
Chaufournier/Paijmans  
Knox  
Fuchs

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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SEP 05 2014

November 6, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Korea - Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum of November 6, 1970 from the East Asia and Pacific Department, entitled "Korea - Proposed \$7 million Development Credit for Livestock" (LC/0/70-115).
2. Comments, if any, should be sent to reach Mr. Baig (ext. 2387) by 5:00 p.m. on Tuesday, November 10.
3. It is planned then, if the Committee approves, to inform the Government and the Korea Dairy Beef Company that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

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SEP 05 2014 LC/0/70-115

November 6, 1970  
WBG ARCHIVES

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

KOREA - Proposed \$7 Million Development Credit for Livestock

1. Attached is an appraisal report (PA-63) dated October 20, 1970 recommending a \$6 million IDA credit to help finance a dairy-and-beef industry project. Our lending program for Korea originally provided for a \$10 million IDA credit for this project. This amount was determined by what we thought the blend between Bank and IDA lending in Korea should be. As the appraisal mission reports, the project is somewhat less extensive than we had expected and by financing the foreign exchange cost of it our IDA lending to Korea in the current fiscal year will fall substantially short of what we thought reasonable. For this reason, I would like to ask the Committee to consider lending a somewhat larger amount than \$6 million for this project. An additional \$1 million could cover some of the local cost of the milk processing plants, and would raise our share of financing of the total project cost from the present 48% to 55%. The case for local currency financing in Korea has been made in the past and rests on the satisfactory savings performance, particularly the rapid growth and high level of public savings, combined with a scarcity of high priority projects with large foreign exchange components. When we present the project to the Executive Directors we would, in our justification of local currency financing, refer to its high priority and its importance as the first project of its kind in Korea. The Agriculture Projects Department has been informed of the proposed increase in the amount of the credit and is considering it.
2. An economic mission has just returned from Korea and is writing its report, which should be ready early in 1971. GNP in real terms increased by 11.6% during the first half of 1970 and growth for the entire year is expected to be of the same order, compared with a growth rate of 15.5% in 1969. While the relatively slower growth reflects the slowdown of investment activities in response to tight limitations on domestic and foreign credit, the economy remains buoyant. Exports, increasing at 40%, are expected to come close to the \$1 billion target set for this year. Imports have slowed down considerably, increasing by only 11.0% during the first six months of this year compared to 22.0% during the same period in 1969. This has led for the first time to an absolute decrease in the trade deficit. Unfortunately the usual surplus on services account suffered because of reduced earnings from Vietnam, so the current deficit was about 10% larger than last year.

3. Following rapid price increases in 1968 and 1969, Korea, under the 1969 and 1970 Standby Agreements with the IMF, undertook to limit drastically the scope for domestic credit expansion. It is living up to these undertakings and as a result prices have remained reasonably stable. The Government has also observed the ceilings imposed by the 1969 and 1970 Standby Agreements on the flow of additional short and medium term debt. Consequently, the structure of Korea's external debt has improved slightly during the last two years. However, debt service for this year is expected to absorb 20% of foreign exchange earnings and is not likely to decrease significantly in the near future. The Government recognizes the need to maintain monetary stability and to keep debt service within manageable limits, and has shown skill and determination in the implementation of policies aimed at stabilization. This and the continued dynamic performance of the economy should enable Korea to incur and service reasonable amounts of longer term debt. However, to ease the impact of past heavy reliance on medium and short-term debt, and because Korea is still a relatively poor country, some assistance on IDA terms continues to be appropriate.

4. The Five Year Lending Program (attached) reflects our assessment, put forward in the Country Program Paper in February and later confirmed during Mr. McNamara's visit to Korea in May, that agriculture, transportation and education, which have not expanded in line with the considerable growth of the industrial sector, require priority in financing. Agricultural growth in particular has been below expectations, partly as a result of recent droughts, but also because of lack of investment. The Government recognizes this deficiency and is giving greater emphasis to raising agricultural production and the living standards of the rural population. The Bank so far has made a \$45 million loan to help finance an irrigation project which is just getting under way. A number of other agricultural projects such as seed improvement, agricultural credit and a second irrigation project, are being prepared and will be considered during the next two years. The proposed project is the first in livestock in Korea.

5. At the present time the livestock and dairy processing industries in Korea are in their infancy. The cattle population consists of slightly more than one million head, mostly native Korean cattle, and beef production is about 40,000 tons, based on the slaughter of draft animals. Dairy cattle have increased considerably in the past few years, but still number only about 15,000. Milk processing operations started only within the past decade.



6. The project would be within Korea's current Four-Year Livestock Industry Development Program, which envisages increased cattle imports, the development of dairy farms through forage development on slopelands, on-farm investments and the construction of dairy processing facilities. The project was prepared in part, at our suggestion, by consultants engaged by the Overseas Technical Cooperation Agency of the Government of Japan. It would provide financing for the development of about 700 new dairy farms and the construction of two modern dairy products processing plants. The project would also assist the Government in developing a coordinated program of applied research and demonstration in livestock production.

7. The project would be carried out by the Korea Dairy Beef Company (KDBC), a wholly-owned subsidiary of the Agriculture and Fishery Development Corporation (AFDC). The latter was established in 1967 by the Government to foster agro-industry through equity investments and loans out of capital subscribed by the Government. AFDC's management is sound and generally able to provide technical guidance to its affiliated companies. However, AFDC does not have expertise in livestock and dairy management, so management services will be needed for certain parts of the project.

8. The Korea Dairy Beef Company was founded by the AFDC in February 1969, to engage in dairy production, milk processing, and marketing. Its share capital, entirely held by AFDC, amounts to 165 million won (\$540,000). To provide the local construction costs of the two milk processing plants, which it will own and operate, the authorized capital of KDBC should be increased to about 300 million won (\$1 million) and paid in by AFDC over the construction period of the project. An undertaking to this effect would be obtained during negotiations.

9. The KDBC does not presently have sufficient staff, and its organizational structure is not adequate, to carry out the project satisfactorily. Five major departments would be established: Administration, Technical Services, Dairy Processing, Marketing and Credit. Technical specialists would be provided, especially for the critical Technical Services and Dairy Processing Departments, and the satisfactory expansion and staffing of KDBC would be a condition of effectiveness of the proposed credit. The new organizational structure of KDBC has been discussed fully in Korea with the interested parties and has been accepted by them.

10. The project's estimated foreign exchange component is about \$6.0 million, or about 48% of the total project cost. Thus the proposed IDA credit of \$7 million would cover the entire foreign exchange cost of the project plus about \$1 million in local costs and would be used for the following purposes:

- (a) \$4.2 million would help finance imported dairy cows, semen and farm development;
- (b) \$2.2 million would finance equipment and machinery for two milk processing plants;
- (c) \$0.6 million would finance management and technical services.

11. The remaining local currency costs would be met by the Government (\$1.7 million for farm development); the AFDC and KDBC (\$1.9 million for the processing plants, starting expenses and working capital); and the farmers (\$2.0 million in cash or kind for farm development).

12. The IDA funds for farm development would be re-lent by the Government to the KDBC, together with the \$1.7 million of Government funds, at 5% for 15 years. Both would then be re-lent by KDBC for the farmers at 9% for 8 - 10 years.

13. The KDBC would thus be getting a spread of 4 percentage points on these funds, which would be necessary for it to carry the foreign exchange risk and cover its administrative expenses. The above conditions are the same as other current loans provided by the Government for livestock and related development. The 15-year term from the Government to KDBC will permit KDBC to make farm loans of up to ten years in the third year of the project, and allow for delays. The financial returns of the dairy-farming part of the project are expected to be sufficient to encourage farmers to participate. At full development, after about the seventh year, the annual net cash balance after debt service of the average small (10 cow) farm would be the equivalent of about \$2,600, and about \$10,000 for the larger (30 cow) farms.

14. The appraisal report recommends the part of the IDA funds to be used for the construction of the two milk processing plants be re-lent by the Government to the KDBC at 5% for 15 years. (para 4.08). I feel it would be appropriate for KDBC to pay a more realistic interest rate for the milk plant funds, as the two milk plants will be earning a financial rate of return of 37% and 38% respectively (Annex 12). While supporting the argument that the financial resources of the KDBC should be built up so that it can carry out its objectives of fostering, promoting and assisting the dairy-beef industry in Korea, it would seem to me that paying 9% for these particular IDA funds (the same rate as the farmers pay for farm development loans) would still allow it to perform effectively, and at the same time impose on it commercially oriented business practices. The Agriculture Projects Department has been informed of this view and is considering it.

15. The procurement of dairy heifers and semen would not be subject to international competitive bidding as only a few countries meet the health requirements imposed by the Korean Government. However, quotations would be obtained from at least three countries capable of supplying stock required. Other goods required for farm development would be obtained from existing commercial channels, since individual contracts would be too small and numerous to attract international bidding. The few jeeps and motor cycles needed for management and technical services would be procured after local competitive bidding. International bidding would be required for the purchase of equipment and machinery for the two milk processing plants, and local suppliers are likely to bid for some of these items. The credit would be disbursed against the c.i.f. cost of dairy heifers and semen, the c.i.f. imported or ex-factory local cost of the milk processing equipment, 32% of the loans by KDBC to the farmers for land clearing, pasture establishment, farm structures, milking machines and farm machinery, and the foreign exchange component for management and technical services. After the appraisal report had been issued it was suggested by the Controller's Department, and agreed by the other Departments concerned, that IDA funds be disbursed separately for dairy heifers and semen, as opposed to the report's recommendation that disbursement for these items be included in the 70% disbursement for farm loans (para 3.25). The necessary adjustments will be made in the report to reflect this change.

16. Subject to my proposals in paragraphs 1 and 14 above, I recommend that the Government and the Korea Dairy Beef Company be invited to send representatives to Washington to negotiate a \$7 million IDA credit on the basis of the recommendations contained in the appraisal report.

Raymond J. Goodman  
Director.

Attachments

## KOREA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total
		Fiscal Year					1964-68	1969-73
		1971	1972	1973	1974	1975	1976	
Agricultural Credit I	IDA		10.0					
Agricultural Credit II	IDA				15.0			
Deep-sea Fisheries	IDA		8.0					
Seed Production	IBRD		8.0					
Irrigation - Southwest	IBRD		20.0					
Irrigation II - Yong San Gang	IBRD				25.0			
Livestock I	IDA	6.0						
Livestock II	IBRD				10.0			
DFC - KDFC III	IBRD	25.0						
DFC - KDFC IV	IBRD			20.0				
DFC - KDFC V	IBRD					20.0		
Education II	IDA			15.0				
Education III	IDA					15.0		
Thermal Power I	IBRD			12.5				
Thermal Power II	IBRD				50.0			
Highways I	IBRD	45.0						
Highways II	IBRD			25.0				
Highways III	IBRD					25.0		
Port Expansion - Pusan	IBRD							
Railways IV	IBRD		20.0					
Railways V	IBRD					25.0		
	IBRD	<u>70.0</u>	<u>48.0</u>	<u>77.5</u>	<u>85.0</u>	<u>70.0</u>	<u>5.0</u>	<u>300.5</u>
	IDA	<u>6.0</u>	<u>18.0</u>	<u>15.0</u>	<u>15.0</u>	<u>15.0</u>	<u>11.0</u>	<u>72.3</u>
	Total	<u>76.0</u>	<u>66.0</u>	<u>92.5</u>	<u>100.0</u>	<u>85.0</u>	<u>16.0</u>	<u>372.8</u>
No.		3	5	5	4	4	2	18

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

November 4, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Argentina - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of November 4, 1970 from the South America Department, entitled "Argentina - Proposed Third Loan for Highways" (LC/0/70-113).
2. Comments, if any, should be sent to reach Mr. Moini (ext. 2485) by 1:00 p.m. on Monday, November 9.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

#### Copies for Information:

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

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SEP 05 2014

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LOAN COMMITTEE

CONFIDENTIAL

LC/O/70-113

November 4, 1970

Memorandum from South America Department

ARGENTINA - Proposed Third Loan for Highways

1. Attached is a report (No. ) appraising a highway project in Argentina.

Economic Performance and Prospects

2. The latest economic report on Argentina (WH191a) was dated May 23, 1969. The report of the most recent economic mission to Argentina (May/June 1970) is now being finalized and will be available to the Executive Directors before the proposal for the highway loan is presented to them. The mission's back-to-office report, dated August 4, 1970, has been distributed and its conclusions were summarized in the Memorandum submitted to the Loan Committee on September 14, 1970 (LC/O/70-101), regarding the proposed loan to the railways.

3. A new Minister of Economy Dr. Aldo Ferrer, took office in mid-October after the resignation of Dr. Carlos Moyano Llerena, who was committed to the economic policies initiated in 1967 by Dr. Krieger Vasena. Dr. Ferrer is an economist who is reputed to be an advocate of aggressive and accelerated development. We do not know whether Dr. Ferrer, if he adopts a more expansionist program, will be prepared to follow a set of fiscal, incomes and exchange policies consistent with his objectives. We propose to have discussions with the new economic team in the near future. We do not, however, propose that negotiations of this loan be postponed pending the outcome of these discussions. Should the policies of the new economic team require clarification, we shall seek such clarification before presenting the highway and railway loans to the Executive Directors.

Background of the Project

4. The background to the Bank's association with the transport sector was also reviewed in the Memorandum to the Loan Committee dated September 14, 1970 (LC/O/70-101).

5. The Bank's second highway loan, amounting to US\$25 million, was made in June 1969 and became effective in January 1970. Construction contracts have been awarded for all 800 km. of roads to be financed by this loan, and the work is expected to be completed around the end of 1972. The loan also provided finance for consulting and engineering

services, to ensure proper supervision of the project and to institute systematic planning for the future. A reconnaissance survey of the entire primary highway network to make preliminary identification of high priority road investments has been completed, and feasibility studies and detailed engineering of the most attractive construction projects have been substantially completed. The proposed third highway project has developed from these studies.

6. Our assistance to Argentina's roads dates back to 1961. Our early experience was one of problems in the organization of road planning, construction and maintenance. But since 1967 there has been a significant improvement. The Secretariat of Transport has created an agency for coordinated planning of investment. The national highway organization (Vialidad Nacional) has been reorganized and strengthened. There has been effective use of consultants in planning, engineering and supervision, and a competent group of local consulting firms is developing.

#### The Project

7. The Government has asked the Bank for assistance in financing a project of about US\$140 million equivalent. The project consists of:

- (a) upgrading of 18 road sections totalling about 1,200 km. in length, including important sections of Route 14, which is the major artery of the Mesopotamia region, and Route 9 which runs between Buenos Aires and Cordoba;
- (b) the consulting services required for supervising this construction; and
- (c) additional consulting services for continuing the identification and preparation of high priority projects which could form a basis for Bank financing in the future.

The foreign exchange component is estimated to be US\$45 million. This has been computed on the basis that 32 percent of the construction costs (assuming 20 percent of the work would be done by foreign firms) and 30 percent of the cost of supervision and consulting services will be foreign currency expenditure.

8. The Committee's attention is drawn to the fact that detailed engineering is still in progress. Consequently, cost estimates may have to be revised and small changes in project content are still possible. This may lead to a small change in the loan amount from that mentioned below.

#### Size of Loan

9. The recent economic mission concluded that the Argentine economy will only be able to achieve the desirable 5.5 percent growth rate

if gross capital inflow in the next five years approximates \$700 million a year; this is much more than estimated by the preceding mission. Taking into account other sources of finance, about US\$240 million a year appears to be required from the IDB and ourselves. However, the foreign expenditure component of the projects expected to be eligible for financing by the two agencies falls somewhat short of this amount. Thus, if a public investment program of the requisite size is to be sustained, it will be necessary for the Bank and the IDB to finance some local currency expenditures. I am therefore recommending that the proposed loan total \$70 million, and thus cover \$25 million of local expenditures. The loan would be equivalent to 50 percent of total project cost. This would be the same percentage as in our previous loan for highways and would ensure an adequate contribution by the Bank to the highway program.

10. A loan of this size is also consistent with our lending targets in Argentina. In FY-1970 Bank lending was only US\$60 million and we thus substantially fell short of the target of US\$100 million a year, which has been our lending program. For FY-1971 the Loan Committee has already approved negotiation of a railway loan of about US\$84 million. If we lend up to US\$70 million for the highway project our total lending to Argentina for FY-1971 would be as much as US\$154 million. Taking into account the US\$60 million lent last year, the average of the two years would virtually equal the US\$100 million a year lending target.

Recommendation

11. I recommend that the Bank enter into negotiations for a loan of about US\$70 million for a third highway project in Argentina, on the terms and conditions recommended in the attached appraisal report.

Gerald Alter  
Director



# LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

LM/M/70-42

November 3, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Upper Volta - Proposed Credit for a Cotton Project" held at 4:00 p.m. on Friday, October 2, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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

November 3, 1970

Minutes of Special Loan Meeting to discuss "Upper Volta - Proposed Credit for a Cotton Project" held at 4:00 p.m. on Friday, October 2, 1970 in Conference Room B.

---

1. Present: Messrs. Cope (Chairman), Broches, Chadenet, Nurick, Cheek, Wapenhans, Gue, Maillard, Moreau and Pearce (Secretary).
2. Issue: The meeting had been called to consider a proposed \$6 million credit to Upper Volta for the West Volta Cotton Project. The issue for discussion was a general one: whether loan/credit proceeds not disbursed because of procurement unacceptable to the Bank/IDA should be cancelled outright or be transferred to the unallocated category of the loan/credit concerned and thus be available for reallocation to other categories of approved expenditures.
3. Discussion: The Deputy Director, Projects, stated that it was the general policy of the Bank and IDA to require borrowers to obtain goods and services to be financed from loan/credit proceeds (other than services of consultants and technical specialists) through international competition or, where appropriate, through other procurement procedures agreed between the Bank/IDA and the borrower concerned. Accordingly, if a borrower failed to award contracts in accordance with Bank/IDA approved procurement procedures and over the objections of the Bank/IDA, the Bank/Association should refuse to disburse against such contracts. As a general rule, loan/credit documents should contain provisions requiring the cancellation of corresponding undisbursed loan/credit proceeds. The Deputy Director, Projects, said that the consistent application of such a policy by the Bank and IDA, besides ensuring efficient procurement and project management, was an important Bank/IDA obligation to supplying countries, and was an essential incentive for borrowers to follow proper procurement rules. He was therefore seriously concerned regarding any provisions for automatically reallocating amounts not eligible for disbursement under the initial allocation because of the Association's refusal to finance ineligible contracts.
4. On the other hand, it was pointed out that in some instances there were increases in the cost of certain categories, items which had been procured on the basis of Bank/IDA guidelines (either after full international competitive bidding or other methods accepted by the Bank/IDA) and there was no reason why these increases should not be covered out of the loan/credit. The Bank and the Association would still be disbursing exclusively for properly procured items. It was nevertheless agreed that Bank/IDA policy in this respect required further consideration and clarification; in the meantime, there was no reason to postpone consideration of the proposed credit to Upper Volta.

5. Decision: The Chairman decided that, in the proposed credit to Upper Volta, funds not disbursed because of procurement unacceptable to the Association should be transferred to the unallocated category and thereafter be available for reallocation to other categories for disbursement against any eventual increased costs of approved contracts. It was further agreed that the general question of procedures for cancellation or reallocation of loan/credit proceeds in the event of unacceptable procurement by the borrower should be considered by the Loan Committee at an early date.

David Pearce  
Secretary

Cleared by: Messrs. Knapp/Cope  
Nurick  
Cheek/Gue  
Chadenet/Wapenhans

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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LM/M/70-41/1

November 3, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

The attached revised minutes of a Special Loan Meeting to discuss "India - Andhra Pradesh Agricultural Credit Project" held on Friday, October 16 (LM/M/70-41/1) incorporate an amendment to paragraph 3(a) of the original minutes dated and distributed to the Committee on October 22 (LM/M/70-41) and should be substituted for the latter.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

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

LM/M/70-41/1

November 3, 1970

Minutes of Special Loan Meeting to discuss "India - Andhra Pradesh Agricultural Credit Project" held at 4:00 p.m. on Friday, October 16, 1970 in Conference Room A.

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Cargill, Chadenet, Wapenhans, Melmoth, Goffin, Cabezas, Dunn, Walden and Pearce (Secretary).
2. Issue: The Chairman had called the meeting to clarify a number of points in the memorandum of October 8, 1970 from the South Asia Department to the Loan Committee (LC/O/70-110), which recommended negotiation of a \$26 million credit to help finance the \$45.5 million Andhra Pradesh Agricultural Credit project comprising part of a two-and-one-half year lending program for investments by farmers in minor irrigation, land levelling and farm mechanization. The proposed credit would finance the project's estimated foreign exchange cost of \$8.7 million and about one-half of estimated local currency expenditures.
3. Discussion: In reviewing paragraphs 11-15 of the South Asia Department's memorandum, the meeting noted that:
  - (a) In view of ~~the~~ shortage of trained and experienced local staff, the appraisal report recommended that the proposed State Groundwater Directorate (SGD) be required to obtain assistance in the form of expatriate technical personnel. The proposed credit included an allocation of \$240,000 for this purpose. However, the Association would be prepared during negotiations to consider Indian representations that such personnel could be provided locally and would insist on the recruitment of expatriates only if the Indians could not ensure recruitment of suitably qualified local personnel to SGD. In the absence of expatriate personnel, the \$240,000 allocation would be transferred to contingencies (paragraph 11).
  - (b) While the issue of the Land Mortgage Bank's (LMB) interest rates and other lending terms for its operations outside the IDA-financed project should be discussed during negotiations, in the context of the general need to charge higher rates as one means of mobilizing resources for agricultural investment, the Association would not insist on uniform lending rates except for all lending for project purposes and for any similar purposes within the State (paragraph 12).

- (c) Apropos charges for mechanized land levelling custom work, the legal documents would contain a general covenant expressing the principle that charges should be maintained at a level which would guarantee recovery of all costs plus a reasonable amount in addition (paragraph 13). The minutes of negotiations would record that a charge of Rs 71 was currently considered adequate to satisfy this principle.
- (d) It was not yet clear which of several alternative measures for increasing the selling price of tractors, including that recommended by the Agriculture Projects Department, would be consistent with India's commitments under GATT on the one hand and acceptable to the Government, or administratively practicable, on the other. In view of the limited number of tractors included in the Andhra Pradesh project, the Association would not make the implementation of price increases a condition of the proposed credit. However, the Association would require definite proposals on appropriate measures before negotiating future agricultural credit projects with substantial tractor components. The Indians would also be asked to bring to the negotiations for the Andhra Pradesh project information concerning the consistency or otherwise of proposed measures for increasing the selling price of tractors with India's commitments under GATT (paragraph 14).
- (e) The appraisal report recommended that the appointment of agricultural economists to the staffs of the Agricultural Refinance Corporation (ARC) and LMB be conditions of effectiveness of the proposed credit. However, some progress in building up ARC's permanent staff had been reported very recently and, instead of a credit effectiveness condition, the Association would exchange with the Indians by March 31, 1971, a memorandum of understanding regarding ARC's staff development plans through 1973. As far as LMB was concerned, it was probably impracticable to require appointment of an agricultural economist as a condition of effectiveness; this requirement would therefore be met by a covenant in the legal documents that the appointment should be made within a specified number of months extending beyond the credit's date of effectiveness.

4. Decision: The Chairman approved the South Asia Department's recommendation that the borrower be invited to negotiate the proposed credit on the basis of the Department's memorandum and the points noted above.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Broches  
Melmoth/Dunn  
Wapenhans

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

October 29, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### El Salvador - Fifth Power Project

1. The Committee is requested to consider, without meeting, the attached memorandum of October 29, 1970 from the Central America and Caribbean Department, entitled "El Salvador - Proposed Fifth Power Project" (LC/0/70-112).
2. Comments, if any, should be sent to reach Mr. Lari (ext. 3877) by 5:00 p.m. on Tuesday, November 3.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

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



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SEP 05 2014

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WBG ARCHIVES

LC/0/70-112

October 29, 1970

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

EL SALVADOR - Proposed Fifth Power Project

1. Attached is a report entitled "Appraisal of the Soyapango Gas Turbine Project" (PU-55) recommending an IDA credit of US\$5.3 million to the Government of El Salvador to be relented to the Commission Ejecutiva Hidroelectrica del Rio Lempa (CEL), for a project which is to form part of CEL's program for meeting power requirements through 1976.

Background

2. The Bank has made nine loans to El Salvador since 1949 totaling US\$57.9 million (net of cancellations) and one IDA credit of US\$8 million. The last operation was an education loan signed in June 1969. During the current fiscal year we have programmed the proposed IDA credit for power and a Bank loan of US\$5 million for telecommunications. Appraisal of the telecommunication project is scheduled for November. For FY1972 we are programming three loans for transport, livestock and power. The composition and timing of the latter project will depend upon the results of the geothermic energy studies now being carried out with UNDP assistance. The five-year lending program for El Salvador is attached.

3. On September 30, 1970, a total of US\$6.9 million remained to be disbursed on two loans, one of US\$2.8 million for highways, the other of US\$4.9 million for an education project. The highways loan (Loan 521-ES, signed on December 7, 1967) is a supplementary loan for a project initially financed by an IDA credit signed in 1962. After running into institutional problems at the outset, this project was further delayed by the war with Honduras and adverse weather conditions. However, it is now 70 percent complete, and work is progressing satisfactorily. The education loan (Loan 609-ES) has been slow in starting because of institutional difficulties stemming from inexperience and poor coordination in the country. These difficulties are being overcome, and work on the project is accelerating.

4. CEL, which would carry out the project, has been our borrower since 1949, with four Bank loans totalling US\$25.4 million. It has grown rapidly from its creation in 1945 and now is a well organized institution which generates 86 percent of electricity in the country.

Distribution is carried out almost entirely by private companies, the most important of which is the largely foreign-owned Compania de Alumbrado Electrico de San Salvador (CAESS) which retails over 80 percent of CEL's production.

### The Economy

5. There has been no Bank economic report on El Salvador since the report of the mission to Central America issued in June 1967. An economic mission visited El Salvador in September 1970. Its findings will be contained in an economic memorandum which will be submitted to the Economic Committee for consideration in November and then attached to the President's Report.

6. On May 19, 1969, the Economic Committee approved, without meeting, a "Memorandum on Recent Economic Developments and Prospects of El Salvador" (EC/O/69-56/1). The memorandum observed that not much had been done to accelerate the development effort during 1967 and 1968, years in which government energies had been absorbed with political consolidation rather than progress in the solution of the country's economic problems. Economic growth had slowed down to little more than 4 percent per annum at current prices, barely in line with population growth (about 3.5 percent per annum) in real terms. Cautious monetary and fiscal policies, concerned with financial stability more than development, resulted in public investment dropping from 4.7 percent of GNP in 1966 to 2.6 percent in 1968.

7. In 1969, after the economy had shown signs of recovering during the first six months, exports to the Central American Common Market and consequently industrial production and employment were hard hit by the disruption of trade following the conflict with Honduras. Some 70,000 Salvadorans returned from Honduras, thus adding to El Salvador's serious unemployment problems. Gross domestic product per capita decreased. However, conditions have improved somewhat in 1970, mostly because of high coffee prices and recovery of cotton production. During the twelve months ending July 1970, net foreign exchange reserves increased from US\$50 million to US\$67 million, a level equivalent to three months of external current payments. Prices increased by some 2 percent during the same period, a slight acceleration over the past.

8. The Government has been reasonably successful in keeping its external accounts in balance and coping with fiscal problems arising from assistance to refugees and increased military expenditures. Public investment increased by 7 percent in 1969, but in 1970 insufficient government revenues - together with electoral concerns which absorbed much of the government energies during the first semester - prevented a further increase. A substantial tax increase, enacted in September 1970, and the expected increase in coffee tax receipts resulting from a larger ICO quota, should make it possible to step up public savings and investment in 1971, but public savings are unlikely at best to exceed 2.7 percent of GNP, and public investment will be not more than 4 percent of GNP.

9. The Government is now pressing Congress to approve long pending legislation needed to bring about changes in the structure of the economy. Key measures are a Drainage and Irrigation Law, an Agrarian Reform Law and an Incentives Law for industries exporting outside the Common Market. The action taken on these measures will be a test of the Government's ability to deal with development problems more effectively than in the past. Although El Salvador's economic performance is marginal and its debt service ratio low (4 percent of 1969 foreign exchange earnings), the poverty of the country (per capita GNP around \$280.) and its very limited natural resources (it is much the most densely populated of the Central American countries) can be held to justify a modest amount of IDA financing at this time. However, the main reason for proposing an IDA credit for the power project rather than a Bank loan is the need to maintain a minimum allocation of IDA funds to Latin America.

#### The Project

10. The project consists of a 33 MW gas turbine plant (two 16.5 MW units) at Soyapango and a 115 kV transmission line between San Rafael Cedros and San Miguel. Construction should be completed in slightly more than two years, permitting operations to commence by early 1973. The total cost of the project is estimated at US\$6.9 million, excluding interest during construction. CEL would finance all local costs (US\$1.6 million) from its own resources, and the IDA credit would cover the CIF cost of imported equipment and materials and the foreign currency cost of contractors' erection work, consultants' services and training. Procurements would follow the usual procedures. The gas turbines will provide essential reserve capacity for the capital city, San Salvador, in the event of transmission line failures, unscheduled outages at the generating plants or severe drought conditions. The transmission line will improve supply to the eastern part of the country, which presently is supplied by means of a single circuit transmission line expected to be fully loaded by the end of 1972.

11. There are no policy issues. However, the main distribution company, CAESS, has recently requested the Government's authority to raise retail tariffs in order to increase its rate of return, which the company claims has been for the last three years below the 8 percent allowed by Salvadoran law. The Government is opposed to such an increase. The question is complicated by the fact that the Government and CAESS have different views on the treatment to be given to the steep taxes on foreign shareholders, which the Government excludes from the company's costs. We consider that the prolongation of such a dispute could affect CEL's expansion program and possibly its financial viability, because CAESS could refrain from financing further distribution expansion and perhaps be impaired in its ability to pay CEL's bills. We have therefore encouraged the Government, CEL and CAESS to discuss the problem and work towards its prompt solution. We plan to inquire into the progress of the matter during negotiations, expressing again - if necessary - our concern and encouraging the parties involved to reach a quick and satisfactory solution.

Unsettled External Debt

12. Following nationalization of the Salvador Railway Company in 1962, the British bondholders have been pressing unsuccessfully for compensation and the Bank has on a number of occasions indicated its concern to the Salvadoran Government over the failure to reach a settlement of this issue. At the end of 1968 we were informed that a mutually acceptable solution had been found, under which about US\$250,000 was to be paid in government bonds to the British bondholders. Legal snags and the war with Honduras in mid-1969 have subsequently delayed completion of the transaction. The Government has told us in recent weeks that the matter is again under study, and we understand that conversations have been resumed with the British authorities. There now seems a reasonable prospect of a satisfactory settlement being reached before the proposed credit is presented to the Executive Directors, but I do not consider that this should be made a condition of such presentation.

Recommendation

13. I recommend that representatives of the Government and CEL be invited to negotiate a credit of US\$5.3 million on the terms and conditions indicated in paragraphs 7.01 and 7.02 of the Appraisal Report.

E. Peter Wright  
Deputy Director

Population: 3.2 m  
GNI Per Cap: \$270

IVa. EL SALVADOR - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Irrigation I - Olomega	IBRD				8.0				
Irrigation II - Sonsonate	IBRD					3.0			
Irrigation III - Jocotal	IBRD						5.0		
Livestock I	IBRD			4.0					
Livestock II	IBRD						5.0		
Communications II	IBRD		5.0						
Communications III	IBRD				10.0				
Education II	IBRD				6.0				
Education III	IBRD						5.0		
Power V - Gas Turb. & Transm.	IDA		5.3						
Power VI - Pozo de Silencio	IBRD						15.0		
Highways V - North Transversal	IBRD				2.5				
Highways VI - San Salvador	IBRD					4.0			

IBRD	5.0	21.5	24.0	7.0	15.0	12.3	55.4
IDA	5.3						5.3
<b>Total</b>	<b>10.3</b>	<b>21.5</b>	<b>24.0</b>	<b>7.0</b>	<b>15.0</b>	<b>12.3</b>	<b>60.7</b>
No.	2	3	3	2	3	2	9

# LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

LM/M/70-41

October 22, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "India - Andhra Pradesh Agricultural Credit Project" held at 4:00 p.m. on Friday, October 16 in Conference Room A.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

October 22, 1970

Minutes of Special Loan Meeting to discuss "India - Andhra Pradesh Agricultural Credit Project" held at 4:00 p.m. on Friday, October 16, 1970 in Conference Room A.

---

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Cargill, Chadenet, Wapenhans, Melmoth, Goffin, Cabezas, Dunn, Walden and Pearce (Secretary).
2. Issue: The Chairman had called the meeting to clarify a number of points in the memorandum of October 8, 1970 from the South Asia Department to the Loan Committee (LC/O/70-110), which recommended negotiation of a \$26 million credit to help finance the \$45.5 million Andhra Pradesh Agricultural Credit project comprising part of a two-and-one-half year lending program for investments by farmers in minor irrigation, land levelling and farm mechanization. The proposed credit would finance the project's estimated foreign exchange cost of \$8.7 million and about one-half of estimated local currency expenditures.
3. Discussion: In reviewing paragraphs 11-15 of the South Asia Department's memorandum, the meeting noted that:
  - (a) In view of the shortage of trained and experienced local staff, the appraisal report recommended that the proposed State Groundwater Directorate (SGD) be required to obtain assistance in the form of expatriate technical personnel. The proposed credit included an allocation of \$240,000 for this purpose. However, the Association would be prepared during negotiations to consider Indian representations that such personnel could be provided locally and would insist on the recruitment of expatriates only if the Indians could not ensure recruitment of suitably qualified local personnel to SGD without detriment to other existing groundwater exploration and/or exploitation activities. In the absence of expatriate personnel, the \$240,000 allocation would be transferred to contingencies. (paragraph 11).
  - (b) While the issue of the Land Mortgage Bank's (LMB) interest rates and other lending terms for its operations outside the IDA-financed project should be discussed during negotiations, in the context of the general need to charge higher rates as one means of mobilizing resources for agricultural investment, the Association would not insist on uniform lending rates except for all lending for project purposes and for any similar purposes within the State (paragraph 12).

- (c) Apropos charges for mechanized land levelling custom work, the legal documents would contain a general covenant expressing the principle that charges should be maintained at a level which would guarantee recovery of all costs plus a reasonable amount in addition (paragraph 13). The minutes of negotiations would record that a charge of Rs 71 was currently considered adequate to satisfy this principle.
- (d) It was not yet clear which of several alternative measures for increasing the selling price of tractors, including that recommended by the Agriculture Projects Department, would be consistent with India's commitments under GATT on the one hand and acceptable to the Government, or administratively practicable, on the other. In view of the limited number of tractors included in the Andhra Pradesh project, the Association would not make the implementation of price increases a condition of the proposed credit. However, the Association would require definite proposals on appropriate measures before negotiating future agricultural credit projects with substantial tractor components. The Indians would also be asked to bring to the negotiations for the Andhra Pradesh project information concerning the consistency or otherwise of proposed measures for increasing the selling price of tractors with India's commitments under GATT (paragraph 14).
- (e) The appraisal report recommended that the appointment of agricultural economists to the staffs of the Agricultural Refinance Corporation (ARC) and LMB be conditions of effectiveness of the proposed credit. However, some progress in building up ARC's permanent staff had been reported very recently and, instead of a credit effectiveness condition, the Association would exchange with the Indians by March 31, 1971, a memorandum of understanding regarding ARC's staff development plans through 1973. As far as LMB was concerned, it was probably impracticable to require appointment of an agricultural economist as a condition of effectiveness; this requirement would therefore be met by a covenant in the legal documents that the appointment should be made within a specified number of months extending beyond the credit's date of effectiveness.



4. Decision: The Chairman approved the South Asia Department's recommendation that the borrower be invited to negotiate the proposed credit on the basis of the Department's memorandum and the points noted above.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Broches  
Melmoth/Dunn  
Wapenhans

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

October 22, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### Botswana - Water Supply Project

1. The Committee is requested to consider, without meeting, the attached memorandum of October 22, 1970 from the Eastern Africa Department, entitled "Botswana - Proposed IDA Credit for Gaborone-Lobatse Water Supply Project" (LC/0/70-111).
2. Comments, if any, should be sent to reach Mr. Fulcheri (ext. 2579) by 5:00 p.m. on Monday, October 26.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

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

CONFIDENTIAL

October 22, 1970  
LC/0/70-111

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

**DECLASSIFIED**

BOTSWANA - Proposed IDA Credit for Gaborone-Lobatse  
Water Supply Project

**SEP 05 2014**

**WBG ARCHIVES**

Introduction

1. Attached for consideration by the Loan Committee is Appraisal Report No. PU54, entitled "Gaborone-Lobatse Water Supply Project, Botswana", which recommends an IDA credit of US \$ 2.7 million to help finance a water supply scheme in the towns of Gaborone, the capital, and Lobatse, the second most important town. The proposed credit would be the third IDA operation in Botswana. Previous operations were a \$ 3.6 million road credit in 1964 to the then Bechuanaland Protectorate (63-BEC) and a \$ 2.5 million engineering credit in January 1970 (172-BT) for the Shashe mining infrastructure project. The FY 1970-75 Lending Program is attached.

The Project

2. In September 1969, the Association was approached by the Government of Botswana for assistance in financing a pipeline from the reservoir supplying Gaborone to Lobatse, where water was short following a succession of droughts. In the absence of a reliable supply at Lobatse, an abattoir which provides 90 percent of the present exports of Botswana might have to close within the next eighteen months. Subsequent consultants' studies, on which the proposed project is based, revealed a need for expanding water treatment and distribution networks for both Gaborone and Lobatse. The project aims at providing both towns with safe and dependable water supplies to meet needs until around 1975-1980. It involves the construction of a 32-mile pipeline from Gaborone dam to Nuane, where the water will be pumped into the distribution system of Lobatse, where a reservoir and a transmission line within the town will also be built. In Gaborone, a new water pumping plant and a treatment plant will be common to both systems, while a storage reservoir and a main extension will be used for Gaborone only. Provisions are also made for laboratory, office, disinfection, pipe-laying, metering and testing equipment, labor quarters and some technical assistance.

3. Lobatse's remaining groundwater supplies will probably be exhausted by early 1972. For the construction of the pipeline and other associated works to be completed before that time, the main contracts for works will have to be awarded in January 1971 at the latest. Final design work was started in August. The President has already agreed to recommend to the Executive Directors retroactive financing of an amount not exceeding US \$ 100,000 for engineering.

4. The total cost of the project, including engineering services, is estimated at US \$ 3.1 million. The foreign exchange costs, US \$ 2.7 million (87.5 percent of total cost), would be financed by the proposed IDA credit. The remaining US \$ 0.4 million (12.5 percent) would be met from funds generated from current operations.

5. The proceeds of the proposed credit would be lent to the Water Utilities Corporation (WUC) at eight percent for 30 years, including a three-year grace period. The Corporation, which has already been constituted, will take on responsibility for water supplies in the project area on December 1, 1970, from the present Gaborone Water and Electricity Unit (GWEU) of the Ministry of Works and Communications. On the same date, the GWEU water supply staff will be transferred to the Department of Water Affairs (DWA), which will act as technical agent for WUC until the corporation is fully staffed.

6. The present water tariff for Gaborone-Lobatse is sufficient to meet operating and maintenance costs but not depreciation. The appraisal report consequently recommends changes in the structure and level of tariffs to raise the rate of return on net fixed assets to not less than six percent in financial years up to 1975 and not less than eight percent thereafter. The internal financial rate of return on the project is estimated to be between 14 percent and 17 percent, depending on the growth of demand. The economic return would be higher given that the project would have health benefits and would eliminate the risk that the Lobatse abattoir would be closed by lack of water.

7. Procurement would be by international competitive bidding, in accordance with usual Bank/IDA procedures.

8. WUC would also own and operate the water facilities to be included to the proposed Shashe infrastructure project for which Bank, Canadian, Danish and U. S. financing is under consideration. These facilities would be new, rather than additions to existing installations, as in the present case, and the Shashe mining company would be the principal consumer. The Shashe installation would be operated by a separate division within WUC with its own accounts. The terms and conditions of relending by the government to WUC for the Shashe installation and the tariff level for charges to the Shashe mining company are still under discussion with the government and the mining company, and given the somewhat different circumstances will not necessarily be the same as are proposed in the present case. We have, nevertheless, discussed with the Public Utilities Projects Department whether the proposed Gaborone-Lobatse project should await clarification of the outstanding issue on the Shashe infrastructure project. We have concluded that the uncertain timing of the decisions concerning the Shashe project, of which water supply is only a small part, should not be allowed to influence the timing of the Gaborone-Lobatse project, which is urgent, and we do not believe that the Bank Group position in the Shashe negotiations would be prejudiced by the position on tariffs and relending terms recommended in the present instance.

#### Recommendation

9. I recommend that the Government of Botswana be invited to send representatives to negotiate a credit of about US \$ 2.7 million equivalent, substantially on the terms and conditions set forth in

paragraphs 7.01 to 7.03 of the appraisal report. The appraisal report recommends that signature of the agreements between WUC and the Botswana Meat Commission, the main industrial consumer, be made a condition for presentation of the credit to the Executive Directors (see paragraph 7.02). We believe that the parties have reached agreement on all substantive matters. If that is confirmed during negotiations, I recommend that formal signature of the agreements be made a condition of effectiveness of the Credit Agreement.

J. H. Williams  
Deputy Director  
Eastern Africa Department

Attachment

Population: 0.6 m  
 GNP Per Cap: \$90

IVa. BOTSWANA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Livestock	IDA			3.3					
Agricultural									
Credit	IDA				2.0				
Agriculture									
Unidentified	IDA						2.0		
Shashe River									
Eng.	IDA	2.5							
Shashe River									
Power	IBRD		25.0						
Mining									
Unidentified	IDA						1.0		
Roads -									
Gaborone-									
Lobatse	IDA			2.0					
Water Supply -									
Lobatse	IDA		2.7						
	IBRD		25.0						25.0
	IDA	2.5	2.7	5.3	2.0		3.0	3.6	12.5
	Total	2.5	27.7	5.3	2.0		3.0	3.6	37.5
	No.	1	2	2	1		2	1	6

# LOAN COMMITTEE

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SEP 05 2014

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LC/M/70-10

October 16, 1970

Minutes of Loan Committee Meeting held at  
4:00 p.m. on Thursday, October 8, 1970  
in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S.R. Cope  
Mr. A. Broches  
Mr. J. Baneth  
Mr. B. Chadenet  
Mr. R. Chaufournier  
Mr. R.H. Demuth  
Mr. K.G. Gabriel

Mr. R.J. Goodman  
Mr. E. Gutierrez  
Mr. D. Hartwich  
Mr. A.D. Knox  
Mr. R. Sadove  
Mr. A. Stevenson  
Mr. J.H. Williams  
Mr. D. Pearce (Secretary)

In Attendance:

Mr. W.C. Baum  
Mr. W. Diamond  
Mr. J. Elkouby  
Mr. M. Ebstein  
Mr. B.B. King  
Mr. K.S. Krishnaswamy

Mr. E. Lerdau  
Mr. C.E. Madavo  
Mr. M.J. Schloss  
Mr. R.M. Westebbe  
Mr. E.P. Wright  
Mr. H. Wyss

B. Venezuela - Caracas Metro

1. The Committee considered a memorandum dated October 2, 1970 from the Central America and Caribbean Department entitled "Venezuela - Request for Bank Assistance on Financing Caracas Metro" (LC/O/70-108), which recommended that the Bank should in principle consider participation in the first section of the proposed Caracas Metro project. The estimated

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Committee:

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

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

cost of this first section - from Pro Patria to La Hoyada, a distance of 7 kms with 8 stations - was about \$110 million, including about \$55 million in foreign exchange of which the Venezuelans planned to finance about \$30 million, in respect of civil works, by a loan from an international development finance organization (e.g. the World Bank) and about \$25 million, in respect of equipment and installation, by export credits from supplying countries.

2. In reviewing the Central America and Caribbean Department's recommendation, the Committee noted that:

- (a) Venezuela's economy was heavily concentrated in the "Core Region," centred on Caracas. The population of Caracas had tripled during the last twenty years and was expected to double again - to over 4 million - by 1990. While the planned development of satellite towns in neighboring valleys would be a partial solution to the problem of urban concentration and congestion, the continued growth of Caracas itself was unavoidable and, given its physical location and configuration, the construction of an underground rail mass transportation system would be a key element in measures to alleviate the situation.
- (b) The construction part of the project would be executed by the Ministry of Public Works and financed by central and local government contributions, expropriation bonds for the purchase of land, and by an international development loan to the central government. A Transit Authority would be responsible for acquiring the rails, fixed equipment and vehicles for the Metro and for servicing the debt incurred for this purpose from its operating revenues. In addition, betterment taxes would be levied on property owners benefitting from the construction of the Metro. Metro fares would be set at the highest level compatible with full use of the facility, taking into account existing and proposed road user charges. This pattern of financial and institutional arrangements was intended not only to permit adequate financing of the Metro system but also to ensure that the distribution of its costs bore some relation to the distribution of its benefits, in the interests of both equity and efficiency.



- (c) The Government's interest in obtaining Bank assistance was linked to its belief that international competitive bidding would be the cheapest and most efficient method of procurement. In this connection, the question would arise whether the Venezuelans would need assistance in the procurement of equipment to be financed by supplier credits and if so, whether the Bank's role should be advisory or supervisory, i.e. should it establish guidelines only or, at the other extreme, police the award of contracts. The Chairman said that this question could be decided later after further consideration.
- (d) With respect to the Bank's five-year lending program for Venezuela, the proposed Metro project was one of the few high priority infrastructure projects, apart from telecommunications, suitable for Bank financing at this time; the project was prima facie sound, both technically and economically, although these preliminary judgements would need to be checked carefully by the Bank; finally, the Metro project would offer the Bank practical experience in urbanization problems, a new area of operations.

3. The Committee endorsed the Central America and Caribbean Department's recommendation that the Bank should inform the Venezuelan Government of its willingness in principle to consider participation in the first stage of the Caracas Metro Project on the conditions specified in paragraphs 20-21 of the Department's memorandum.

C. Adjournment

- 4. The meeting adjourned at 5:10 p.m.

Secretary's Department  
October 16, 1970

# LOAN COMMITTEE

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LM/M/70-40

October 16, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" held at 4:00 p.m. on Monday, October 12, 1970 in Room C1006.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

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

October 16, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" held at 4:00 p.m. on Monday, October 12, 1970 in Room C1006.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Nurick, Hartwich, Wapenhans, Springuel, Dockx, Siebeck, Suratgar, Walden and Pearce (Secretary).
2. Issue: The meeting had been called to consider the results of negotiations to revise the "Tunisia - Farm Cooperative Project" (Loan No. 484-TUN and Credit 99-TUN), described in Mr. Hartwich's memorandum of October 9, 1970 to the Chairman, and to approve recommendations (paragraph 11).
3. Discussion: The meeting, noting that agreement had been reached with the Tunisians in line with decisions of Special Loan Meetings held on June 18 and 25 and July 20, 1970 (cf. LM/M/70-29, 31 and 33 dated June 23, July 6 and 22, 1970), agreed that:
  - (a) The debts of dissolved cooperatives amounting to \$9.4 million, of which \$4.7 million was owed to Banque Nationale de Tunisie (BNT) and payable by the Government under guarantee given to BNT (the prospective borrower in a forthcoming Agricultural Credit Project scheduled for approval in FY 1971), should be settled and a schedule for their repayment to BNT should be fixed as a condition of inviting negotiations for the proposed Agricultural Credit Project.
  - (b) Since the Tunisians had stated that only part of the new and used machinery now surplus to the revised project could be sold for cash, limited sales on the credit terms indicated in paragraph 8 of Mr. Hartwich's memorandum should be permitted by the Bank. The more machinery could be sold, the less would ultimately have to be transferred to Government agencies.
  - (c) While it was important that surplus machinery and building materials should be sold before winter when it was needed most, the Bank could not authorize the commencement of these sales before approval of the revised project by the Executive Directors and signature of amended loan and credit agreements.

4. Decision: The Chairman approved the recommendations contained in Mr. Hartwich's memorandum and authorized the preparation of a President's Memorandum, which should be considered by the Executive Directors as soon as the Tunisians had confirmed their agreement to the results of the negotiations.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Chadenet  
Wapenhans  
Hartwich/Springuel

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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LM/M/70-39

October 16, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Iran - Telecommunications Project" held at 3:00 p.m. on Wednesday, September 30, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

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

October 16, 1970

Minutes of Special Loan Meeting to discuss "Iran - Telecommunications Project" held at 3:00 p.m. on Wednesday, September 30, 1970 in Conference Room B.

---

1. Present: Messrs. Cope (Chairman), Broches, Weiner, Votaw, Eschenberg, Vasudevan, Dickenson, Suratgar and Pearce (Secretary).
  
2. Issue: The meeting had been called to consider, in connection with a proposed \$36 million loan to Iran for a telecommunications project (LC/0/70-106 dated September 30), the utility of specific covenants in loan documents requiring prior consultation on, or approval of, key management appointments and, in this case, of consultations on future appointments to the post of Managing Director of the new Telephone Company of Iran (TCI).
  
3. Discussion: The meeting noted that:
  - (a) The utility of including a specific covenant was doubtful in this case since the Bank was unlikely to be in a position to pass judgement on the suitability of local management candidates. Substantive assurances on management performance could best be obtained by close project supervision; the general good management clause in loan agreements provided an adequate basis for Bank action to remedy shortcomings, if necessary.
  
  - (b) The Iranians opposed any specific covenant requiring prior consultation on, or approval of, future appointments to the position of Managing Director of TCI, on the grounds that this would infringe their sovereignty.
  
  - (c) It was Bank policy to insist on specific covenants only in cases where problems appeared to be exceptionally difficult (as in many agricultural projects).
  
4. Decision: It was agreed that the Bank's position regarding future appointments to the post of Managing Director of TCI and other changes in key management staff should take the form of a request for information together with other information called for under standard reporting requirements. The Iranian delegation would be so advised at the time of negotiations.

David Pearce  
Secretary

Cleared by: Messrs. Cope  
Votaw/Eschenberg  
Weiner/Vasudevan  
Suratgar

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/70-38

October 12, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Argentina - Proposed Loan for Railways" held at 11:30 a.m. on Wednesday, September 16, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

October 12, 1970

Minutes of Special Loan Meeting to discuss "Argentina - Proposed Loan for Railways" held at 11:30 a.m. on Wednesday, September 16, 1970 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Alter, Chadenet, Knox, Nurick, Mackay, Wiese, Skillings, Cabezas, Marco, Moini and Pearce (Secretary).
2. Issues: The meeting had been called to consider the South America Department's memorandum to the Loan Committee of September 14 (LC/O/70-101) which recommended negotiation of a proposed \$84 million loan to help finance about 50 per cent of the foreign exchange costs of a \$289 million project comprising the first two years of the Argentine Railways (Ferrocarriles Argentinos, or FA) \$649 million 1971-75 Investment Plan.
3. Discussion: The meeting noted that:
  - (a) Argentine suppliers, under international competitive bidding with a 15 per cent preference margin, might win a substantial number of contracts for freight cars (excluding bogies already ordered), for which \$42 million was allocated in the proposed loan. Since the foreign exchange element in the price of Argentine-produced freight cars, excluding bogies, was about 48 per cent, up to \$17.6 million of the loan would finance local expenditures. This was justified on the country economic grounds noted in paragraph 5 of the South America Department's memorandum.
  - (b) The question of the degree of effective protection on local value added in Argentine freight car production resulting from the proposed 15 per cent nominal preference to be accorded to local suppliers under international competitive bidding was not a serious problem because, on the basis of revised data presented at the meeting, effective protection on value added was unlikely to exceed 30 per cent.
  - (c) The proposed Bank financing of \$11 million of components to be procured on a negotiated basis was fully justified for the reasons stated in paragraph 18 of the South America Department's memorandum. The Chairman suggested that the last sentence of paragraph 4.05 of the appraisal report was unnecessarily defensive in this respect and should be omitted.



- (d) Negotiators would be invited only after the departments concerned were satisfied that FA had adopted sound detailed targets for certain aspects of its rehabilitation program, as set out in the draft appraisal report. Receipt of these plans was expected during the first half of October which, if they were satisfactory, would permit negotiations to commence in early November. The Argentines' assurances regarding these targets would be expressed in the form of a statement of intention (the precise details of this being left for further consideration); assurances with respect to their 1971-75 investment program and financial performance targets would be incorporated as covenants in the loan agreement.

4. Decision: The Chairman authorized the commencement of negotiations for the proposed loan on the terms and conditions stated in the South America Department's memorandum.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Knox/Mackay  
Nurick  
Wiese/Skillings

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/70-37

October 12, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Iran - Dez Irrigation" (Loan No. 594-IRN) held at 9:30 a.m. on September 15, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

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

October 12, 1970

Minutes of Special Loan Meeting to discuss "Iran - Dez Irrigation"  
(Loan No. 594-IRN) held at 9:30 a.m. on Tuesday, September 15, 1970  
in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Broches, Baum, Cargill, Votaw, McIvor, Wapenhans, Bartsch, Eschenberg, Golan, Loos, Suratgar and Pearce (Secretary).
2. Issue: The meeting had been called to consider a memorandum from Messrs. French-Mullen and Davis to Mr. Bartsch dated August 20 comprising a supervision mission report on the Dez Irrigation Project for which a \$30 million loan had been approved on August 18, 1969 (Loan No. 594-IRN). On July 31, 1970, \$1.7 million had been disbursed and about \$19 million remained uncommitted. The main issue for discussion was the memorandum's recommendation that the Bank should continue to disburse the loan only if satisfactory arrangements could be agreed with the Iranians regarding the expansion of agri-business areas, limitation of the areas to be developed by farm corporations and prompt development of improved traditional farming, including provision of the necessary supporting agricultural services.
3. Discussion: The meeting noted that the allocation of project lands as presently proposed by the Iranians differed markedly from that envisaged at the time of project appraisal: 45,000 ha and 12,000 ha for agri-business and farm corporations respectively compared with 20,000 ha and 37,000 ha for agri-business and improved traditional farming. The Iranians had issued letters of intent or actually committed 45,000 ha to agri-business without seeking the Bank's formal agreement to exceed the agreed 20,000 ha limit. However, agri-businesses were showing more interest in coming to the Dez area than the Bank had originally expected at the time of project appraisal and, subject to review of individual agri-business contracts and assurances concerning certain aspects of overall project organization, the departments concerned saw no reason to reject the 45,000 ha target which the Iranian authorities now seemed to have in mind.
4. On the other hand, Iran had little experience with farm corporations and their establishment on 12,000 ha of the project area was, in the view of both the Agriculture Projects and South Asia Departments, unwarranted at this time. Their development should be limited to about 2,000 ha on an experimental basis.
5. The Chairman said that the Iranian authorities' dealings with the Bank on questions of project administration had clearly been unsatisfactory and that the staff's concern should be clearly conveyed to them. Nevertheless, these facts did not give the Bank license to interfere in matters affecting land reforms and the Shah's social policy; Bank staff should therefore tread very cautiously in this area and refrain from appearing to impose their ideas on those of the borrower.

6. In reviewing the memorandum's detailed recommendations (paragraph 5.5), the meeting agreed that:

- (a) the first priority was to secure the Iranians' agreement to the substance of recommendation (j) concerning the area allocated to farm corporations, i.e. limiting this to about 2,000 ha.
- (b) the Iranians should be required to firm up their proposals regarding agri-business ventures promptly (recommendations (f) through (i)). However, the Bank should not require the Iranians to fulfill conditions additional to those contained in the loan agreement and Supplementary Letters and recommendation (i) should therefore be limited to consultation with the Bank.
- (c) recommendations (k) and (l), which referred to normal supervision matters, should be dropped in favor of an expression of Bank concern regarding arrangements for farmers displaced by agri-business ventures.
- (d) no special question would be raised about financing the feasibility study of farm corporations as part of the consultants' services for the project.

7. Decision: It was agreed that a supplementary letter regarding the future execution of the project should be negotiated with the Iranians on the basis of the mission's recommendations, modified by paragraph 6 above.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Votaw/Eschenberg  
Wapenhans  
Suaratgar

cc: Loan Committee  
Participants

## LOAN COMMITTEE

DECLASSIFIED LM/M/70-36

SEP 05 2014 October 8, 1970

WBG ARCHIVES

### MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Indonesia - Third Irrigation Rehabilitation Project" held at 3:00 p.m. on Monday, September 28, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

October 8, 1970

Minutes of Special Loan Meeting to discuss "Indonesia - Third Irrigation Rehabilitation Project" held at 3:00 p.m. on Monday, September 28, 1970 in Conference Room B.

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1. Present: Messrs. Cope (Chairman), Broches, Nurick, Knox, Fontein, Wapenhans, Asser, Tolbert and Pearce (Secretary).
2. Issue: The meeting had been called to consider, in connection with a proposed \$14.5 million credit to Indonesia for a Third Irrigation Rehabilitation Project, the application of a new provision in the Procurement Schedule - that contracts not awarded in accordance with the Association's procurement procedures should not be financed from the proceeds of a credit - to cases, like this project, in which it had previously been agreed, by the Chairman of the Loan Committee, to disburse the full amount of the credit on country economic grounds.
3. Discussion: The meeting noted that:
  - (a) The decision by the Chairman of the Loan Committee had not been intended to deal with this problem; the proposed new provision was therefore not necessarily applicable in the case envisaged by that provision;
  - (b) A distinction should be made between civil works contracts, which formed the essence of this project, and contracts for equipment, vehicles and spare parts;
  - (c) Because of their importance to the project, all civil works contracts should be awarded in accordance with procedures approved by the Association and failure to do so would, in effect, constitute a default of the covenant to procure such contracts under agreed procedures and entitle the Association to suspend disbursement.
  - (d) Failure to award contracts for equipment and supplies in accordance with approved procedures would not, in the absence of other circumstances such as the repetitive nature of the offense, constitute a default of the "due diligence" covenant entitling the Association to suspend disbursement; the Association's remedy in such a case would be to refuse to finance the contracts in question. However, in line with the previous decision of the Chairman of the Loan Committee to disburse, to the extent possible, the full amount of the credit, the amount involved in the refusal could be used to finance up to 100 per cent of approved civil works contracts.

4. Decision: It was agreed that (i) the Credit Agreement should provide that all major contracts for civil works, whether or not to be financed by the Association, would be procured under procedures agreed with the Association; (ii) it would be explained to the Indonesians that failure to comply with the provision under (i) above would constitute a default entitling the Association to suspend; (iii) failure to award contracts for equipment and supplies in accordance with approved procedures would make them ineligible for financing and the Credit Agreement would so provide; the amount of the Credit allocated to such contracts would be available to finance up to 100% of approved civil works contracts.

David Pearce  
Secretary

Cleared by: Messrs. Cope  
Broches/Nurick/Asser  
Fontein  
Wapenhans

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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LC/A/70-10

SEP 05 2014

October 7, 1970

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## NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Thursday,  
October 8, 1970 at 4:00 p.m. in the Board Room.

## AGENDA

### Venezuela

The Committee will consider the memorandum distributed on  
October 2, 1970 from the Central America and Caribbean Department  
entitled "Venezuela - Request for Bank Assistance in Financing Caracas  
Metro" (LC/0/70-108).

David Pearce  
Secretary  
Loan Committee

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### Committee:

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

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



# LOAN COMMITTEE

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SEP 05 2014

October 8, 1970

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MEMORANDUM TO THE LOAN COMMITTEE

India - Andhra Pradesh Agricultural Credit Project

1. The Committee is requested to consider, without meeting, the attached memorandum of October 8, 1970 from the South Asia Department entitled "India - Andhra Pradesh Agricultural Credit Project" (LC/0/70-110).
2. Comments, if any, should be sent to reach Mr. Dunn (ext. 2293) by 5:00 p.m. on Monday, October 12.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman  
Mr. S.R. Cope, Deputy Chairman  
Mr. S. Aldewereld, Vice President  
General Counsel  
Director of the Development Services Department  
Directors of the Area Departments  
Deputy Director, Projects  
Directors of the Projects Departments  
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LC/0/70-110

October 8, 1970

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA - ANDHRA PRADESH AGRICULTURAL CREDIT PROJECT

Background

1. Attached is an Appraisal Report (No.PA-59) dated September 10, 1970 recommending that the Association make a credit to India of US\$26.0 million equivalent for this project. The most recent edition of the five-year lending program is attached.
2. The Andhra Pradesh Agricultural Credit Project would finance an investment program in minor irrigation, land leveling and farm mechanization in the State of Andhra Pradesh in southeastern India. The project would be part of a continuing program of support by the Association to the efforts being made by the Centre and State Governments in India to expand credit facilities to farmers and thus help them make the investments necessary to take full advantage of modern agricultural methods.
3. This project is the third of a series of agricultural credit projects in various Indian states. It was first investigated by a Bank Group reconnaissance mission in November and December of 1968; a subsequent reconnaissance mission in June and July of 1969 recommended that this project would be suitable for Association financing. In addition to this project and the projects in Gujarat and Punjab, which have now been declared effective, a fourth project, in Tamil Nadu, has been appraised. A fifth project in Haryana will be appraised in November and will complete the list of agricultural credit projects which should be ready for consideration during FY 1971. There are two further projects already in the pipeline for FY 1972, and a reconnaissance mission is now in India to discuss future lending possibilities in the agricultural credit field.

Bank/IDA Lending Program.

4. The proposed credit would be the fifteenth lending operation of the Bank Group in support of agricultural projects in India, including the Agricultural Aviation Project which is expected to be presented to the Executive Directors on October 20, 1970. It will be the sixth such lending operation since 1969. Appraisal reports have been prepared for proposed credits for a second Power Transmission Project and the Cauvery Delta Irrigation Project for inclusion in this year's Association lending program. Discussions at the Annual Meeting indicated that a water rights dispute which may be submitted to arbitration could remove the Cauvery project from the lending program. In addition to the agricultural credit projects

mentioned above, a number of other projects are being prepared for FY 1971, including a wheat storage project and two irrigation projects.

#### The Economy

5. The most recent economic report, "Economic Situation and Prospects of India", (SA-13, April 29, 1970) indicated that in spite of favorable trends in the economy, including an improved balance of payments position, India continues to require substantial amounts of net aid on concessionary terms, such as IDA financing, and financing of expenditures in local currency.

#### The Project

6. The Andhra Pradesh Agricultural Credit project would consist of Association financing of part of a two-and-one-half year lending program for investments by farmers in minor irrigation, land leveling and farm mechanization. The borrower would be the Government of India. Most of the proceeds of the Association credit would be lent to farmers through the Agricultural Refinance Corporation (ARC, the all-India institution which has participated in several previous projects), the Andhra Pradesh Cooperative Central Land Mortgage Bank (LMB) and its federated Primary Land Mortgage Banks, and selected commercial banks. As in the Punjab Credit Project, the participating commercial banks would be required to accept the same terms and conditions of lending to farmers as the LMB. In addition to the lending program referred to above, the project includes provision for consultant services for the establishment of a State Groundwater Directorate and for a study of the procedures of the LMB and its federated Primary Banks.

7. Benefits from the project would arise from increased agricultural production. The appraisal report estimates that the proposed investments would enable participating farmers to increase their cropping intensity and thus expand the cropped area by about 50,000 hectares, and to achieve more dependable yields. This would lead to an increase in foodgrain production of an estimated 160,000 tons per annum, as well as substantial increases in several commercial crops. The economic rate of return is estimated to be between 24 and 29 percent. In addition, the increased production should make possible savings of foreign exchange through reduced imports of commodities in which India is not now self-sufficient. Benefits to farmers would also be high, with the estimated financial rates of return ranging from 16 to 36 percent.

8. The appraisal report estimates the total cost of the project at about US\$45.5 million. The proposed Association credit would finance the total estimated foreign exchange cost of US\$8.7 million, and approximately one-half of the estimated expenditures in local currency.

9. Procedures for tractor procurement would follow the agreements reached in other recent projects. Farmers would exercise their choice of tractor makes after eligible suppliers had indicated unit prices for bulk purchase of tractors at varying quantities. Eligible suppliers would be restricted to the firms manufacturing or approved to manufacture tractors in India at the time of tendering. The Association would disburse only

against imported tractors. The number of eligible suppliers is now six (including dealers representing manufacturers in the US, UK and Germany) and during the project this number may rise to as many as nine (including additional dealers from the countries listed above and France). We expect this number of suppliers to provide an adequate degree of competition while the restriction will help to ensure provision of adequate facilities for spare parts and servicing.

10. Although most farm implements are produced in India, the supply position in Andhra Pradesh is less satisfactory than in Gujarat and Punjab, as there are relatively few manufacturers within the state and manufacturers in other areas are able to sell their production near their manufacturing sites. Consequently implements for this project would be procured after international competitive bidding. The local supply position on one item, tractor trailers, is more satisfactory; in addition, this item, unlike others, is subject to a 27.5 percent tariff. During the Annual Meeting the Indian delegation indicated that the Cabinet had decided to accept the Bank's normal procurement arrangements for international bidding including the usual preference for domestic suppliers of 15 percent, subject to occasional reservation of certain items to domestic suppliers. In this case, I expect the Government of India to ask to have trailers reserved for procurement from domestic suppliers; in that case we would agree, but would remove trailers from the cost of the project to be financed by the Association which would reduce the amount of the proposed credit by about US\$1.0 million.

11. The appraisal report recommends that the proposed State Groundwater Directorate (SGD) be required to obtain assistance in the form of expatriate technical personnel. An amount of US\$240,000 has been allocated for this purpose. I expect the Government to argue that such personnel can be provided within India, although on the evidence we have it seems unlikely that there is a sufficient number of qualified personnel to cope with the requirements of all Indian States. We would, of course, be willing to consider any evidence the Indians can produce during the negotiations which demonstrates that the specialized skills within India, or obtainable from bilateral sources, are adequate to meet India's intended groundwater development plans. The Agriculture Projects Department is especially concerned that qualified Indian personnel may be withdrawn from other ongoing projects or from States in which we are likely to have similar requirements in due course. Should India, in fact, insist on using its own personnel for this purpose, this item might also be removed from the project costs and the proposed Association financing.

12. The lending policies recommended for the participating institutions follow the pattern agreed in the Gujarat and Punjab projects, with certain exceptions. Several proposed recommendations would require the participating institutions to apply the rates of interest and other lending terms prescribed for project lending purposes to all of their lending operations in the State. While I agree that we should raise this point during negotiations in the context of the general need to charge higher rates as

one means of mobilizing resources for investment in the agricultural sector, I do not think we can insist on uniform lending rates except for all lending for project purposes and for any similar purposes within the State (which, at present, represent 90 percent of LMB's lending for agriculture.)

13. The appraisal report proposes that the Andhra Pradesh State Agro-Industries Corporation (AIC) be required to maintain charges for mechanized land leveling custom work at their present level, which the report states to be reasonable. I think that in preparing draft legal documents we should express this requirement in terms of requiring AIC to maintain a level of charges which would guarantee recovery of all costs plus a reasonable amount in addition.

14. The most difficult issue raised in the appraisal report concerns the pricing of tractors. The report states (paragraph 4.14) that prices to farmers for imported tractors are low as compared with those of the less advanced models available within the country and in relation to current Indian crop prices as compared with worldwide prices. A shortage of tractors has contributed to the creation of a black market in them, and the appraisal report proposes that during negotiations, assurances be obtained from GOI that it would initiate measures to increase the selling price of tractors imported into India (excluding those imported from Eastern Europe) to a level which would bring total taxes (or duties) to not less than 20 percent of c.i.f. prices. While I favor such a position, the Legal Department has expressed the view that regardless of the general merits of the proposal, it raises at least questions as to the consistency of the proposed measures with India's commitments under GATT and the desirability of discriminating between members and non-members. The Legal Department considers that before taking a position which involves the Association actively in these highly sensitive areas, we should as a minimum have obtained adequate information regarding both India's commitments under GATT and its trade agreements with the Eastern European countries referred to above. I agree and am requesting this information from the Government. In view of this as well as the limited number of tractors included in this project we do not intend to make the introduction of any price increase a condition of this credit. We have pressed the Government for an immediate review of tractor pricing, and have stated that we would require definite proposals on appropriate measures before negotiating the next credit project in Haryana, which contains a large tractor import component.

15. Finally, the appraisal report suggests that the appointment of agricultural economists to the staffs of ARC and LMB be conditions of effectiveness of the credit. I believe that the appointment of specialists such as these is better handled through direct discussions with the organizations concerned; indeed we have already written to ARC expressing our concern over the matter of building up a permanent staff of personnel, instead of relying on a panel of experts on a part-time basis. Little progress has been made on this point to date. Subject to the response to our recent letter, I do not think it critical to the success of this project to effect such appointments immediately. However, the Agriculture Projects Department has asked me to point out that it was agreed during the appraisal of the Gujarat Credit project in June 1969 that ARC would build up its own technical staff, but has so far failed to do so.

Recommendation

16. Subject to the views of the Committee on the issue raised in paragraph 14 of this memorandum and with certain minor reservations about the procedures for attaining our objectives in negotiations as expressed above, I recommend that the borrower be invited to negotiate the proposed credit of US\$26.0 million on the basis of the recommendations set in paragraphs 8.01 and 8.02 of the appraisal report. I should add that I have discussed my reservations with the Agriculture Projects Department and that we are agreed in principle on the degree to which we will pursue these points.

Gregory B. Votaw  
Deputy Director  
South Asia Department

Attachment

Population: 556 m  
 GNP Per Cap: \$76

IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total
		Fiscal Year					1964-68	1969-73
		1970	1971	1972	1973	1974	1975	
Agric. Credit - Punjab	IDA	27.5						
Agric. Credit - Gujarat	IDA	35.0						
Agric. Credit - Haryana	IDA		35.0					
Agric. Credit - Tamil Nadu	IDA		35.0					
Agric. Credit - Andhra-Pradesh	IDA		26.0					
Agric. Credit - Mysore	IDA			25.0				
Agric. Credit - Maharashtra	IDA			25.0				
Agric. Credit - Unidentified	IDA			25.0				
Irrigation - Kadana	IDA	35.0						
Irrigation - Cauvery Delta	IDA		21.0					
Irrigation - Pochampad	IDA		40.0					
Irrigation - Tawa	IDA		30.0					
Irrigation - Andhra-Pradesh	IDA			35.0				
Irrigation - Jayakwadi	IDA			30.0				
Irrigation - Unidentified	IDA			20.0				
Grain Storage	IDA		5.0					
Agricultural Aviation	IDA		6.0					
Agric. Industry Unident.	IDA			10.0				
Agric. Unident. (7 projects)	IDA			150.0				
Agric. Unident. (7 projects)	IDA				165.0			
Agric. Unident. (7 projects)	IDA					165.0		
elecommunications IV	IDA		60.0					
Telecommunications V	IDA			40.0				
Telecommunications VI	IDA				40.0			
Telecommunications VII	IDA					35.0		
DFC - ICICI VIII	IBRD	40.0						
DFC - ICICI IX	IBRD			40.0				
DFC - ICICI X	IBRD					40.0		
Education - Agric. University	IDA			20.0				
Education Unidentified	IDA					20.0		
Fertilizer - Nangal (Public)	IDA			20.0				
Fertilizer - Cochin (Public)	IDA	20.0						
Fertilizer Manuf. Plant - Tata	IDA			25.0				
Fertilizer - Debottlenecking	IDA		5.0					
Iron Ore - Marcona	IDA			40.0				
Industry - Unidentified	IDA				25.0			
Industrial Imports VI	IDA	75.0						

(Contd.)

## IVa. INDIA - 5 YEAR LENDING PROGRAM

(Contd.)		(\$ millions)							
		1970	1971	Fiscal Year		1974	1975	Total	Total
				1972	1973			1964-68	1969-73
Family Planning	IDA		10.0						
Power Transmission	IDA		40.0						
Power Transmission	IDA			60.0					
Power Unidentified II	IDA				15.0				
Power Unidentified III	IDA					15.0			
Power Unidentified IV	IDA						60.0		
Highways II	IDA			30.0					
Railways X	IDA	55.0							
Railways XI	IDA			50.0					
Transportation Projects Unident.	IDA				60.0				
Transportation Projects Unident.	IDA					50.0			
Water Supply - Bombay	IDA		27.5						
Water Supply Unidentified I	IDA				15.0				
Water Supply Unidentified II	IDA					15.0			
Unallocated I				85.0					
Unallocated II	IDA				15.0				
Unallocated III	IDA					35.0			
Unallocated IV	IDA						40.0		

IBRD	40.0			40.0		40.0	189.0	120.5
IDA	227.5	360.5	500.0	320.0	320.0	320.0	591.0	1560.5
Total	<u>267.5</u>	<u>360.5</u>	<u>500.0</u>	<u>360.0</u>	<u>320.0</u>	<u>360.0</u>	<u>780.0</u>	<u>1681.0</u>
P & B	9/21/70	No.	6	14	15	14	12	12
							13	52

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

245.0 350.0 350.0 350.0 350.0



# LOAN COMMITTEE

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LC/M/70-9

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October 7, 1970

Minutes of Loan Committee Meeting held at  
3:00 p.m. on Friday, September 4, 1970  
in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S.R. Cope  
Mr. A. Broches  
Mr. G. Alter  
Mr. M.P. Benjenk  
Mr. I.P.M. Cargill  
Mr. B. Chadenet  
Mr. B.M. Cheek

Mr. J.H. Collier  
Mr. M.L. Hoffman  
Mr. B.G. Sandberg  
Mr. A. Stevenson  
Mr. F.R. Poore  
Mr. M.L. Weiner  
Mr. E.P. Wright  
Mr. J. Chaffey, Acting Secretary

In Attendance:

Mr. W.J. Armstrong  
Mr. B.A. de Vries  
Mr. G.D. Loos  
Mr. M.S. Ram

Mr. A.N. Memon  
Mr. Y. Rovani  
Mr. G. Wyatt

B. Method of Investment by Governments in Autonomous Public Bodies

1. The Committee discussed a general question affecting the financial relations between Governments and autonomous public bodies which had arisen in two projects recently considered by the Committee (Ghana - Second Power Distribution Project [LC/0/70-97, dated August 28, 1970] and Iran - Tehran Power Distribution Project [LC/0/70-95, dated August 25, 1970]), namely how far the Bank should seek to determine

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

(a) the method adopted by Governments for investing in autonomous public corporations, i.e. whether by way of equity or debt, and (b) the amount of dividends declared by such corporations. The Deputy Chairman said that the purpose of the meeting was not to formulate a uniform practice applicable in all situations, but rather to consider whether there was a general view on this issue.

Ghana - Second Power Distribution Project (LC/0/70-97)

2. The Western Africa Department said that the main issue in this project was the method by which the existing \$6 million cash surplus of the Electricity Corporation of Ghana (ECG) should be made available to the Government for its general development program, and also the extent to which the Bank should seek to influence the method and amount of this transfer. ECG was one of only two public corporations in Ghana (the other was the Volta River Authority) which currently made a profit and did not require Government subsidies. It was a distribution company; its investment requirements were limited; and its tariff structure appeared to be satisfactory. The Public Utilities Projects Department emphasized that, if ECG's current surplus were not channeled into other general public investments, ECG would probably continue to invest funds unnecessarily and remain inefficient.

3. The Government, sole equity shareholder, had not hitherto insisted on payment of dividends although the company was investing its liquid funds in Government paper. The problem was how to persuade the Government to reverse its policy and take steps to secure the transfer of ECG's surplus funds, particularly in view of Ghana's acute shortage of resources for development. The Area Department had proposed that, in addition to covenants in the credit agreement designed to improve ECG's efficiency, there should be a requirement that the company should pay annual dividends appropriate to its operating results; specifically that dividends should be determined after annual consultation with IDA, to ensure that the ECG retained sufficient cash for working capital and debt servicing purposes.

4. The Committee felt that a distinction should be drawn between requiring a company to declare dividends appropriate to its operating results and seeking to determine how the largest shareholder should remove surplus funds from the company. The former, a question of financial integrity, should be the extent of any legal obligation on the company; the latter, a question of persuading the Government to adopt a responsible attitude on the company's surplus, should be part of the Bank's continuing dialogue with the Government on fiscal and other reforms.

5. The Chairman, noting that the terms of the Government's relending to ECG would be shortened to 10 years maturity and 3½ years grace, suggested that a further hardening of the amortization terms would dispose of the initial cash surplus more quickly; the repayment schedule of Credit 118 GH might also be tightened further. The Area and Projects Departments replied that this might jeopardize the essential flexibility built into ECG's cash flow projections. It was generally agreed, however, that the Government's relending terms should be shaped in a more suitable way, taking into account the need for flexibility. Cash flow projections called for dividend payments to the Government from 1970-1976 of \$11.0 million, compared with the proposed credit of \$6.0 million, which might be repaid to the Government over 3 to 5 years.

6. It was also pointed out that the cash flow projections assumed that foreign capital requirements of \$8.9 million from 1973-1976 would be financed by foreign borrowings. In the absence of such an assumption, the cash flow position would change considerably; it would also change if there were a merger between ECG and VRA which, according to the Area Department, would increase the cash surplus. While the Ghana lending program included proposed credits to both ECG and VRA in 1973, it was hoped that more deserving projects would have been identified by then.

7. Summarizing, the Chairman said that, in negotiating the proposed credit, IDA should assume that the Government could be induced to adopt a responsible fiscal policy. ECG's surplus funds should be siphoned off by imposing harder relending terms. The credit agreement should have a general covenant requiring dividend payments based on operating results; it should not call for annual consultation with IDA. In addition it was suggested that reference in the Appraisal Report's cash flow projections to foreign borrowings financing external capital requirements of phase II of the project should be omitted.

#### Tehran - Power Distribution Project

8. In this project, it was proposed that the Bank should require that further external financing channeled to the Tehran Regional Electric Company (TREC) by the Plan Organization should be made available as debt, until a reasonable ratio of debt to equity in the range from 50:50 to 65:35 was reached. The Area Department said that this was largely an accounting problem because, unlike the Ghana project, surplus TREC funds were always siphoned off by the Ministry of Power for less profitable power companies.

9. The Chairman agreed that the loan agreement should include protective covenants safeguarding the Bank loan to TREC from any bleeding of the company's funds. The main issue, however, was whether the Bank should concern itself with PLAN's method of transferring to TREC additional external resources not provided by the Bank. It was sensible to fix a maximum debt/equity ratio for TREC of say 2:1, but should the Bank insist on a minimum ratio.

10. The Projects Department said that the money borrowed by PLAN and made available as equity to (inter alia) power companies was serviced by PLAN from oil revenues. However, PLAN was not a shareholder in the power companies and had no legal means of getting dividends from these investments, which the companies regarded as grants. PLAN was concerned about the absence of amortization arrangements and was seeking to establish the autonomy of the various enterprises and the development of financial integrity within them. PLAN was apparently prepared to accept the idea of 50 per cent of future financing to the power sector, regardless of origin, being passed on as debt. The Area Department warned, however, that PLAN's view on this might not ultimately prevail in any conflict of opinion with the Ministry of Power. It considered that this was an ineffective way of allocating resources through the Plan Organization particularly as the investment requirements of the power sector would exceed the funds generated within it.

11. The Chairman said that he was impressed by the absence of proper amortization arrangements for PLAN loans. There appeared to be a power struggle between PLAN and the Ministry of Power and, noting that PLAN was unable to secure dividends from the power companies, he felt that there was merit in the Bank favoring PLAN's financing being made available to TREC as debt, to the extent that such financing originated from PLAN's borrowings. In the negotiations the Bank should press for future external resources borrowed by PLAN being passed on as debt, to the maximum amount consistent with maintaining a sound financial structure for TREC.

C. Adjournment

12. The meeting adjourned at 5:10 p.m.

Secretary's Department  
October 7, 1970

# LOAN COMMITTEE

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SEP 05 2014

October 5, 1970

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## MEMORANDUM TO THE LOAN COMMITTEE

### Niger - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of October 5, 1970 from the Western Africa Department, entitled "Niger - Proposed Credit for a Highway Project" (LC/0/70-109).
2. Comments, if any, should be sent to reach Mr. Maillard (ext. 4757) by 5:00 p.m. on Thursday, October 8.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

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#### Committee:

Mr. J. Burke Knapp, Vice President, Chairman  
Mr. S.R. Cope, Deputy Chairman  
Mr. S. Aldewereld, Vice President  
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Mr. M. Shoaib, Vice President  
Directors, other Departments  
Executive Vice President (IFC)  
Vice President (IFC)

LOAN COMMITTEE

CONFIDENTIAL  
October 5, 1970  
LC/0/70-109

Memorandum from the Western Africa Department

Niger - Proposed Credit for a Highway Project

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Introduction

1. Attached for the consideration of the Committee is report No. PTR-63 (Appraisal of the Second Highway Project) which recommends an IDA credit of \$5.5 million to the Republic of Niger for a highway project. The project is based on detailed engineering carried out by Société Centrale pour l'Équipement du Territoire - Coopération (SCET-COOP) of France and financed by IDA under the Highway Maintenance Project (128-NIR). The project was appraised in May 1970.
2. The proposed project would be the fourth operation financed by IDA in Niger, after the \$1.5 million Road Project of 1964 (55-NIR), which has been satisfactorily completed, the \$6.1 million Highway Maintenance Project of 1968 (128-NIR) (\$4.4 million undischarged), execution of which is satisfactory, and the \$0.6 million Agricultural Credit Project (207-NIR) of June 1970 which has not yet been declared effective. The current five-year lending program is attached.
3. The Government had also requested the inclusion of another road, Tchadaoua-Mayahi-Dan Meiro, to link the main East-West axis with a region to the North which the Government claims has a promising agricultural potential. However, the appraisal mission would not support this road for inclusion in the project because the consultants found a satisfactory rate of return only by including time savings by road users; these, however, cannot be considered genuine benefits, and, if they are taken out, the benefits are reduced by 70 per cent. The President of the Republic later appealed this judgment. In the absence of any new data or developments, IDA agreed that PMWA would review the case for possible inclusion of this road in the next construction project.
4. On September 10, the Government also requested inclusion in the project of feasibility and detailed engineering studies for two additional roads: Malbaza-Dabnou (32 km.), a road section between Northern towns and Malbaza (cement plant), and Magaria-Matameye (71 km.), a road used by groundnut exporters. On both roads, traffic is said to have grown much beyond expectations, but this would have to be checked during negotiations on the basis of additional information to be submitted to IDA by the Nigerian delegation. Total cost of these studies might be \$425,000 of which IDA might finance about \$300,000. If our review were to conclude that inclusion of studies for these two roads was justified, the credit could then be increased from \$5.5 to \$5.8 million.

5. The Committee is invited to pay particular attention to the justification of local expenditure financing (para. 13), and to the disbursement condition regarding construction of a road link to Nigeria (para. 15).

#### The Economy

6. Our last economic report on Niger is dated July 8, 1968. An economic mission is planned for early 1971. A Country Program Paper is scheduled for discussion with management in October 1970.

7. Since 1968, Niger has been undergoing a period of economic difficulties due to droughts and to the civil war in Nigeria. Livestock owners in particular suffered heavy losses. The resulting decline in agricultural incomes and exports and the termination of French budgetary support contributed to financial problems in the public sector, which the Government has attempted to solve by increasing income taxes, taking measures to reduce personnel expenditures and asking the French Government to renew assistance programs which had been terminated. The French Government tentatively agreed to resume its support of the current and investment budgets for a period of four years (1970-73) in the amount of CFAF 1 billion (US\$3.6 million) per year or close to 10 per cent of budget receipts.

8. Development priorities have been sound. The Government has given first priority to agricultural and rural development (including rural education) and second priority to transportation. Recently, however, the Government has been trying to accelerate investments in transportation. Besides the request for road studies recently submitted to us as mentioned above, it is seeking finance for other roads from France and FED; it shows interest in the Trans-Sahara road which has been studied by UNDP; it is considering improving navigation on the Niger river; it has plans to expand the Niamey airport, etc. It has also recently obtained a \$13.2 million loan from Canada on very soft terms to build a 400 km. one-lane paved road from central Niger to Lake Chad where traffic is negligible but which is important to the Government for strategic and political reasons. This latter development shows that the Government may not always apply economic criteria for choosing its priority investments in transportation, and is therefore a cause of concern to us particularly since, if there is too much road construction, maintenance expenditures could, in five or ten years from now, increase to the point where the Government would have difficulty financing them.

9. One of the main tasks of our economic mission will be to review with great care and discuss with the Government the priorities of and within the transportation sector. However, since the two

roads included in this project for construction and the two engineering studies are of high priority, I do not think that we should postpone this operation until the sector review is available. But the inclusion of additional studies for two roads, as requested by the Government, should be carefully scrutinized and accepted only if they can clearly be shown to be of high priority. Moreover, before proposing that IDA finance other transportation projects, we should have to be satisfied, in the light of the conclusions of the next economic mission, that Niger is following reasonable development policies in transportation.

10. The country's capacity to generate savings is severely limited. Taxation rates are already high, and to increase them further might prove counter-productive. The Government has been making efforts to keep public expenditures in line with resources. Recent developments in the transportation sector, although a cause of concern for the future, cannot yet be said to have changed this basic policy. For example, total expenditures for civil service personnel, already low by African standards, have been reduced further during the last few years. The national contribution to public investment has been only 16.5 per cent in recent years and is projected at 13 per cent only in the four-year development plan for 1970-73; this is far below the average local expenditure component of projects.

11. On June 28, 1968, the Economic Committee concurred with our recommendation that Niger should continue to be considered eligible for IDA assistance. Since then, Niger has had to face temporary difficulties but in view of the Government's generally satisfactory efforts to overcome them, the conclusion regarding IDA-worthiness remains valid. This is also the case for the recommendation that IDA should be prepared to help finance local expenditures.

#### The Project

12. The project would consist of:

- (a) construction and improvement of the Niamey-Tillabery road (115 km.);
- (b) improvement of the Magaria-Tinkim-Nigerian border road (20 km.) and the Dan Tyao-Tinkim road (14 km.);
- (c) purchase of laboratory and traffic counting equipment;
- (d) services of consultants to supervise the above construction and to train laboratory inspectors and technicians; and



(e) feasibility study and detailed engineering of

- (i) the Niamey-Baleyara road (98 km.); and
- (ii) the Zinder-Bandé road (72 km.)

13. The total estimated cost of the project is about US\$8 million, including about US\$2 million of local taxes. Construction works would cost about US\$5.3 million; supervision, US\$0.35 million; feasibility studies and detailed engineering US\$0.7 million; equipment, US\$0.07 million and contingencies would amount to US\$1.6 million. IDA would finance the foreign exchange component of the project, estimated at US\$4.5 million, plus US\$1 million of local expenditures for construction. The proposal to include local costs is based on the considerations set out in paras. 10 and 11 above.

14. Transportation presents serious problems in Niger internally because of the size of the country relative to its population, and externally because of its distance from the sea. Internally, first priority is being given to improving communications between the capital and other areas of relatively dense population. The Niamey-Tillabery road would serve this aim. Externally, the country is trying to improve accesses to the sea, a task which requires the cooperation of other countries. The Dan Tyao-Tinkim and Magaria-Nigerian border roads would link with the road between Kano and the Niger border, which the Nigerian authorities are expected to build and which should be completed by 1972. Together, these roads would substantially reduce the transportation cost of groundnut exports, which are Niger's main source of foreign exchange earnings.

15. The Transportation Projects Department proposes that construction of the Dan Tyao-Tinkim and the Magaria-Nigerian border roads should not begin before the construction contract for the Kano-Niger border road is signed, and that, if it is not, the standards of the above mentioned roads would be lowered. In the light of recent information received from Nigeria which shows that construction of the Kano-Niger border road might indeed be delayed, I agree that disbursements for the construction of the two above roads should not begin before the construction contract for the Kano-Niger border road is signed.

16. The DPW would be responsible for the execution of the project and would be assisted by consultants on terms and conditions acceptable to IDA. Construction contracts would be awarded on the basis of international competitive bidding by pre-qualified contractors. Supervision would be entrusted to the French firm (SCET-COOP) who did the detailed engineering, under a contract approved by IDA. Disbursements would be made on the basis of a percentage of the cost of construction and against the c.i.f. cost of imported equipment and foreign exchange expenditures for consultants' services.

17. The overall rate of return of the three roads included in the project is 13 percent, which is satisfactory in a country like Niger, where productive investment opportunities are scarce.

IV. Recommendation

18. I recommend that the Bank invite the Government of Niger to negotiate an IDA development credit of US\$5.5 million for the proposed Second Highway Project, on terms and conditions outlined in paragraphs 6.01, 6.02, 6.03 and 6.04 of the attached appraisal report. I further recommend that the amount of the credit be increased from US\$5.5 million to US\$5.8 million to cover a part of the cost of the additional feasibility studies which the Government has requested IDA to finance, provided IDA is satisfied that those studies are indeed justified.

Bruce M. Cheek  
Deputy Director

Attachments

Population 3.9 m  
Per Cap. Inc: \$87

Attachment I

NIGER - ACTUAL AND PROPOSED LENDING THROUGH FY 1976  
(\$ millions)

		Fiscal Years									Total			
		Through 1964	Total 1965-68	1969	1970	1971	1972	1973	1974	1975	1976	1964-68	1969-73	1972-76
Agricultural Credit I	IDA				.6									
Agricultural Credit II	IDA							1.5						
Livestock I	IDA						2.0							
Livestock II	IDA							3.0						
Education I	IDA						4.0							
Education II	IDA									4.0				
Power Project	IDA							5.0						
Road Construction I	IDA	1.5												
Road Maintenance	IDA			6.1										
Second Road	IDA					5.5								
Third Road	IDA							4.0						
Fourth Road	IDA									4.0				
Uranium Mine Road	IBRD							10.0						
Kiamey Airport	IDA									2.0				
Telecommunications I	IDA							4.0						
Telecommunications II	IDA									3.0				
Water Supply	IDA							3.0						
Unidentified I	IDA									4.0				
Unidentified II	IDA									3.0				
	IBRD							10.0					10.0	10.0
	IDA	1.5		6.1	.6	5.5	6.0	8.0	12.5	10.0	10.0	1.5	26.2	46.5
	Total	<u>1.5</u>		<u>6.1</u>	<u>.6</u>	<u>5.5</u>	<u>6.0</u>	<u>18.0</u>	<u>12.5</u>	<u>10.0</u>	<u>10.0</u>	<u>1.5</u>	<u>36.2</u>	<u>56.5</u>
	No.	1		1	1	1	2	3	4	3	3	1	8	15
IBRD Loans Outstanding														
- including undisbursed								10.0	10.0	10.0	10.0			
- excluding undisbursed									3.4	6.7	10.0			
IDA Credits Outstanding														
- including undisbursed		1.5		7.6	8.2	13.7	19.7	27.7	40.2	50.2	60.2			
- excluding undisbursed			1.5	1.5	3.6	5.8	9.9	13.7	23.7	35.9	47.4			

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

October 5, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Niger - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of October 5, 1970 from the Western Africa Department, entitled "Niger - Proposed Credit for a Highway Project" (LC/0/70-109).
2. Comments, if any, should be sent to reach Mr. Maillard (ext. 4757) by 5:00 p.m. on Thursday, October 8.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LOAN COMMITTEE

CONFIDENTIAL  
October 5, 1970  
LC/O/70-109

Memorandum from the Western Africa Department

Niger - Proposed Credit for a Highway Project

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

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Bruce M. Cheek  
Deputy Director

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Population 3.9 m  
Per Cap. Inc: \$87

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(\$ millions)

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- excluding undisbursed			1.5	1.5	3.6	5.8	9.9	13.7	23.7	35.9	47.4			

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

October 2, 1970

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## MEMORANDUM TO THE LOAN COMMITTEE

### Venezuela - Request for Bank Assistance in Financing Caracas Metro

1. The Committee is requested to consider the attached memorandum of October 2, 1970 from the Central America and Caribbean Department, entitled "Venezuela - Request for Bank Assistance in Financing Caracas Metro" (LC/0/70-108).
2. A meeting of the Committee will be held on a date to be announced.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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SEP 05 2014

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CONFIDENTIAL

LC/0/70-108

October 2, 1970

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

VENEZUELA: Request for Bank Assistance in Financing Caracas Metro

Issue for Decision

1. The Bank has received a formal request from the Government of Venezuela through the Minister of Public Works for assistance in financing the first section of the proposed Caracas Metro from Pro Patria to La Hoyada, a distance of 7 kms. with 8 stations (see letter attached). The estimated cost of this section is of the order of \$110 million, of which half would be in foreign exchange. The project for a subway has been under preparation since the mid-1960's, and the Ministry of Public Works has maintained close contact with the Bank over the progress of the studies, which had a direct bearing on the two loans we made for urban expressways in 1964 and 1969. However, it is only within the last few months that a definite decision has been taken by the Cabinet to proceed with the project.
2. The Government's interest in obtaining financing from the World Bank stems essentially from its belief that the Metro can be constructed most cheaply and efficiently under a system of international competitive bidding rather than (like, for example, the Mexico City subway) on a turnkey basis. As indicated in the Minister's letter, the idea is that the foreign exchange component of the civil works (around \$30 million) should be financed by a multi-national development finance organization and the equipment and installations (\$25 million) by export credits from supplying countries. One of the principal arguments in favor of the Bank's participation is precisely that it would make such an arrangement possible, though we do not at present have any reliable data on the cost savings that might be expected to accrue from international competitive bidding.
3. The other principal argument, which may be mentioned at the outset, is that involvement with the Metro project would enable the Bank to come to grips in a practical form with the problems of urban concentration, congestion and pollution and to help in finding solutions for them. Caracas is an almost ideal laboratory from this point of view. We have already agreed to provide finance for a study of road user charges in the city under Loan 616-VE, and preparations for this study are at present in hand. Transport pricing policy is one of the key issues in dealing with the problem of urban congestion, and there is a close link between road user charges and the fares to be charged on the Metro. By exerting its influence in favor of realistic pricing policies for both modes of transport the Bank could make a significant contribution to the rationalization of urban development in Caracas, and if we respond affirmatively to the Minister's request, we should make it clear from the start that we expect serious consideration to be given by the Government to the system of charges to be levied both directly on the users (and

users of competing means of transport, particularly private cars) and indirectly on others who will benefit from the project. At the same time we should press for the adoption of other policies and programs which will help to prevent diseconomies resulting from excessive concentration in the metropolitan area. Part of the solution to this problem may be found in the planned development of satellite towns in neighboring valleys, especially in the Tuy Valley to the south.

4. The Government wishes to proceed with the Metro project as quickly as possible. Engineering designs for the first section of the line, including detailed plans, specifications and contract documents, have been prepared with the help of well-known U.S. consultants and are practically complete. The Government needs therefore to know now whether or not the Bank would be prepared in principle to consider providing part of the finance for the project. If the answer is negative, they would want to proceed immediately with exploring alternative methods of procurement and financing.

5. The purpose of this memorandum is to set out some relevant facts and considerations with a view to reaching a decision on whether or not the Bank should indicate an interest in financing the project, and if so, on what conditions. If the decision is positive, there are various aspects of the project, particularly on the side of organization and financing, on which we should seek further clarification before proceeding with an appraisal. But I think we know enough about the project to face the main issue now.

#### The Project

6. The proposed rapid transit system would consist eventually of three main lines, and a short connecting line, totalling 50 kms. in length (map attached) and designed to carry about 2.2 million passengers daily by the early 1990's. The total cost of the system has been estimated at around \$650 million, and the construction period would extend for 20 years. The first of the three lines to be built would run a distance of about 20 kms. along the west-east spine of the city from Pro Patria to Petare. This line would run straight through the most densely populated areas and would be within walking distance of one-third of all points of origin and destination of passenger trips made in Caracas (calculated on the basis of a detailed survey carried out in 1966). The total cost of the Pro Patria-Petare line has been estimated at around \$280 million, of which approximately 40 percent would be in foreign exchange. Construction would be carried out in three sections starting in the west of the city, which is a working-class residential area, and it is the first of these three sections connecting the residential suburbs with the city center that the Bank is being asked to consider. The objective would be to have this section in operation by 1975. The present Caldera Government apparently has an understanding with the opposition party that the second section would be initiated under the next Administration (i.e., after 1974).

7. The type of subway proposed would have a maximum speed of 80 kms/hr, an average speed between stations of 60 kms/hr and an operating speed, including halts, of 35 kms/hr. The journey from Pro Patria to La Hoyada would

take about 10 minutes. When the system is in full operation, it would be designed to handle up to 40,000 passengers per hour at peak periods, with trains running at 90-second intervals under automatic electronic control. Trains would be electrically-operated and would have conventional steel wheels running on a dual track system. The first main line would run underground for 91 percent of its length; 44 percent of the line would be tunnel construction, and 47 percent, including the underground stations, would be built by cut and cover methods. All structures would be designed to resist earthquakes following new specifications issued by the Ministry of Public Works after the last major earthquake in July 1967.

8. On the Pro Patria-La Hoyada section, acquisition of the right of way is estimated to cost approximately \$14 million, civil works \$65 million and rails, fixed equipment and vehicles just over \$30 million, making up the total cost of just over \$110 million.

#### Economic Justification

9. Venezuela's rapid economic expansion over the past 30 years has been characterized by a steady drift of population from the countryside to the towns and a growing concentration of industry and employment in the "Core Region" of the country, which extends from just east of Caracas to west of Valencia. Over 70 percent of manufacturing industry in the country is now located in this area. The population of Caracas has grown from about 700,000 in 1950 to 1,760,000 in 1966 and about 2 million today. A further doubling of the population, to over 4 million, is projected by 1990. While it should be an important objective of government policy to divert some of this population growth into satellite towns in neighboring valleys, especially the Tuy Valley to the south, the continued growth of Caracas itself is unavoidable.

10. In the judgment of the recent Bank economic mission to Venezuela, which included a prominent regional planning expert, the best prospects of diversifying the economy away from oil and of providing additional employment for a population growing at the rate of 3.6 percent a year lie in the development of an efficient industrial base in the Core Region. The mission's report makes a strong case for building up infrastructure in this area with the object of making industries more competitive and orienting them increasingly towards international markets, instead of focussing mainly on import substitution as in the past. This is quite a different view from that expressed by certain Executive Directors during the Board discussion of the last Venezuelan highway loan in 1969 when it was suggested that the Bank should refrain from assisting further investments in Caracas, which was already a wealthy and overcrowded city, and play a more active role instead in agriculture and education. While we are trying to do something in a small way in these two sectors, the economic report emphasizes the minor role of agriculture in the Venezuelan economy (it contributes only 7 percent of GDP) and concludes that the trend towards industrialization and urbanization cannot and should not be resisted, although it needs to be better controlled.

11. The Metro would play a key role in preventing the present acute congestion in Caracas from becoming unmanageable and in helping to meet the continued increase in demand for urban transport that must be expected over the next 20 years. Studies that have been carried out by the Government over a period of years indicate that a subway would be considerably cheaper than any alternative solution. The unusual physical location and configuration of the city, strung out over a distance of over 20 kms. in a narrow valley between high mountains, provides a high-density corridor ideally suited to a rapid transit system. The projected volume of traffic on the Pro Patria-Petare line, when in full operation, is over 10 million passengers per km. a year, which is approximately three times the density of traffic on the New York and Toronto subways and six times that on the London Underground. While we do not have full details of the economic studies that have been carried out, available information indicates on very conservative assumptions an economic rate of return on the full line of at least 14 percent. In any case, common sense would suggest that the economic return on the project is likely to be relatively high compared with similar facilities in other countries both because so much traffic follows a single axis and because of the lack of space for providing alternative means of transport above ground. Three prominent transit specialists from Canada, Japan and Sweden recently examined the project vis-a-vis other mass transit systems and concluded that it was technically and economically sound. This is, of course, something that we would have to check carefully for ourselves.

#### Financial and Institutional Aspects

12. The economic feasibility of the Metro is one thing and its financial viability quite another. It is intended that, within the limits of what is administratively practicable, tariffs for the Metro should be set at the highest level compatible with making full use of the facility and thereby reducing surface congestion to the minimum. The actual fare suggested (a flat rate of Bs.0.50, or about 11 cents) has been arrived at with this objective in mind after taking into account existing charges for alternative ground transport (mainly private cars, buses and taxis). It is possible that a higher fare could be charged if road user charges were also raised - an issue of policy which we should anyhow want to explore with the Government in the context of our highway lending (see paragraph 3 above).

13. The Government is thinking in terms of establishing both a Metropolitan Transport Authority to supervise the whole public transport system in the Caracas area and a Transit Authority to operate the Metro. The construction part of the project would be executed by the Ministry of Public Works and financed partly by cash contributions from the Central Government and the Federal District, partly by expropriation bonds for the purchase of the land and partly by a loan from the World Bank or other international agency, which would be made to the Central Government. The Transit Authority, to be owned 40 percent by the Central Government, 24 percent by the Federal District, 16 percent by the Municipality of Sucre and possibly 20 percent by private parties, would be responsible for acquiring the rails, other fixed equipment and vehicles needed for the Metro and for servicing the debt

incurred for this purpose out of its revenues. It would not, however, take over the basic infrastructural assets or the liabilities related to them, which should enable the Transit Authority to operate on a commercial basis and make a substantial profit. On the other hand, it is also contemplated that betterment taxes would be levied on property owners benefiting from the construction of the Metro, and that these should cover about 90 percent of the debt service payments (principal and interest included) of the World Bank loan.

14. If the Bank decides to participate in the financing, these financial and institutional aspects will require careful examination. The Government has not committed itself irrevocably to any particular institutional setup, and there should be room to negotiate changes in the proposed arrangements for the construction, financing and operation of the project if this turns out to be necessary. We would certainly want to explore different ways of obtaining an adequate financial return on the total investment in one form or another, but it is too early to say what should be judged "adequate" in this context.

#### Procurement

15. The method suggested by the Ministry of Public Works for financing the foreign exchange costs of the Metro, with the Bank loan covering the external component of civil works and the equipment being financed by supplier credits, would correspond to the type of parallel financing arranged for the El Chocon project in Argentina. The likelihood of keen competition to win contracts for the supply of equipment (because of the large followup orders that would be expected at later stages of development) means that the Venezuelans could probably get better terms under this type of arrangement than under an organized system of joint financing where the supplying countries would be in a better position to resist a "credit race". Joint financing would also have the disadvantage from the Bank's point of view that it would force us to raise substantially the amount of our loan in order to cover not only the foreign exchange cost of civil works, but part of the cost of equipment as well.

16. In spite of the objections that have been raised in the Board to Bank financing of transport in Caracas, a number of countries which are potential suppliers of equipment for the project would probably welcome the Bank's participation in one form or another. Their interest should be explored at an early stage if it is decided in principle that the Bank should be prepared to consider financing the project.

#### Implications for Bank Lending Program

17. The Bank's first five-year lending program for Venezuela is presently under preparation for review with the President at the end of October. Total lending proposed for the period 1971-75 is \$300 million, or an average of \$60 million a year. This level of lending is in line with what the present Venezuelan Government would like to borrow from the Bank



and with what our economic report considers to be a reasonable plan for the financing of public investment during the period in question. The program for FY 1972 and subsequent years assumes that the Government will succeed in raising additional public savings on a scale comparable with its present declared intentions.

18. The Metro project, if included in the program, would account for about 10 percent of the total. The rest would be mainly concentrated in other transport, including the Caracas airport (23 percent), telecommunications (20 percent), industry (17 percent) and agriculture (12 percent). There might also be a small amount of lending for education, power and tourism. If we do not finance the Metro, the Venezuelans would want to borrow more for roads, from what we know mainly in the Core Region. If we do not finance any more transport facilities in the Core Region, the Bank could not expect to play much of a role in the development of the economy over the next few years, since (a) apart from telecommunications, the other priority infrastructural needs are already largely taken care of (e.g. power generation) or else do not lend themselves easily to Bank financing (housing for obvious reasons, power transmission and distribution and water supply because of institutional problems); and (b) the commercial agricultural sector is too small to absorb a large amount of Bank lending, and non-commercial agriculture is being taken care of by a large sector program loan from the IDB.

19. Financing of the first stage of the Metro could involve the Bank in financing also the following stages, but there would be no commitment to do so, and it would always be possible to pull out once we had achieved our principal objectives, or conversely failed to achieve them. If the enterprise developed satisfactorily along the lines at present contemplated, Bank lending equal to, say, 50 percent of the foreign exchange costs over a 20-year period might amount to perhaps \$125-150 million at present prices. This is about what we have already lent to a single enterprise in Venezuela (CVG) for power.

#### Recommendation

20. I recommend, and the Special Projects Department and Transportation Projects Department agree, that the Bank should indicate to the Venezuelan Government that it is prepared in principle to consider participating in the first stage of the Caracas Metro project provided that the economic return on this investment is shown to be satisfactory and provided also that an understanding can be reached on the financial and institutional aspects of the project with particular reference to the need to establish appropriate pricing policies for all forms of urban transport.

21. If this recommendation is accepted, the next step would be to send a project reconnaissance mission to Venezuela to carry out a detailed review of all the available studies with special emphasis on the following issues:

- (a) the relationship of the Metro to land use and other transport investments in Caracas;
- (b) policies to be followed with respect to Metro fares (which we would want to relate in due course to the results of the Bank-financed study of road user charges);
- (c) the economic justification for construction of the Metro; and
- (d) the financing and institutional arrangements proposed for the construction and operation of the Metro, including the mobilization of local resources by means of betterment levies and other taxes.

On the basis of the mission's findings we should decide whether or not to go ahead with an appraisal mission, and under what conditions. Meanwhile, the project should be provisionally included in the lending program for FY 1972 with a view to an appraisal taking place around the middle of calendar 1971.

E. Peter Wright  
Deputy Director

Attachments

IBRD LANGUAGE SERVICES DIVISION	
CONTROL No. E-335/70	DATE: September 18, 1970
ORIGINAL LANGUAGE: Spanish (Venezuela)	
DEPT. C.A.M.&Caribbean	TRANSLATOR: TS:jm

Republic of Venezuela  
Ministry of Public Works

Office of the Minister

Ministerial Programming and Budget Bureau

No. DM PP 70 01199

Mr. Edgar Gutiérrez  
Central America & Caribbean Department  
International Bank for Reconstruction  
and Development  
Washington D.C.

Caracas, September 11, 1970

Financing of the First Stage of the Caracas Metro: Pro-Patria -

La Hoyada Section

The Government of the Republic of Venezuela has decided to construct, in successive stages, a Rapid Transit System for the City of Caracas. This decision is the outcome of the careful analysis of the integrated transport planning studies, the evaluation of various engineering alternatives and the design work carried out since 1965 by the Ministry of Public Works in order to find an effective and economical solution to the acute congestion problem affecting the Caracas Metropolitan Area.

The Ministry was assisted by well-known U.S. consultants with the studies and the preparation of the project; in addition, the Government called on the most competent Venezuelan and foreign experts for the evaluation of the studies and the proposals submitted. It was the unanimous recommendation of all these experts that the system as conceived and planned by the Ministry of Public Works should be constructed with the least possible delay. The Venezuelan Government has also taken this decision in view of the importance of the Caracas urban region for the development of the country, for which reason the project has been assigned high priority, not only from the sectoral and regional points of view alone, but also in the context of the economic development of the country as a whole.

The Rapid Transit System proposed for Caracas, which is illustrated in the attached map, will consist of four trunk lines of approx. 50 km length; the line from Catia in the West of the city to Petare in the extreme East, running over a distance of 20 km and with 22 passenger stations, will have the greatest priority. The first stage in the realization of the project will be the Pro-Patria - La Hoyada section of this line, 7 km long and with 8 stations, which will link the most densely

populated parts of the western suburbs with the city center. Since this is also the top priority section of the line it forms the logical first stage for the commencement of such a vast project.

The estimated cost of this first section is of the order of Bs 500 million; the foreign exchange component is estimated at approximately 51% of the total cost, i.e. rather more than US\$56 million. The cost of the civil works and compulsory land purchase for the Right of Way represents approximately 70% of the total, hence in the region of Bs 350 million with a foreign exchange component estimated at some 40% of that amount, i.e. the equivalent of US\$31 million; equipment and installations make up some 30% of the total for the project with a foreign exchange component of the order of 76%, hence the equivalent of US\$25 million.

With a view to the construction of the first stage of the project, a financing plan has been drawn up which envisages the use of foreign loan funds for financing the imported component of the civil works and all equipment and installations of non-Venezuelan origin. It is assumed, tentatively, in the plan that the foreign exchange component of the civil works will be financed by means of a loan from a multinational development finance organization, e.g. the World Bank, and that the equipment and installations will be financed by loans from the export banks of the countries of origin of the goods and services concerned. The Venezuelan Government would, however, consider any other form of participation by the multinational organization and the export banks which would result in equal or better financing terms.

All the studies and the engineering design, including detail plans, specifications and the contract documents relating to the Pro-Patria - La Hoyada stretch are practically complete; the Venezuelan Government accordingly deemed it warranted to include this project in the 1970-73 National Plan, with a view to having construction work started next year. For this purpose, the items which have to be financed from ordinary resources have been included in the 1971 draft budget, and it has been decided to submit to the Venezuelan Congress at the same time the necessary legislation which would authorize the utilization of public loans, both domestic and foreign, for the partial financing of the work in accordance with the financing plan laid down.

Congress will consider these matters within the legal time limit laid down for consideration of the national budget, which commences on October 1 and has to be concluded before the present year is out. The Government will therefore know the result within the period indicated and, to start the work, will have to arrange the financing required, particularly that needed for the civil works, which, as stated in the foregoing, will in the first instance be sought from a multinational organization.

In view of the facts as set out above, and being duly authorized by the President of the Republic, I am taking the liberty of approaching your organization to explore officially the possibility of obtaining from the World Bank a part of the finance for the construction of the first

section of the Caracas Metro.

At the same time it would be appreciated if your reply to this application could be made available at your earliest convenience, as this would permit the Venezuelan Government to switch to alternative sources, if the Bank does not in principle consider itself able to participate, since we feel that the project has to be implemented in the immediate future.

Yours very truly,

/s/ José Curiel Rodríguez  
Minister of Public Works

Copy: Dr. Pedro R. Tinoco,  
Minister of Finance

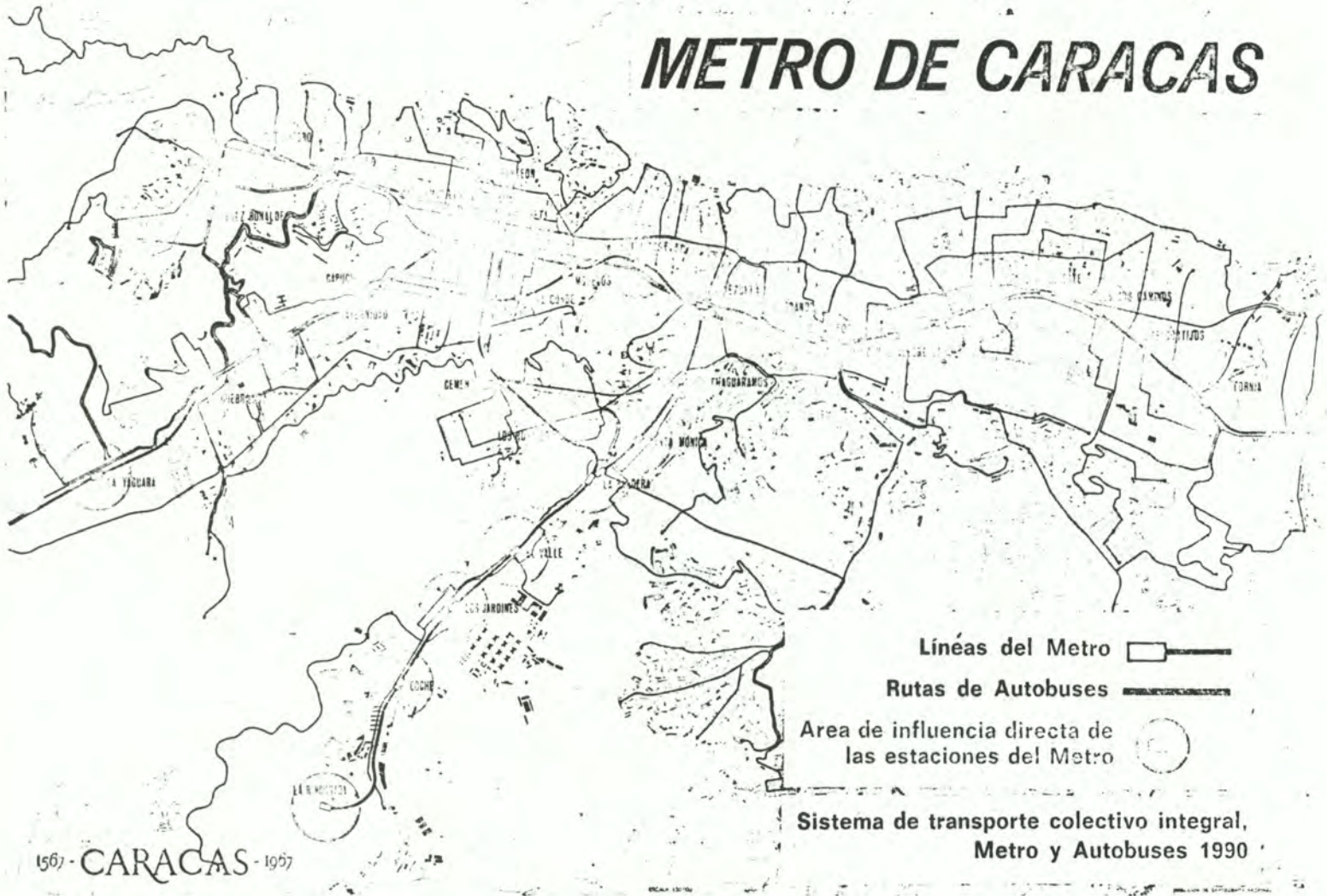
Dr. Luis E. Oberto,  
Chief of CORDIPLAN

Gen. Rafael Alfonzo Ravard,  
President, Corporación Venezolana de Guayana

Dr. Julio Sosa Rodríguez  
Ambassador of Venezuela to the USA

For map see text

# METRO DE CARACAS



Características Principales de las Líneas del Sistema Metro, 1990

LÍNEAS	Longitud Operativa (Kms.)	Número de Estaciones	Volumen de Pasajeros (Miles)	Costo (Millones de Bolívars)
Catía - Petare	19,7	22	1.070	1.260
Antimano - Morelos y ramal El Silencio	15,0	12	430	700
La Rinconada - Panteón	11,8	12	632	750
La Bandera - Plaza Venezuela	3,2	4	58	200
<b>TOTALES</b>	<b>49,7</b>	<b>50</b>	<b>2.190</b>	<b>2.910</b>

# LOAN COMMITTEE

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SEP 05 2014

October 1, 1970

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## MEMORANDUM TO THE LOAN COMMITTEE

### Turkey - Industrial Development Bank of Turkey

1. The Committee is requested to consider, without meeting, the attached memorandum of October 1, 1970 from the Europe, Middle East and North Africa Department, entitled "Turkey - Proposed \$30 million Loan to Turkiye Sinai Kalkinma Bankasi A.S. (TSKB)" (LC/O/70-107).
2. Comments, if any, should be sent to reach Mr. Nijhof (ext. 4707) by 5:00 p.m. on Tuesday, October 6.
3. It is planned then, if the Committee approves, to inform the Government and representatives of TSKB that the Bank is prepared to begin negotiations on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

#### Copies for Information:

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

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LOAN COMMITTEE

October 1, 1970..

Memorandum from Europe, Middle East and North Africa Department

Turkey - Proposed \$30 million Loan to  
Turkiye Sinai Kalkinma Bankasi A.S. (TSKB)

1. The appraisal report on the Turkiye Sinai Kalkinma Bankasi A.S. (Industrial Development Bank of Turkey or TSKB), dated September 28, 1970 is attached hereto for consideration by the Committee. The proposed loan would be the ninth Bank loan or IDA credit for TSKB and the twentieth for Turkey. The last lending to TSKB was a Bank loan of \$25 million, which was made in March 1969 and is fully committed; about \$8 million had been disbursed up to August 31, 1970.

2. The Bank has a number of other operations under consideration for Turkey in FY 1971, among them projects for livestock, education, fresh fruits and vegetables, power and fertilizer production. The Bank's revised Five-Year Lending Program 1971-1975 (attached) envisages total lending of about \$606 million.

3. In the memorandum dated March 17, 1970 from this Department to the Loan Committee concerning a dairy project it was mentioned that decisions on the proposed Five-Year Lending Program would be deferred pending further evidence of new economic policies by Turkey and the conclusions of the economic mission; meanwhile, however, work should proceed on preparing the projects included in the proposed program.

4. Subsequent to the August 9, 1970 stabilization agreement between Turkey and the IMF, it was decided to continue preparations for the lending program contemplated for FY 1971, which totals \$126 million, while continuing to seek agreement on policy issues. During the Annual Meeting the Turkish Finance Minister was informed of the Bank's position. Further discussions on economic policy issues are planned for early November.

The Economy

5. The last economic report on Turkey (EMA-4a dated February 13, 1969) described Turkey's economic performance under the First Five-Year Plan 1963-67, and appraised the country's prospects during the Second Five-Year Plan 1968-72. The limitations of existing policies and the steps necessary for improvement were examined in that report. These matters have since been the subject of detailed discussions with the Government on several occasions, particularly during



the last economic mission in April and May 1970. On that occasion a program of long-term action, considered necessary to meet the needs of Turkey's economic situation, was outlined to the Turkish authorities. It was stressed that such a program was considered a prerequisite, in addition to the more short-term stabilization agreement which was already then under discussion with the IMF, for any significant volume of continuing financial assistance from the Bank. This program would include such matters as reforms in the import/export regime, in budgetary and monetary management, the size and composition of public investment and the Government's policy for encouraging the private sector.

6. On August 9, 1970, Turkey took a number of measures under a stabilization program with the IMF. These measures included (i) a devaluation from LT 9 to LT 15 to the US dollar, (ii) increases in the deposit interest rates and lending rates, (iii) a reduction by 50 per cent of import guarantee deposits, and (iv) a reduction in import stamp duty from 25 per cent to 10 per cent.

7. The report of the April/May economic mission, which is being completed, will take into account these changes. The preliminary conclusions of the mission are that providing it can weather the difficult balance of payments situation which seems unavoidable in the next few years, Turkey could make fairly consistent progress towards external viability from 1973 onwards and would be creditworthy for new long-term borrowing on conventional terms. However, in the absence of special external assistance during the period 1970-73 Turkey is liable to experience a continued shortage of foreign exchange which could seriously disrupt the economy and erode the benefits of devaluation. The mission confirms that further adjustments in policies, particularly those mentioned in para. 5 above, will be necessary to provide a sufficient basis for Turkey to move progressively towards external viability.

8. Debt service payments in 1969, after debt relief from OECD countries, are estimated at 20 per cent of export earnings. For 1970 this percentage will fall to 18.5 per cent. In the light of the structural weakness of the balance of payments Turkey should seek to obtain as much of its external assistance as possible on concessionary terms.

9. The Bank is unlikely to come to an early conclusion with regard to Turkey's creditworthiness for the substantial share of Bank lending contemplated in the lending program. This question will have to be kept under review in the light of further developments of the economy, particularly of the balance of payments, and of the understandings to be reached on economic policy matters and their

implementation. The final decision on whether to lend will therefore have to be made whenever a project becomes ready for negotiations. Since the recent devaluation was a definite step forward in overhauling economic policies and improving Turkey's prospects for external viability, I consider that it is now justified to proceed with the proposed \$30 million loan to TSKB. This loan seems to be particularly appropriate under present circumstances since it would contribute to meeting the foreign exchange requirements of investments in the private sector whose encouragement is one of the aims of the recent stabilization program and since it should, through support of export oriented industries, in due course help to improve the balance of payments.

### The Project

10. Turkish industrialization has contrasting aspects; on the one hand it still makes a relatively low contribution to GDP (19 per cent), employment (10 per cent) and exports (20 per cent) while on the other hand it has led to an increasingly diversified industrial structure. The output of the manufacturing industry nearly doubled over the six-year period 1963-69. While state economic enterprises still play a dominant role, particularly in basic industries, there has been a strong upsurge of private manufacturing industry. During the sixties a new class of industrial entrepreneurs has emerged, increasingly capable and outward-looking. Foreign investments in manufacturing industries have also increased in recent years due to a more encouraging attitude of Government and have facilitated the introduction of new industries. There appears to be great scope for further growth in both export-oriented industries using domestic raw materials (food processing, forest products, cotton textiles, and boron products) and in import replacement (steel, motor vehicles, heavy engineering and fertilizers).

11. The Industrial Development Bank of Turkey (TSKB) was the first development finance company which the Bank helped establish 20 years ago, and one of the first in which IFC participated as an investor. Since then TSKB's capital base has expanded from an initial share capital of TL 12.5 million to a present net worth of TL 184 million; it has committed \$150 million in foreign exchange loans, TL 800 million in local currency loans and TL 200 million in equity participations. Bank/IDA loans and credits have totalled \$88 million. IFC's present investment in TSKB is about \$1.3 million (at cost), representing about 10.8 per cent of TSKB's share capital.

12. TSKB's major contribution has been that it has served as a vehicle through which substantial funds could be channelled to Turkish industry on the basis of a careful appraisal process. TSKB now has loans outstanding to over 400 companies; it has examined a multiple of this number. The performance of its portfolio over a 20 year span bears witness to TSKB's ability to judge the financial prospects of its clients. TSKB has also been fairly active in acquiring, and then selling to the public, equities. More recently it has mobilized funds by issuing and guaranteeing the bonds of its clients.

13. Although it is too early to forecast with precision the full financial impact of the new lira/dollar rate on TSKB and its customers, an analysis of its portfolio has indicated that while some re-scheduling might be necessary, it is unlikely that the devaluation will put any of its borrowers out of business. TSKB's own liquidity is such that it should be able to weather its post-devaluation debt servicing without serious problem. TSKB's own debt equity ratio will remain within the existing limit agreed with the Bank (4:1).

14. Prior to 1965, and with the exception of a 1958 DLF loan of \$10 million, TSKB depended entirely on Bank/IDA financing for its foreign exchange business. However, in the last five years, it has succeeded in broadening its foreign exchange sources, which now also include the European Investment Bank and the Kreditanstalt für Wiederaufbau. As far as tapping private sources overseas is concerned, TSKB's borrowing in the private foreign market has not been a realistic possibility, but this was mainly due to Turkey's overall economic situation. As Turkey liberalizes its economy and starts to look outward and to integrate with international markets, the linkage of Turkish firms with foreign enterprises may become more important and TSKB could serve a useful function in this respect and might ultimately also gain better access to other sources of foreign exchange. In order to mobilize local currency, TSKB continues its efforts through bond issues for its clients, sales out of its equity portfolio, internal cash generation and occasional increases in its capital.

15. On the basis of conservative estimates, TSKB's foreign exchange needs for 1971 and 1972 are about \$60 million. Of this total, other foreign creditors are likely to provide about \$25 million on the basis of present estimates. The proposed \$30 million Bank loan would cover most of the balance. As far as local currency is concerned, TSKB should be able to increase its rate of approvals to an average of about LT 140 million per annum 1971/72 on the basis of its somewhat limited lira availabilities.

#### Matters to be discussed during Negotiations

16. Prior to the devaluation TSKB was lending at 9 per cent on foreign exchange loans, at 10.5 per cent on free lira funds and at 8 per cent on lira resources provided by the Government. This was the result of Turkish long-term lending institutions being subject to artificially low rates which have caused two readily apparent problems namely (i) subsidized rates of interest for their borrowers and (ii) practically no possibility of their raising term funds in the market. Following devaluation the basic lending rate was increased to 10.5 per cent on loans to "promoted" industries, which is a broad list, and to 11.5 per cent on the remaining loans. During negotiations we will require TSKB to increase its present lending rates to the legal maximum now allowed. It is expected that 60-70 per cent of TSKB's lending would qualify for the 10.5 per cent rate, the rest for the 11.5 per cent rate. The actual cost to borrowers, cum taxes, at the two rates would be 13.1 per cent and 14.4 per cent respectively. The application of new rates to TSKB's lending would

at least be a significant improvement on what it has been able to charge in the past, although these rates still leave the effective cost of long-term funds slightly below the 15-17 per cent market cost of 5-year bonds. In revising its lending rates TSKB does not need and does not expect to retain the higher profits arising from the higher spreads; the differential between the present spreads and the spreads possible because of the increased lending rates should go to the Government.

17. TSKB has not made an impact on the dispersal of industry in the country - industry is heavily concentrated in the Marmara Sea Region - and this has resulted in recurrent expressions of interest in establishing regional development finance companies. In addition the Government intends to establish a bank to finance the private sector and in particular export-oriented industries. The main implication for TSKB of the establishment of other development banks would revolve around the effect such institutions would have in competing with TSKB for limited resources. Apart from that, there should be room for other financing institutions to satisfy the needs of the quickly growing private sector in Turkey, and TSKB should be able to hold its own against any competitors. TSKB has expressed an intention to achieve a wider geographical impact. During negotiations we will discuss this question and underline the desirability of TSKB putting more effort into financing industries outside the Istanbul area. However, a dramatic shift in the regional allocation of TSKB's funds is not likely in the coming two years.

18. TSKB's lending has been characterized by a large number of relatively small loans and a few relatively large loans; in fact the average size of foreign exchange loans committed in 1969 and the first four months of 1970 has even declined. This development reflects the situation that many loans were used by the sub-borrowers to import replacement equipment rather than to add substantially to capacity. During negotiations we will discuss with TSKB that it should now make efforts to concentrate more on its major purpose of providing capital for project financing.

#### Recommendation

19. I recommend that the Bank invite TSKB and the Government of Turkey to send representatives to negotiate a loan of \$30 million on the lines indicated in paragraphs 75 and 76 of the Appraisal Report.

Dieter Hartwich  
Deputy Director  
Europe, Middle East and North Africa  
Department

Population: 34.3 m.  
 GNP Per Cap: \$310

Attachment 1

TURKEY - REVISED 5 YEAR LENDING PROGRAM

		Fiscal Year					Total	Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73	1971-75
Irrigation-Ceyhan Aslantas	IBRD			30.0						
" " "	IDA			20.0						
Irrigation-Int.Farm Dev.	IBRD					20.0				
" " "	IDA					10.0				
Livestock I	IDA		4.5							
Livestock II	IBRD		15.0							
Livestock III	IDA			10.0						
Livestock IV	IDA				10.0					
Forestry/Pulp-Paper Mill	IBRD		25.0							
Fruits and Vegetables I	IDA		15.0							
Fruits and Vegetables II	IDA			10.0						
Fruits and Vegetables III	IDA					10.0				
DFC - TSKB VIII	IBRD		30.0							
DFC - TSKB IX				40.0						
DFC - TSKB X	IBRD					40.0				
New DFC I	IBRD		10.0							
New DFC II	IBRD					20.0				
Education I	IBRD		15.0							
Education II	IBRD			10.0						
Fertilizer - Ipras	IBRD		20.0							
Eregli Steel Mill	IBRD			60.0						
Power - Cukurova IV	IBRD		7.0							
Power - TEK Transmission	IBRD		20.0							
Power - Unidentified	IBRD				25.0					
Tourism I	IBRD			5.0						
Tourism II	IBRD				10.0					
Tourism III	IBRD					10.0				
Tourism IV	IBRD						10.0			
Roads	IDA					10.0				
Railways I	IDA		20.0							
Railways II	IBRD			20.0						
Istanbul Water Supply	IBRD		10.0							
Istanbul Sewerage	IBRD			10.0						
Unallocated	IBRD				25.0					
		<hr/>								
	IBRD	107.0	140.0	90.0	60.0	90.0	10.0	410.5	487.0	
	IDA	19.5	40.0	20.0	20.0	20.0	54.0	91.5	119.5	
	Total	126.5	180.0	110.0	80.0	110.0	64.0	502.0	606.5	

Division A No. 8 7 7 5 5 4 26 32  
 Europe, Middle East and North Africa Department  
 9/28/70