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FIRM No. 60 (4-08) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 7, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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Malagasy Republic - Lake Alaotra Irrigation Project

 The Committee is requested to consider, without meeting, the attached memorandum of April 7, 1970 from the Eastern Africa Department, entitled "Malagasy Republic - Lake Alaotra Irrigation Project" (LC/0/70-48).
Comments, if any, should be sent to reach Mr. de Lusignan (ext. 3603) by 1:00 p.m. on Thursday, April 9.

3. It is planned then, if the Committee approves, to inform the Government, in due course, 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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Copies for Information:

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

Committee:

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

CONFIDENTIAL

LC/0/70-48

April 7, 1970

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

MALAGASY REPUBLIC - LAKE ALAOTRA IRRIGATION PROJECT

Introduction

1. In October 1968, the Government of the Malagasy Republic requested assistance in financing the Lake Alaotra Irrigation Project, on the basis of feasibility studies undertaken by the French consulting firm SOGREAH. These studies were completed by the end of summer 1969, under the guidance of the FAO/IBRD Cooperative Program. The project was appraised in October 1969. The mission report "Appraisal of the Lake Alaotra Irrigation Project" (PA-40) is attached.

The Project

The proposed project area lies in the southwestern part of 2. Lake Alaotra, a vast depression in the Central Plateau of Madagascar, at an altitude of 760 meters. This area is protected on all sides by mountain chains limiting the degree of variation of temperature, and is therefore suitable for growing rice. The proposed project provides for the improvement of existing irrigation facilities and extension, over an area of 11,900 ha for year-round production. It consists of the rehabilitation of the irrigation and drainage networks on 4,000 ha; the construction of the irrigation and drainage network on some 9,500 ha of marshlands and of drainage networks on 2,000 ha of marshlands. It would also include on-farm development; the establishment of an agriculture experimental station for crop diversification; agricultural extension services and procurement of operational and maintenance equipment. Civil works and on-farm development works are scheduled to be completed in four to five years, respectively.

3. Various irrigation projects, north and southeast of the proposed project area, have been developed over 14,000 ha and are considered as the best irrigation development projects constructed in Madagascar during the last decade. The proposed project is the continuation of this development. After its completion, there would be a significant expansion in annual rice production needed to satisfy the projected increase in demand. Paddy yields would double and production would increase by about 26,000 tons. Furthermore the experimental program would permit the growing of off-season crops, opening the way for more diversified agricultural production in an exclusively rice region. At full development, foreign exchange savings would amount to approximately US\$1.1 million per year. Farmer's

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cash income would rise to US\$656 per annum compared to US\$178 per annum without the project, an incremental income of \$478. Charges would be collected from the farmer to recover the investment costs and the local cost of extension services. These would amount to about 30 percent of the incremental cash income. The rate of return is estimated at about 10 percent.

4. The total cost of the project is estimated at US\$8.3 million, of which US\$4.9 million (59 percent) would be in foreign exchange. It is proposed that an IDA credit of US\$5 million be made which would finance just over 60 percent of the project. For simplicity of disbursement and to fit in with the established financing arrangements of the other contributors -- the Banque Nationale Malgache (BNM) which would provide the equivalent of US\$0.7 million, and the French Aid and Cooperation Agency (FAC) which would provide the equivalent of US\$0.8 million --, the IDA credit would cover:

- (a) the foreign exchange cost of civil works including engineering and contingencies, operation and maintenance equipment and experiments in crop diversification, all of which would total US\$4 million; and
- (b) one half of the local cost of civil works, engineering and contingencies totaling US\$1 million. The BNM would finance on-farm development and the FAC, technical assistance, including extension services.

5. A note on the economy was contained in my memorandum to the Loan Committee of March 25, on the Port of Tamatave project (LC/O/70-39), which justifies providing continued assistance to Malagasy in the form of IDA credits. Madagascar is a poor country, with limited natural resources and a per capita income of 100 dollars. Up to now the country has received US\$11.1 million from the Bank and US\$14.5 million from IDA. The loans and credits have financed an average of 72 percent of total project costs, including, in some instances, a considerable share of local expenditure. To achieve an adequate rate of growth, Madagascar needs to import capital from abroad in an amount which exceeds the foreign exchange component of projects likely to be financed by foreign aid agencies. The proposed project is of high priority and I consider it justified to finance part of the local cost.

6. The proposed project will be implemented under the responsibility of the rural engineering services (RES), for the civil works, and of the Société d'Aménagement du Lac Alaotra (SOMALAC), for the on-farm development works, extension services, experimental farm and operation and maintenance. Both organizations, with the assistance of expatriate staff, have already carried out successfully similar projects in the Lake Alaotra region.

The invitation to negotiate, if the Loan Committee approves, 7. would be issued only when we have received the final layout, and found it to be satisfactory. During negotiations, assurances would be obtained from the Government on the availability funds to be provided by Banque Nationale Malgache; on making SOMALAC responsible for all project operation and maintenance during the development period; on agreeing to continue collecting charges from farmers and on introducing a betterment levy in addition to the maintenance fee. Effectiveness of the credit would be conditional to the conclusion between the Government and FAC of an agreement, satisfactory to the Association, for financing expatriate technical assistance employed by SOMALAC during the 1971-1973 period. It would also be a condition of effectiveness that the Government establish a Committee to coordinate the execution of works for which RES, a Government agency, and SOMALAC, an autonomous corporation, would be responsible.

8. Procurement of equipment for execution of civil works as well as for operation and maintenance to be financed under the credit, would be in accordance with the Association's procedures for international competitive bidding.

9. FY 1970-1975 Lending program is summarized in the attached table.

Recommendations

10. I recommend that, as soon as we have received the final project layout, and found it satisfactory, the Association should enter into negotiations with the Government of the Malagasy Republic for a credit of US\$5 million for the Lake Alaotra irrigation project, substantially in accordance with the terms and conditions summarized in paragraphs 8.02 and 8.03 of the appraisal report.

> Michael L. Lejeune Director

Attachment

Population: 6.4 m. GNP Per Cap.: \$100

IVa. MALAGASY - 5 YEAR LENDING PROGRAM

			(\$ millio		ms)			
+								Total
	1970	1971	1972	1973	1974	1975	1964-68	1969-73
						•		
IDA			3.0					
IDA						5.0		- 1
IDA		5.5						
IDA			2.0					1
IBRD				+	7.5			
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		2.0						
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			1.10	5.0				
			1.0					
IDA					5.0			
					• .			
-								
		2.0						
IBKD				3.0			1	
TDA				5.0				
LUA				5.0				
							-	
IBRD				2.5				
IDA	10.0					-		
IBRD						5.0		
IBRD								
			5.0					
						5.0		
IBRD				6.0				
								1
TRPD						5.0		
1DIO		12				5.0		۰.
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			15.0	11.5	7.5		4.8	32.8
		9.5		10.0	16.0	15.0	10.0	45.0
Total	10.0	9.5	26.0	21.5	23.5	35.0	14.8	77.8
rocur							2110	
No.	1	3	4	<u>21.5</u> 5	3	35.0	$\frac{\underline{14.8}}{2}$	<u>77.8</u> 15
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FORM NO. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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April 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

India - Proposed Sixth Industrial Imports Project

Attached for information is a memorandum from the Director of the South Asia Department to the Chairman of the Committee, dated April 6, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed development credit for a Sixth Industrial Imports project.

> David Pearce Secretary Loan Committee

Committee:

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

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Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

April 6, 1970

FROM: I.P.M. Cargill

SUBJECT: INDIA - Proposed Sixth Industrial Imports Project

1. I am attaching for your approval a draft Report and Recommendation of the President on a proposed development credit of \$75 million to India for a Sixth Industrial Imports project, together with a draft Development Credit Agreement. I plan to distribute these papers to the Executive Directors in time for their consideration at a meeting on April 21, 1970.

2. The green cover Appraisal Report recommended that, during negotiations, the question should be reviewed of increasing Indian industry's exposure to world market competition and encouraging broader technical collaboration agreements. While the points have been conveyed to the Government of India, I consider that they are long range issues to be discussed over time in the context of our continuing review of India's economic situation and should not be related specifically to the proposed credit. The appraisal report has been revised to reflect this.

3. The President's Report includes a brief economic section on recent developments and refers to the new economic report scheduled for distribution later this month. A copy of the President's Report has been sent to the Economic Adviser to the President for information.

4. In light of several Executive Directors' interest in a more intensive review of the sectors included for IDA financing, I propose that the theme of presentation of the credit be on the performance and prospects of the industries covered by the credit. The presentation will be made by Mr. El Darwish of the Industrial Projects Department.

5. This memorandum and its attachments have been cleared in substance by the other Departments concerned.

6. I would appreciate your giving your comments on these papers to Mr. Kuriyama (Extension 2765) at your early convenience.

Attachments

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LOAN COMMITTEE

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WBG ARCHIVES

April 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Chile - Second Highway Construction Project

Attached for information is a memorandum from the Director of the South America Department to the Chairman of the Committee, dated April 6, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a Second Highway Construction project.

> David Pearce Secretary Loan Committee

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Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: April 6, 1970

FROM: Gerald Alter

SUBJECT: CHILE - Loan for a Second Highway Construction Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan equivalent to \$10.8 million to the Republic of Chile for a Second Highway Construction Project, together with copies of the draft Loan Agreement and Supplementary Letters. We plan to distribute these documents (except the draft Supplementary Letters) to the Executive Directors for their consideration at a meeting on April 28, 1970.

2. On January 30, 1970, the Appraisal Report (PTR-38) was sent to the Loan Committee for consideration without meeting. The Committee agreed to invite representatives of the Government to enter into negotiations for a Bank loan equivalent to \$10.8 million for the proposed project on terms of 25 years including a grace period of four years. Negotiations were completed on March 23, 1970.

3. In my memorandum to the Loan Committee of January 30, 1970 (LC/0/70-8), I recommended that we seek the agreement of the Government to the creation of a revolving fund for the project to ensure availability of local funds. During negotiations this matter was discussed in detail and it became clear that delays in payment on Bank highway projects in the past were due to poor estimation on the part of Vialidad for relevant budget requirements and the rigidity of the Chilean budgetary system. In view of this, rather than insisting on the creation of a revolving fund an agreement was reached with the Government, in the form of a Supplementary Letter, to the effect that the latter will consult with the Bank in formulating its budget proposals for the project items. It was further agreed that no change in allocations of such funds from the approved budget will be introduced without prior consultation with the Bank. Except for this issue, negotiations were completed along lines indicated earlier to the Loan Committee.

4. With respect to the economy, the draft President's Report refers to the memorandum on "Recent Economic Developments in Chile", which was submitted to the Executive Directors on March 19, 1970, as an attachment to the President's Report on the Second Vocational Training Project.

Mr. J. Burke Knapp

- 2 -

April 6, 1970

5. For the oral presentation to the Board meeting we propose that Mr. Glaessner make a brief statement on the Bank's approach and assistance for improvement of Chile's transportation sector.

6. This memorandum and the attached documents have been cleared by the departments concerned. I would appreciate your giving comments on these papers to Mr. Bashir Ahmad, X-4778, at your earliest convenience.

Attachments

cc: Messrs. Robert S. McNamara S. R. Cope Loan Committee (without attachments) FARM No. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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April 2, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Tanzania - Flue-Cured Tobacco Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 2, 1970 from the Eastern Africa Department, entitled "Tanzania: Proposed Flue-Cured Tobacco Project" (LC/0/70-47).

2. Comments, if any, should be sent to reach Mr. Clements (ext. 4914) by 5:00 p.m. on Monday, April 6.

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 set out in paragraph 25 of the attached memorandum.

> David Pearce Secretary Loan Committee

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Copies for Information:

Committee:

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

CONFIDENTIALDECLASSIFIEDLC/0/70-47SEP 0 9 2014April 2, 1970WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

TANZANIA: Proposed Flue-Cured Tobacco Project

I. INTRODUCTION

1. The Government of Tanzania has requested an IDA Credit to assist in financing flue-cured tobacco development. The project would expand tobacco production in Tanzania by about 20 million 1b by 1978 and increase the value of exports by \$11.5 million. It was prepared by the Government with assistance from the Bank's Permanent Mission in Eastern Africa (PMEA) and the Agricultural Development Service (ADS) and was appraised in October/November 1969.

2. The proposed Credit would be the third IDA operation in the agricultural sector in Tanzania. The first operation was an Agricultural Credit Project (Credit No. 80 TA) which, although recently improved, is still a "problem project". Since the credit agency for that project - the National Development Credit Agency (NDCA) - is the proposed channel for credit under the presently proposed project, the status of Credit 80 TA and NDCA's overall situation are discussed below (paragraphs 9-11). The second operation was a Beef Ranching Project (Credit No. 132 TA), which is now operating satisfactorily after initial administrative problems.

II. THE PROJECT

3. Attached is an appraisal report entitled "Tanzania - Flue-Cured Tobacco Project" (PA-42). The report recommends an IDA Credit of \$9.0 million to help finance the project, the main components of which are:

(a) the establishment of some 15,000 new growers in 150 new village communities cultivating at full development 30,000 additional acres of tobacco;

(b) the construction of village and on-farm infrastructure comprising access roads, village water supplies, baling centers, curing barns and grading sheds; (c) the establishment of some 15 cooperative societies, of about 1,000 farmers each, to act as channels for the distribution of farm credit and inputs and to supervise baling;

(d) the provision of credit for on-farm seasonal inputs and infrastructure and for working capital for the cooperatives;

(e) the provision of staff for project planning and management, for extension services for farmers and cooperatives, for training and research and for NDCA and the Tanganyika Tobacco Board, together with necessary facilities;

(f) the introduction of a system of tobacco auctions and construction of an auction floor and additional tobacco storage and processing facilities, following a study of these proposed new marketing arrangements.

4. The project would take nine years to complete and would cost an estimated total amount of \$16.3 million, of which the foreign exchange component would be \$8.0 million. The proposed IDA Credit would finance 55% of the total cost, the Government of Tanzania 36%, the Tanganyika Tobacco Board (TTB) 5% and NDCA 4%. It is proposed that the credit would be applied to expenditures incurred on the project in the first six years 1970/71-1975/76, during which the settlement of new growers would be completed and the major investments undertaken. Expenditure on the project in this six-year period is estimated at \$14.7 million, of which the IDA Credit would cover 60%. All but \$600,000 of the foreign exchange cost would occur in this first six years.

III. HIGHLIGHTS AND ISSUES

Project Organization

5. The Ministry of Agriculture, Food and Cooperatives would have overall responsibility for the proposed project, and a Tobacco Project Group headed by a Tobacco Project Officer is to be established under the Ministry to execute the field aspects. Planning and survey of village settlements would be carried out by a section of the Project Group headed by a Senior Planning Officer. The appointment of persons acceptable to IDA to the positions of Tobacco Project Officer and Senior Planning Officer would be required prior to effectiveness of the Credit; selection is already in hand and we expect that these positions will be filled well before that time.

6. The 150 new villages to be established under the project would be grouped for administrative purposes into about 15 complexes, for each of which a cooperative would be established to handle the distribution of farm credit and inputs and to supervise baling of cured tobacco. Each complex would be under the responsibility of a resident Field Officer of diploma grade, supported by an Assistant Field Officer (AFO), an Assistant Cooperative Officer and two Assistant Foresters. The proposed villages would each have a resident AFO, assisted during the first year of settlement by a newly-qualified AFO. Any Field Officer or Assistant Field Officer without previous experience of tobacco production would be required to attend an eight-month training course before taking up his position. Assurances would be obtained during negotiations that all staff needed for the project would be fully trained and made available.

7. Seasonal credits for farmers and loans mainly for the construction of infrastructure would be channeled through the National Development Credit Agency, which is discussed below (paragraphs 9-11). The Tanganyika Tobacco Board (TTB) and the Tanzania Tobacco Processing Company (TTPC) would handle marketing and processing. At the moment the TTPC is jointly owned by the TTB and the National Development Corporation (NDC), an arrangement which has resulted in some management difficulties. Steps are already under way, however, to make TTPC a wholly-owned subsidiary of TTB, and a condition of Board presentation would be that this transfer has been completed.

8. The Tanzania Government proposes to introduce auction arrangements in place of the present system of selling the crop through a foreign sales agent. A study is to be carried out under the project to determine the size and timing of the construction of the auction floor and of the additional storage and processing facilities required. The study would also investigate the organizational, managerial and training arrangements necessary for the effective operation of the proposed facilities. Assurances would be sought during negotiations that the present arrangements for marketing the crop would be continued until arrangements had been agreed between the Government and IDA, in the light of the study's findings, for a smooth transition to an auction system. To prepare the way for the switch-over, the Tanzanian Tobacco Board would be required to appoint an experienced Chief Marketing Officer satisfactory to IDA prior to effectiveness of the Credit.

NDCA

9. It is proposed that funds provided under the Credit for incremental seasonal loans, medium-term loans for on-farm development and long-term loans for the auction floor, storage and processing facilities and the marketing study would be channeled through NDCA, which is the executing agency for the Agricultural Credit Project (Credit 80 TA). Four factors favor the choice of NDCA as the credit channel for this project:

(a) its performance in procuring fertilizers and other inputs, and in getting them to the farmers on time, has recently been good; (c) its debt collection record for tobacco loans has been good since 1967, when loan repayments began to be deducted on NDCA's behalf by the Tanganyika Tobacco Board before cooperatives were paid for their crop; and

(d) it is the only existing agricultural credit channel in Tanzania and, despite its current inadequacies, it can be built into a healthy institution.

10. On the other hand, NDCA's financial position is poor, although this is largely due to bad debts inherited from previous organizations and to unsuccessful Government loan schemes for farm tractors. Consultations between the Association and the Government have already led to some improvement in NDCA's performance; its lending programs for tea and fluecured tobacco have been particularly successful. Its staff has also been strengthened. Three further actions have been identified to improve NDCA's position:

(a) the write-off of some of the old bad debts, including those incurred for tractors and those inherited by NDCA from predecessor institutions;

(b) the provision to NDCA of additional cash resources; and

(c) the appointment of a financial specialist to analyze accounts of borrowing cooperatives and cooperative unions and to advise them on financial management.

Action on (b) has recently been taken. Action on (c) is in hand and on (a) is under Government consideration. We propose to use the leverage given us by the proposed Credit to get action on these points and we would not propose to present the Credit to the Board until satisfactory measures have been taken.

11. One of NDCA's main problems is that its borrowers - the cooperatives and cooperative unions - are themselves often weakly managed and do not apply the necessary financial discipline on their members. In addition, the technical supervision of the recipient farmers by the Ministry of Agriculture's extension services is often inadequate. The situation requires that NDCA's future lending programs be backed up by adequate management and technical advisory services at the cooperative and farm levels, an objective which can best be achieved if IDA finance is also made available for those purposes. This comprehensive approach is proposed for the tobacco project.

The Financing Plan

12. The project would take a total of nine years to complete. The proposed IDA Credit would be used to help finance 60% of the costs incurred in the first six years, during which the major part of the project would be implemented, including the settlement of new growers; by the end of this six-year period 90% of total expenditure would have been undertaken. The IDA financing would therefore be applied during the critical formative years when it would be desirable for the Association to have as much influence on the progress of the project as possible. The six-year disbursement period has been chosen with this consideration in mind. Expenditure on the project during the final three years 1976/77-1978/79 would be mainly limited to the completion of necessary on-farm infrastructure, incremental seasonal credit and technical assistance.

13. As already indicated, funds disbursed from the proposed Credit for use by farmers, cooperatives, TTB and TTPC, estimated at \$6.3 million, would be channeled through NDCA. The remainder, estimated at \$2.7 million, would be used directly by the Ministry of Agriculture, Food and Cooperatives. The small amount - \$1.6 million - of local currency financing proposed over the six-year disbursement period is amply justified on country economic grounds (see paragraphs 20-24).

14. The cost of constructing the auction floor and additional storage and processing facilities is tentatively estimated at \$3.1 million, of which 60%, that is \$1.9 million, would be provided from the proposed Credit. However, no disbursement of these funds would be permitted until after the results of the proposed marketing study had become available and agreement reached with the Government on the design, cost estimates, organization aspects, procurement and disbursements. The appraisal report contemplates that, should the estimated cost of the auction floor and related facilities disclosed by the study be less than \$3.1 million, the allocation for this item should be reduced to 60% of the estimate and the remaining funds cancelled. It is now recommended, with the agreement of the Agriculture Projects Department, that any estimated unrequired amount of the Credit be transferred to the unallocated category.

15. In a memorandum to Mr. Knapp from the Eastern Africa Department dated December 1, 1969, agreement in principle was sought to retroactive financing of three items in the project; namely (a) aerial photography of certain parts of the project area; (b) initial land planning; and (c) the study of the proposed introduction of auction arrangements for tobacco. Mr. Knapp agreed to this proposal and the Tanzania Government was advised accordingly. The amount involved in this retroactive financing is not expected to exceed \$150,000. All expenditures so financed would have been incurred after April 1, 1970.

Onlending and Disbursements

16. That part of the proceeds of the IDA Credit to be administered by NDCA for loans to cooperatives, TTB and TTPC would be passed on to NDCA by the Government under a Subsidiary Loan Agreement satisfactory to IDA, the effectiveness of which would be a condition of effectiveness of the proposed IDA Credit. This Subsidiary Loan Agreement would provide that, because of the need to make seasonal credit available to the tobacco farmers year in and year out at the annual rate of about TSh 13.0 million (\$1.8 million), the first TSh 13.0 million of the IDA Credit would be passed on to NDCA in the form of a grant; the remaining funds would be made available as a loan at $\frac{1}{6}$ interest over 14 years, including 6 years' grace. NDCA would be required to charge interest on all its loans of not less than its present short-term lending rate of $\frac{8}{26}$ per annum.

17. It is also proposed that disbursements by NDCA against its loans under the project during the first six years - other than loans for the construction of the auction floor and associated facilities should be reimbursed 100% out of the IDA Credit. This arrangement and the arrangements described in paragraph 16 would help build up NDCA's financial strength and provide it with necessary additional capital, taking into account the demands on NDCA's financial resources for loans for the project not only during the six-year IDA disbursement period but throughout the full nine years of project implementation. The IDA funds allocated for the construction of the auction floor and associated facilities mentioned in paragraph 14 would be disbursed to cover 60% of the cost of construction.

18. The rest of the Credit, which would be applied to expenditures on the project by the Ministry of Agriculture, Food and Cooperatives, would be divided into two categories for disbursement purposes. One category would consist of easily identifiable items with a high foreign exchange component; the other would consist of easily identifiable items with a small foreign exchange component. For simplicity of disbursement, the Credit would cover 100% of the cost of items in the first category and 30% of items in the second. The average proportion of the cost of the two categories together which would be covered by the Credit would be about 48%.

Rate of Return

19. The estimated economic rate of return on the project is about 30% per annum. A long-term tobacco price of TSh 4.20 per 1b dry weight f.o.b. Dar es Salaam has been used for this calculation. This price takes into account the possible end of the embargo on Rhodesia tobacco and the impact on cigarette consumption of apparent health hazards. The rate of return varies from about 12% to 37% over a range of export prices from TSh 3.50 to 4.50 per 1b. Average export prices during the 1969/70 crop year are expected to be about TSh 4.46 per 1b.

IV. THE ECONOMIC SITUATION

20. An economic mission from the Bank visited Tanzania during August/ September 1969 to review the new Second Five-Year Plan and assess prospects for the future. The report of the mission entitled "The Economic Development and Prospects of Tanzania" (AE- 7) was distributed to the Executive Directors on March 24, 1970.

21. A notable structural change in the economy is the decline in the share of agriculture in GDP and the rapid growth of the manufacturing sector. Within agriculture, the value of output of the three major export crops - coffee, cotton and sisal - decreased between 1963 and 1968 owing to adverse weather and lower prices for sisal. This was largely offset, however, by the steady increase in the output of cashewnuts, tea, tobacco and pyrethrum. Tobacco registered the highest rate of growth both in output and value. The market outlook for this crop justifies further increases in output.

22. The Government adopted a major policy decision in February 1967 by which a number of enterprises in the fields of banking, insurance, wholesale trade, processing and manufacturing and, later, also the sisal industry were transferred to public ownership in varying degrees. The Government recently stated that compensation has been agreed for 98 percent of the value of assets acquired in 1967, with the exception of the sisal estates, the claims of which are now being processed.

23. The Second Five-Year Plan calls for an investment of Sh 8,055 million during the period July 1, 1969 - June 30, 1974. The economic mission considers that while there could be a shortfall in investment by parastatal organizations, most of the sectoral targets are feasible. Domestic sources will finance almost 70 percent of total investment; this follows closely the pattern evolved during the First Plan, when considerable success was achieved in mobilizing domestic resources to finance development.

24. The mission concluded that resources on this scale could be mobilized and, in particular, surpluses on the recurrent budget could be achieved, only by holding increases in recurrent expenditure to the absolute minimum. There is little margin for raising additional resources, and any shortfall in the availability of external assistance would necessitate a curtailment of the investment program. The volume of external assistance which Tanzania requires exceeds the foreign exchange cost of projects likely to attract financing from external lenders and some financing of local expenditure for high priority projects, such as the present tobacco project, is therefore justified. The mission has consequently confirmed that the practice hitherto followed of financing a proportion of the local costs continues to have validity for our future lending to Tanzania.

V. RECOMMENDATION

25. The proposed project is complex and would require close supervision to ensure its successful execution. Nonetheless, it has considerable promise; it should bring substantial benefits to the families settled under the scheme and to Tanzania's economy, and fully accords with the Government's strategy for rural development. I therefore recommend that the Tanzania Government be invited to send representatives to negotiate a credit of \$9.0 million for the project substantially on the terms and conditions set forth in the attached appraisal report except as modified in paragraph 14 above.

> Michael L. Lejeune Director Eastern Africa Department

Attachment: Tanzania Lending Program

Population (1969): 12.6 million GNP per head (1968): \$74

.

Attachment 1

TANZANIA - Past and Present Lending Program Through 1975

		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1964-68	1969-73	1971-75
Agricultural Credit	IDA	_			5.0												
Agricultural Credit II	IDA										5.0						
Livestock I	IDA							1.3									
Livestock II	IDA										10.0						
Tea I	IDA										5.0						
Tea II	IDA													7.0			
Tobacco I	IDA								9.0								
Tobacco II	IDA												5.0				
Rural Development I	IDA											5.0					
Rural Development II	IDA													4.0			
Agricultural Education	IDA									7.0						-	
Education I	IDA	4.6															
Education II	IDA							5.0									
Education III	IDA											10.0					
Education IV	IDA													12.0			
Highways I	IDA		14.0														
Highways-Supplemental	IDA						3.0										
Highways II (Tan-Zam)	(IDA							(8.0 (7.0									
Tan-Zam Supplemental	(IBRD IDA							(7.0	7.5								
Highways III	IDA									10.0							
Highways IV	IBRD											10.0					
Highways V	IBRD													15.0			
Power I (interim)	IBRD						5.2										
Power II (Kidatu)	IBRD							-		28.0							
Kidatu Transmission Equipment	IBRD												5.0				
Hotel Financing (Tourism)	IERD										7.0						
Tourism II	IBRD												10.0				
	IBRD						5.2	7.0		28.0	7.0	10.0	15.0	15.0	5.2	52.0	75.0
	IDA	4.6	14.0		5.0	_	3.0	14.3	16.5	17.0	20.0	15.0	5.0	23.0	22.0	82.8	80.0
	TOTAL	4.6	14.0		5.0		8.2	21.3	16.5	45.0	27.0	25.0	20.0	38.0	27.2	134.8	155.0
	NO.	1	1		1	1	2	3	2	3	4	3	3	4	4	15	17

Frum No. 60 14-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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SEP 0 9 2014

WBG ARCHIVES April 2, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Nigeria - Proposed Transportation Rehabilitation Loan

 The Committee is requested to consider, without meeting, the attached memorandum of April 2, 1970 from the Western Africa Department, entitled "Nigeria - Proposed Transportation Rehabilitation Loan" (LC/0/70-46).

2. Comments, if any, should be sent to reach Mr. Povey (ext. 4523) by 5:00 p.m. on Friday, April 3.

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 set out in paragraph 15 of the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Copies for Information:

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

Committee:

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

Vice President (IFC)

President

CONFIDENTIALDECLASSIFIEDLC/0/70-46SEP 0 9 2014April 2, 1970WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the Western Africa Department

NIGERIA - Proposed Transportation Rehabilitation Loan

Introduction

1. Attached is a report "Appraisal of a Transportation Rehabilitation Project - Nigeria" dated March 30, 1970, which recommends a loan of \$25 million equivalent to assist in the rehabilitation of Nigeria's ports, roads and railways.

2. At the request of the Nigerian Government, a mission, comprising Messrs. van Helden, Burney, Povey and myself, visited Nigeria in early March for one week to discuss possible Bank assistance for Nigeria's rehabilitation efforts. Immediately following the return of the mission, a memorandum was addressed to Mr. McNamara recommending an approach to a transportation project which could effectively and speedily assist Nigeria. Mr. McNamara agreed with the approach and the recommendation that the necessary documents be prepared with the object of conducting negotiations in April and presenting a proposal to the Executive Directors in May.

The Economy and need for financing

Our latest economic mission to Nigeria, in the Fall of 1969, 3. while noting the great resiliency of the economy to the strains of the war, expressed concern about the mounting inflationary pressures. Financing of the war has led to sharply rising budget deficits, a widening deficit on the current external account, and latterly, substantial rises in consumer prices. Thus, at the end of the war, while the prospects for economic recovery and long-term growth are more promising than ever before, Nigeria is facing substantial problems in the short run. Foreign exchange reserves are below two months' imports, despite the fact that imports and profit remittances have been severely curtailed, and arrears in current payments have been mounting. Public finances are under strain despite rising oil revenues; large amounts of outstanding Treasury Bills have to be retired, military expenditures will remain high for some time, and rehabilitation requirements will add to the substantial development needs of a country with per capita income still below \$100.

4. The economic mission to Nigeria, scheduled for later this month, will review the country's five-year development program and assess the external financing required. While it is not possible at this time to determine the extent of these needs, our present knowledge of the Nigerian economy supports the Government's judgment that they will need to borrow substantial amounts over the next few years.

5. The Nigerian Government has asked the Bank to consider financing in the order of \$25 million equivalent, representing about half of the foreign exchange cost of the permanent rehabilitation program presented to prospective lenders last month. They propose to finance the remaining half from bilateral sources. Our preliminary contacts with these sources indicate that mobilization of external aid in this order of magnitude should be feasible. The proportion of Bank financing requested seems reasonable, considering the additional assistance which is forthcoming from other sources for the emergency relief program in addition to permanent rehabilitation.

The Project

6. Nigeria has placed emphasis on transportation in its permanent rehabilitation program, transportation expenditures representing 70 percent of proposed infrastructure investments. All forms of transportation throughout Nigeria suffered during the 30 months of civil war even though hostilities were for the most part confined to a comparatively small area in Central Eastern State.

7. Port Harcourt and the Eastern Line of the railway leading to it were closed as were most of the roads and river navigation in most of the eastern area. In the rest of Nigeria roads, while not subject to direct war damage, suffered from the re-routing of traffic, overloading of vehicles and lack of maintenance, compounded by the unusually heavy rains of 1968.

8. The restoration of Nigeria's transportation network to maintain the flow of imports and exports is vital and urgent and the project is intended to be a substantial contribution to this end. It consists of the permanent rehabilitation of up to 500 miles of federal highways and the purchase of Bailey bridges to replace damaged bridges; the procurement of railway locomotives, rolling stock, rails, sleepers, steel girders and related track materials; and the repair of dock sheds and warehouses in Port Harcourt and the procurement of port handling equipment and spare parts. The project represents about half the cost of Nigeria's permanent rehabilitation program in the transportation sector to be carried out during the next 12 to 18 months.

Points for consideration

9. The nature of the rehabilitation program calls for immediate action. Given the impossibility of reviewing in detail, before financing

is arranged, the complete list of items comprising the project and because of the possibility of future adjustments as a result of negotiations between Nigeria and other lenders, the loan proposed is in the nature of a "line of credit." The items to be financed are defined in terms of broad categories, their final determination being subject to further review by consultants and Bank staff before contracts are awarded and disbursements take place. We believe that the arrangements proposed should be adequate, given the steps which the Nigerian Government has already taken, or is about to take, to obtain the services of consultants.

10. Although no attempt was made to estimate the economic benefits of the project, there is a good prima facie justification from the fact that the expenditures envisaged will permit the full utilization of essential facilities rendered inoperative by direct or indirect war damage. The project constitutes a coherent approach to solving the pressing transportation problems of Nigeria and is, therefore, of high priority.

11. The financing proposed is limited to the foreign exchange cost of the project. Procurement will be generally in line with Bank procedures for international competitive bidding. Where it is not, the departures are justified on the basis of standardization or because of the limited number of possible suppliers.

12. The proposed loan is not an appropriate vehicle for institution building even though this is needed. Such improvements are best introduced through the conditions we attach to our longer-term financing of Nigeria's development program, for which a number of operations areeither under way or about to be undertaken. It is, therefore, not proposed that the loan documents should include particular covenants imposing conditions on the railways or the port authority; neither is it proposed to enter into project agreements with these authorities.

It is proposed that the loan documents require the Government 13. of Nigeria to cause the project to be carried out in accordance with sound financial and engineering practices; however, no specific covenants requiring the Government to pass on the loan funds to the particular agencies or to require them to service the loan will be imposed. Such arrangements will necessarily have to be decided by the Government in accordance with the policies it will adopt in connection with the burden sharing of its total reconstruction and rehabilitation requirements. The question of burden sharing is related to the whole question of the apportionment of revenues and poses one of the most difficult policy problems for the Federal Government; it is a central issue in its relations with the States and between the States themselves. We believe these are matters for the Government to decide in the light of its internal political constraints and it is best for the Bank not to be in the middle of this issue - certainly not at the present time.

14. The term of the loan proposed is relatively short, which is justified by the nature of the project, the speed at which the resulting benefits will accrue, and the prospects for increased foreign exchange earnings and government revenues which will be derived from rising oil production.

Recommendation

15. I recommend that the Federal Government of Nigeria be invited to send representatives to Washington to negotiate a loan of \$25 million equivalent for a period of 10 years including 3 years of grace and on the terms and conditions outlined in paragraph 5.02 of the Appraisal Report.

> Roger Chaufournier Director

Attachments

FORM No. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

April 1, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Cameroon - Railway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 1, 1970 from the Western Africa Department, entitled "Cameroon - Proposed Loan for a Railway Project" (LC/0/70-45).

2. Comments, if any should be sent to reach Mr. Wilkinson by 5:00 p.m. on Friday, April 3.

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 set out in paragraph 16 of the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Copies for Information:

Committee:

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

President

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

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LC/0/70-45

April 1, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

CAMEROON - Proposed Loan for a Railway Project

Introduction

1. The Cameroon Government and the Regie des Chemins de Fer du Cameroun (Regifercam), the State Railway Corporation, have requested Bank financing for a railway project. The project was prepared by Regifercam, discussed during a PMWA transport sector review mission in September 1969, and appraised in December 1969. This is the sixth Bank/IDA operation in Cameroon. A summary statement of Bank loans and IDA credits as of February 28, 1970, the current five-year lending program, and basic data on the economy are attached.

2. Economic prospects for Cameroon are good. GDP growth is expected to continue at about 6 percent per year. The rate of investment is rising, and the debt service ratio is at present only about 4 percent of exports annually. Good fiscal performance is reflected by budgetary savings amounting to about \$16 million in 1967-68 or 10 percent of current receipts. The development budget was increased by some 50 percent from 1968-69 to 1969-70, and we expect public savings to continue to rise. Nevertheless, Cameroon is still unlikely to cover more than 25-30 percent of public investment during 1969-70 to 1971-72. The Economic Committee agreed that economic performance was on the whole satisfactory up to 1968 and that a soft blend of Bank/IDA assistance was justified. (EC/M/68-32, July 2, 1968).

3. The last economic report for Cameroon is dated August 8, 1968 (AF-79a). A Bank economic mission is at present in Cameroon. While the new economic report will not be circulated before this loan is presented to the Executive Directors, the economic section of the President's Report will reflect the mission's conclusions.

The Project

4. The report "Federal Republic of Cameroon - Appraisal of a Railway Project" (March 30, 1970, PTR 50) is attached. Developing Cameroon's transport system is one of the Government's main objectives. This is also the sector where the Bank and IDA are prepared to give the bulk of their support. We lent \$19 million for the first road project earlier this year and two port projects and further road and railway investments are included in the lending program. The growth in traffic resulting from the growth in the economy as a whole and stimulated by completion of the Trans-Cameroon railway to Belabo (to be extended to N'Gaoundéré by 1974) has created serious congestion on the old Central line linking Yaoundé to the main port of Douala, and in the port of Douala itself.

5. Regifercam's investment program during FY70-73 is designed to relieve this situation. Planned investments amount to US\$20.6 million (CFAF 5,718 million) for equipment and works on existing lines, with a foreign exchange component of US\$16.4 million, or about 80 percent. The principal items are track renewal, locomotives and rolling stock; it is this investment program that has been appraised by Bank. It will be financed from several sources; the main ones are FAC, CCCE, EIB, KfW, and French suppliers (COFACE guaranteed). While it might not have been impossible for Regifercam to obtain finance from other sources for parts of this project, we consider that we should be prepared to lend for it, in view of our eventual future involvement in the realignment project, Government's wish to diversify sources of financing for railways, and our desire to implement an integrated approach to the Cameroon transport sector: roads, railways and ports.

6. Regifercam's investments (excluding interest during construction) during the FY70-73 period will be financed approximately as follows:

		Regifercam inv (CFAF m	estment 1969/70 illion)	0-1972/73
Α.	Ex	ternal resources		4,222
	1.	Undisbursed balance of existing loans	1,272	
		of which: CCCE (old loans) KfW EIB	(737) (190) (345)	
	2.	Loans being negotiated	2,274	
		of which: CCCE (new loan) French suppliers (COFACE) IBRD (this loan)	(700) (300) (1,274)	
	3.	Loans to be negotiated	356	
	4.	Training subvention (FAC)	320	
в.	Lo	cal resources		1,496
	1.	Regifercam contribution to externally financed investments	472	
		of which: EIB component IBRD component	(266) (206)	
	2.	Other Regifercam investments	1,024	
		Total cost		5,718

7. Taken as a whole, Regifercam is financing from its own resources about 25 percent of its investment program over FY70-73; the Bank Loan will finance another 25 percent. The remaining 50 percent will be financed by other external lenders. We are keeping Regifercam's principal creditors informed of our proposals since our operations are complementary to each other.

8. Negotiations for the new CCCE loan and the French suppliers' credits are at an advanced stage and they should be signed before our loan becomes effective. Finance has not yet been obtained for the reconstruction of the Douala station and for some miscellaneous investments required towards the end of the period. Although we consider these to be justified, they do not directly affect the success of the project to be financed by the Bank. We do not anticipate that Regifercam will have any difficulty obtaining the necessary finance to complete its FY70-73 investment program.

100 2000/00

9. The economic justification of these investments has been established. Relaying track, some dating from the 1920's and earlier is imperative and overdue. If this is further delayed, the capacity of the line will be seriously impaired, resulting in declining traffic either impeding economic development or diverting traffic to higher cost road transport. The proposed investment in freight and passenger rolling stock has been demonstrated to be more economic than alternative investments in road vehicles.

10. The proposed Bank loan is US\$5.2 million: \$4.6 million will finance the foreign cost of relaying 52 kilometers of track, rolling stock, reconstructing a bridge, and consulting services for an economic feasibility study of the realignment of the Douala-Yaoundé railway, and \$0.6 million will finance interest during construction. Paragraph 4.11 of the Appraisal Report provides a breakdown of the cost of these items. We will make the loan to Regifercam. It will have a term of 25 years including 5 years' grace, and will be guaranteed by the Federal Government.

11. This will be our first pure foreign exchange loan to Cameroon. While we consider that we have now financed sufficient local costs during FY69-70 for Cameroon to be able to meet all the local costs of the remaining projects in the FY70-71 program (with the possible exception of agricultural projects), it remains to be seen if local cost financing will again be necessary thereafter in view of the increased lending proposed in the FY72-73 lending program.

12. Regifercam has already called bids for supply of rails. All items to be financed by the loan will be procured through international bidding, except for ballast, welding material and concrete sleepers, which account for \$580,000 or about 11 percent of the loan. These items will be provided by Regifercam's existing suppliers because of the small amounts and the need to standardise sleepers. The French OFEROM will call international bids. Their procedures are satisfactory to the Bank. There will be no retroactive financing if the loan is approved by the end of June 1970. We expect Regifercam to complete the project by 1973.

Future railway investments

13. In addition to the Trans-Cameroon extension and the investments described above, Government and Regifercam envisage three other major projects: the realignment of the Central line, a railway from Yaoundé to Yokadouma towards the Central African Republic, and one from Douala to Victoria. In view of the need to establish overall investment priorities, and given the heavy borrowing that would be necessary we propose to require that Cameroon does not undertake major investments to expand its system unless these have been demonstrated to be economically justified and within the financial and technical capacity of Regifercam. We will finance an economic feasibility study of the proposed realignment of the Central line (tentatively included in the FY75 lending program) with this loan; the preliminary and detailed engineering studies are already being carried out by the Cameroon Government.

14. Consultants employed by the Bank for the UNDP financed CAR-Cameroon regional transport survey recommended the railway from Yaoundé to Yokadouma. Our position on this project is subject to our final review of their report, which was received recently. The UNDP study includes funds for the complete feasibility study of this railway or of alternative road projects. Government has also appointed consultants to prepare a long-term master plan for Cameroon's ports. This includes studying alternative port sites at Victoria, and an economic feasibility study of the necessary investments, taking account of the need to construct a railway link if future port development has to be concentrated at Victoria.

Issues to be considered by the Committee - Financial Targets

15. The Appraisal Report proposes that Regifercam should be called upon to earn a return of not less than 4 percent on the net value of fixed assets after 1972/73. This may appear low, but it is expected to be sufficient to cover forecast operating costs, debt service, and replacement needs and to make a substantial contribution to normal expansion. The fact that earnings only provide a return of 4 percent is due to the rapid extension of Regifercam's capital base with completion of the Trans-Cameroon railway. It will take time for traffic on this new section of the railway to build up to a level permitting a higher financial rate of return. I support the report's conclusions in this respect.

Recommendation

16. I recommend that we invite the Cameroon Government and Regifercam to send negotiators to Washington for a US\$5.2 million loan substantially on the terms and conditions described in paragraph 7.01 of the Appraisal Report.

> Roger Chaufournier Director

Attachments.

Attachment 1

Loan or Numbe		Financial Year	Borrower	Purpose	Amon Bank	unt (US\$ <u>IDA</u>	million) Undisbursed
100 0	CM	1967	Cameroon	CAMDEV	-	11.0	5.4
490 0	CM	1967	CAMDEV	CAMDEV	7.0	-	6.9
S3CM		1968	Cameroon	Road Engineering	-	0.6	0.2
593 0	CM	1969	SOPAME	Oil Palm	7.9	-	7.5
604 0	CM	1969	SNEC	Water Supply	5.0	-	4.7
161 0	CM*	1970	Cameroon	Education	-	10.5	10.5
180 0	CM∻	1970	Cameroon	Roads	-	7.0	7.0
663 0	CM*	1970	Cameroon	Roads	12.0	-	12.0
9	Total no	w held by B	ank and IDA		31.9	29.1	
1	Fotal un	disbursed			31.1	23.1	54.2

Summary Statement of Bank Loans and Ida Credits to Cameroon as of March 31, 1970

* Not yet effective.

CAMEROON - 5 YEAR LENDING PROGRAM

Population: 5.5 m GNDP Per Cap: \$130

		-				(\$ 1	millio	ns)	
		1070		scal		1974	1075	Total 1964-68	Total
		1910	1211	1712	1712	1914	1912	1904-00	1909-13
Semry Rice Irrigation Tea Development Cocoa Development Plaines de Ndop Rice Agrict. Unidentified	IDA IDA IBRD IDA IBRD		3.0	2.0	3.0	5.0			
DFC I DFC II	IBRD IBRD			3.0		5.0			
Education I Education II Education III	IDA IDA IDA	10.5			7.0		6.0		
Roads I " Roads II	IBRD IDA IBRD	12.0 7.0			7.0				
" Roads III "	IDA IBRD IDA				7.0	4.0			
Ports I Ports II Railways I	IBRD IDA IBRD		1.5	12.0					
Railways II	IBRD						12.0		
Water Supply II	IDA						5.0		
Urban Development	IDA					5.0			
-	TOUD	17.0							
	IDA Total	17.2 17.5 <u>34.7</u>	1.5 3.0 4.5			9.0		7.0 11.6 18.6	43.6 51.5 <u>95.1</u>
		3	2	4	3	4	3	2	14

BASIC DATA

Area: 183,524 square miles; 475,450 square kilometers

Population (1968): 5,449,000 (of which about 15,000 non-Africans)

Rate of growth: 2.1 percent Density: 30 per square mile

Political Status:

East Cameroon - independent January 1, 1960. West Cameroon - independent October 1, 1961. Federation - October 20, 1961. Member of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (BCEAEC) and the Union Douanière et Economique de l'Afrique Centrale (UDEAC); Associated Member of the European Community.

Gross Domestic Product (Est. 1967/68): \$860 million * (subsistence 20 percent)

Per capita:

\$157 *

Primary sector37 percentSecondary sector16 percentTransport, Trade, Services47 percent

Rate of growth 1962/63 - 1966/67

7.3 percent (at current prices) 4.7 percent (at constant prices)

Percent of GDP at Market Prices

1	962/63-1963/64	1964/65-1966/67
Gross investment	10.8	14.9
Gross savings	9.8	12.8
Net import of goods and services	1.0	2.1
Balance of payments current		
account surplus	0.6	-0.5
Investment income payments net	1.4	1.2
Government taxation revenue (Federatio	n) 15.1	16.4

* Based on exchange rate prevailing prior to August 10, 1969 of CFAF 247 per US\$1.0. At the currently prevailing exchange rate of CFAF 278 per US\$1.0, the 1967/1968 GDP would have amounted to the equivalent of US\$764 million and the per capita GDP to US\$140.

Money, Credit and Prices (CFAF billion)	December 196	Iz	age Annual acrease 4 - 1968
Total money supply Quasi-money Commercial bank credit to private sector Rate of change in prices	31.44 3.21 35.71	e e	5.4 % 5.0 % 5.0 %
Public Sector Operations (CFAF billion)	1966/67	196	67/67(revised estimate)
Government current receipts Government current expenditures Surplus/Deficit Government capital expenditures Public investment expenditures	31.9 30.6 +1.3 3.8 10.5		36.9 32.8 4.1 3.6 10.5
External Public Debt (US\$ million)			
Total debt (including undisbursed) at December 31, 1968 Total debt service (1969) Debt service ratio		ercent o	of merchandise
Balance of Payments (US\$ million)	<u>1966</u>	1967	1968
Total exports Total imports Current account surplus/deficit Foreign aid disbursements	151 146 -25 39	169 188 -46 31	194 163 +2 34
Commodity concentration of exports	1968	3	.964
Coffee, Cocoa, Aluminum 26	5%; 22%; 10%	27%;	20%; 15%
Gross foreign exchange reserves	1969	3	1964
US\$ million (October)	47.4		45
IMF Position (US\$ million)	Nov. 30, 1	.969	
Quota Drawings	18.2 none		

1/ Current account in 1964 was in surplus

FORM NO. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

LOAN COMMITTEE

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WBG ARCHIVES March 31, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Thailand - Third Bangkok Port Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 31, 1970 from the East Asia and Pacific Department, entitled "Thailand - Port Authority of Bangkok Third Bangkok Port Project" (LC/0/70-43).

Comments, if any, should be sent to reach Mr. Homsi (ext. 4256)
by 5:00 p.m. on Thursday, April 2.

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 set out in paragraph 8 of the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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LC/0/70-43

March 31, 1970

LOAN COMMITTEE

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Memorandum from the East Asia and Pacific Department SEP 09 2014

Thailand: Port Authority of Bangkok Third Bangkok Port Project

WBG ARCHIVES

1. Attached is the Appraisal Report on the Third Bangkok Port Project (PTR dated March 20, 1970) recommending a loan of \$12.5 million to the Port Authority of Thailand (PAT). If approved, this would be the twenty-second loan to Thailand and the third for port development; it would bring the Bank's total lending in Thailand to \$370.5 million (net of cancellations).

The report of an economic mission which visited Thailand in February. 2. 1970, will be distributed to the Executive Directors in May. The mission's findings confirm the conclusion of the 1968 economic mission (Report No. EAP-la of February 12, 1969) that the decline in foreign exchange receipts is likely to continue. This fact, together with the slow growth of exports, will probably reduce the growth rate of the economy, at least temporarily, from the 8% level of the past five years to 6-7% per annum. During the next few years of adjustment the Government will need to focus its attention more clearly on critical issues and to adopt policies designed to keep Government revenues and expenditures more nearly in line so as to keep import demand under control and avoid inflationary pressures. The mission believes that the resilience of the economy and its capacity to maintain a reasonable growth rate, and the possibility of a judicious drawdown of reserves (which declined by \$48 million to \$873 million in 1969) leave some time for the process of adjustment. In order to avoid an imprudent erosion of foreign exchange reserves and to maintain public investment at least at the present level, additional foreign capital will be required over the next few years. The mission estimates that the inflow of bilateral capital over the period 1970-1975 may be of the order of \$300 million. To avoid over-reliance on suppliers! credits when the balance of payments is expected to come under increasing pressure, Thailand should obtain a larger proportion of its external capital on long term than it has in the past. As the level of Thailand's service on long-term external public debt is estimated to reach only 7% of estimated foreign exchange earnings by 1975, there is ample room for further borrowing on conventional terms.

3. This would be the second loan to Thailand in FY1970. The first was a loan of \$46.5 million approved in January, to the Electricity Generating Authority of Thailand. A loan to the Industrial Finance Corporation of Thailand (IFCT) was to have been considered early in 1970, but has now been moved to 1971 because IFCT obtained a loan of \$10 million, instead of \$5 million, from the Asian Development Bank. Bank lending to Thailand is expected to increase substantially during the next two years. As in the past, the bulk of our lending would be for power, transport and irrigation projects. Together, these sectors account for about \$110 million of a total lending program of \$145.5 million through FY1972. A copy of the Five-Year Lending Program is attached.

4. The Bank has made two loans for port development in Thailand: Loan 37-TH for \$4.4 million in 1950 and Loan 151-TH for \$3.4 million in 1956. Both projects were successfully completed. The Port Authority of Thailand (PAT), which was established in 1951 as a condition of Loan 37-TH, would be the borrower of the proposed loan. PAT had originally proposed a project for expansion of its facilities at Bangkok, comprising construction of six deep-water berths and two lighterage berths, together with realignment of the bar channel and the purchase of a floating crane and other equipment. The Appraisal Report recommends that the project be scaled down to the construction of four deep-water berths, three transit sheds, two lighterage berths, ancillary works, consulting services for engineering and supervision of construction and experts to assist in dredging and in setting up a cost accounting system. Realignment of the bar channel and the purchase of a floating crane and other equipment were found to be premature and not now justified. The total cost of the project as revised by the appraisal mission is \$21 million of which the proposed loan of \$12.5 million would cover the estimated foreign exchange costs, about 58% of total project costs. During the period of construction of the project (1970-1973) PAT proposes to spend \$219.5 (about \$10.5 million) on the construction of offices, staff quarters, sheds, improvements of port and access roads and the purchase of cargo handling equipment and harbor craft. These expenditures form part of PAT's expansion program for the next five years and are justified. The balance of the funds needed to complete PAT's expansion program would be provided from its own reserves.

5. The recommendation to proceed with the construction of four rather than six deep-water berths now is based on the results of a simulation model described in Chapter 4 and Annex 4 of the Appraisal Report. In summary, the model demonstrates that as long as the military port of Sattahip, about 170 km. south of Bangkok on the East of the Gulf of Thailand, is not available for commercial traffic, additional capacity is urgently needed at Bangkok to avoid serious congestion in 1973. However the additional capacity should be limited to four berths at this stage and a decision to construct six berths need not be taken until early 1973. Such a decision would depend upon future traffic, the degree of improvement in cargo handling based on a two-shift labor system and the availability of Sattahip partly or wholly for commercial cargoes. The Appraisal Report concludes (para. 4.18) that given the present level of information, the savings resulting from a two-year postponement of the two additional berths would more than offset the additional cost incurred in two-phase project construction. During negotiations it is proposed to seek assurances from the Government that it will not proceed with the construction of the additional two berths without the Bank's agreement.

6. Should Sattahip not be released for civilian use by 1979, Thailand will need an additional deep-water port on the Gulf. The Government has retained a Dutch consulting firm, NEDECO, to study an alternative site at Laem Krabang, some 120 km. south of Bangkok. NEDECO's conclusions about Laem Krabang are not well supported and during negotiations the Bank will seek assurances that the Government will not proceed with the construction of an additional port without the Bank's agreement.

7. Paragraph 6.12 of the Appraisal Report points out that the PAT Act does not require the Government to provide funds for PAT's capital requirements. The Guarantee Agreement will include the usual requirement that the Government shall make available, as and when required, such funds as are necessary to complete the project and the balance of the approved expansion program.

8. I agree with the conslusions of the Appraisal Report and recommend that the Government and PAT be invited to negotiate a loan of \$12.5 million equivalent for a term of 20 years including a four-year grace period.

> Raymond J. Goodman Director

Attachments:

Appraisal Rpt. Third Bangkok Port Project, PTR March 20, 1970 Five-Year Lending Program

March 31, 1970

Population: 32.7 m GNP per Cap: \$130

THAILAND - 5 YEAR LENDING PROGRAM

		-			5 milli				
		1970	1971		1973	1974	1975	Total 1964-68	Total 1969-73
Agricultural Credit I Agricultural Credit II Meklong Irrigation II	IBRD IBRD IBRD		30.0	5.0		10.0			
Nan River Irrigation Uttardit Irrigation Seed Multiplication	IBRD IBRD IBRD			15.0 5.0		30.0			
Chao Phya Devt. Agriculture Unidentified	IBRD IBRD			5.0	5.0	5.0			
DFC - IFCT II DFC - IFCT III DFC - IFCT IV	IBRD IBRD IBRD		5.0		5.0		5.0		
Kasetsart University Vocational Education II Education Unidentified	IBRD IBRD IBRD		4.5	10.0		5.0			
Sirikit Dam Power - Quae Yai	IBRD	46.5	25.0						
EGAT - Thermal Units II EGAT - Thermal Units III	IBRD IBRD				25.0		40.0		
Highways V Highways VI Highways VII Ports - Bangkok I Ports - Bangkok II	IBRD IBRD IBRD IBRD IBRD	12.5	25.0	5.0	30.0		30.0		
Bangkok Water Supply Bangkok Sewerage	IBRD IBRD		10.0	5.0					
	IBRD		99.5	45.0	65.0		75.0	132.5	
	No.	2	6	6	4	4	3	8	19
5									

P&B 3/26/70

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FORM NO. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

SEP 0 9 2014 LM/M/70-11 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Ecuador - Third Livestock Development Project" held on March 24, 1970 in Conference Room B.

> David Pearce Secretary Loan Committee

Committee:

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

- DISTRIBUTION -

Copies for Information:

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

LM/M/70-1.

March 31, 1970

Minutes of Special Loan Meeting to discuss "Ecuador - Third Livestock Development Project" held at 3:00 p.m. on March 24, 1970 in Conference Room B.

1. <u>Present:</u> Messrs. Cope (Chairman), Alter, Baum, Evans, Sella, Cancio, Stoops, Zinman, Knobel, Luhman, and Pearce (Secretary).

Issues: The meeting had been called to consider the South America 2. Department's memorandum of March 20, 1970 entitled "Ecuador - Proposed IDA Credit to the Republic of Ecuador for a Third Livestock Development Project" (LC/0/70-37) and the accompanying appraisal report (PA-35). Paragraphs 26-23 of the memorandum raised two issues for discussion, namely: (a) whether or not short-term financing of \$1 million for feeder steers should be provided from proceeds of the proposed credit, as recommended by the Agriculture Projects Department, and (b) whether the proposed credit should cover the full cost (\$0.9 million) or only the foreign exchange cost or 50 percent, whichever was higher, of research and training programs and a seed improvement program (\$0.5 million). The effect of the changes proposed by the South America Department would be to reduce the amount of the proposed credit from \$10.5 million to \$9.1 million, increase the contribution of participating banks from \$4.1 million to \$5.1 million, and introduce a Government contribution of \$0.4 million.

3. Discussion-Issue (a): The South America and Agriculture Projects Department agreed that the \$1 million short-term financing for feeder steers should be included in the proposed project. However, while the South America Department considered it inappropriate for this item to be financed from the proceeds of the proposed IDA credit, for the reasons stated in paragraph 26 of its memorandum, the Agriculture Projects Department considered it necessary to ensure that participating ranchers obtained the necessary short-term financing to complement their development programs. In reply to the South America Department's proposal that participating banks should be required to provide this short-term financing, the Agriculture Projects Department stated that participating banks did not have the necessary resources for this purpose.

4. The Chairman commented that the \$4.1 million participating banks' contribution to the proposed project (22 percent of total project costs) was, compared with IDA's proposed contribution of 55 percent, on the low side. The Agriculture Projects Department noted, however, that the proposed contribution by participating banks in Ecuador was about average for similar IDA livestock credits. He suggested that they should be asked to increase their contribution to \$5.1 million on the terms and conditions needed for the project; the arrangements for ensuring that their increased contribution would include the necessary short-term financing for feeder steers could be agreed with the Government or Central Bank, or in another manner acceptable to the Bank, during negotiations of the proposed credit and incorporated in the credit documents. The South America and Agriculture Projects Department agreed that this would be an appropriate solution.

5. <u>Discussion-Issue (b)</u>: The Agriculture Projects Department pointed out that, in addition to the costs of \$0.9 million indicated in the appraisal report for the research and training, and seed improvement programs, operating costs during the implementation period in an amount of \$0.7 million would also be incurred and would be covered by the Government. Following a brief discussion, the Chairman decided that IDA should finance the costs of these programs as recommended in the appraisal report.

6. <u>Decision:</u> The Chairman decided that the Association should invite negotiations for a credit of \$9.5 million on the basis of the appraisal report suitably modified according to paragraph 4 above.

David Pearce Secretary

Cleared by: Messrs. Cope Alter/Zinman/Luhman Evans/Stoops/Knobel

cc: Loan Committee Participants FDRM No. 60 [4-68] INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 31, 1970

DECLASSIFIED SEP 0 9 2014 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Second Telecommunications Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 31, 1970 from the South Asia Department, entitled "Pakistan - Development Credit for the Second Telecommunications Project" (LC/0/70-44).

2. Comments, if any, should be sent to reach Mr. Fares (ext. 2069) by 5:00 p.m. on Thursday, April 2.

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 set out in paragraph 10 of the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Committee:

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

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CONFIDENTIAL

LC/0/70-44

March 31, 1970

DECLASSIFIED

LOAN COMMITTEE

Memorandum from the South Asia Department

PAKISTAN: Development Credit for the Second Telecommunications Project

1. The Government of the Islamic Republic of Pakistan has requested an IDA credit to finance the foreign exchange costs of priority items under the FY 1969-72 expansion program of the Telegraph and Telephone Department of Pakistan (T & T). The attached report "Appraisal of the Second Telecommunications Project - Pakistan" (No. PU-34), dated March 18, 1970, estimates these costs at US \$15 million equivalent and recommends approval of Pakistan's request. T & T will finance the local costs both of the project, estimated at about US \$20.3 million equivalent, as well as of other elements in the overall expansion program. The Government of Pakistan will make available any further foreign funds that would still be required to complete the expansion program on time (total requirement about US \$82 million, most of which has already been secured from various sources).

2. To date IDA has made twenty-nine credits to Pakistan totaling about US \$399 million equivalent, net of cancellations. It is expected that other credits totaling about US \$38 million equivalent 1/ will be recommended for approval before the end of the current fiscal year. The Bank has made thirty loans in Pakistan for a total amount of about US \$614 million, net of cancellations. Provision for this project is included in the approved Country Program Paper (See attachment 1).

3. The current economic situation was dealt with in my recent memorandum on "Pakistan: Engineering Services for the Karnafuli and Muhuri Irrigation Projects" (LC/0/70-21) dated March 5, 1970. An economic mission is at present in the field.

4. The proposed credit, if approved, would be the second Bank Group lending operation for telecommunications in Pakistan. Credit 145-PAK (US \$16.0 million) was made in June 1969 and is financing the foreign exchange costs of about 22% of the capital expenditures of the FY 1969-72 expansion program as well as consulting services to assist in the reorganization of T & T. Administrative shortcomings and T & T's inexperience with the Association's procurement procedures resulted in a delay of about six months in starting the execution of this project; but these difficulties are now being remedied, and orders are being placed. It is expected that the project will be completed on time and the credit fully disbursed by the initial Closing Date, December 31, 1972.

1/ An amount of US \$74 million is presently earmarked for IDA lending to Pakistan in FY 1970; projects substantially in excess of this amount are expected to be ready for financing before June 30.

SEP 0 9 2014 WBG ARCHIVES 5. The proposed credit is expected to have a substantial impact on the development of the telecommunications sector and consequently on the economy of the country. The development of this sector has fallen behind the rest of the economy and is at present one of the least developed among major developing countries, with 0.14 telephones for 100 persons, 135,000 connected direct exchange lines, a waiting list of 72,000, a total existing line unit capacity of 185,000 lines and 0.4% contribution to GNP. The proposed credit would finance the foreign exchange costs of a microwave route from Karachi to Rawalpindi and Lyallpur (about US \$6.8 million, total cost about US \$11.5 million), local and junction cables (about US \$5.7 million; total cost about US \$18.0 million), and air-conditioning for equipment rooms (about US \$1.0 million; total cost about US \$2.3 million). A contingency provision of US \$1.0 million has also been included.

6. All items of the project will be procured under international competitive bidding. A local factory, Telephone Industries of Pakistan (TIP), is qualified and is expected to bid (with a 15% margin of preference) on multiplex channeling equipment, the total cost of which is estimated at about US \$0.5 million equivalent (or less than 1.5% of total project costs). Since TIP is about 80% Government owned, its imported raw materials and components are secured mostly at the parity rate of exchange (US \$1.0 = Rs. 4.76); it is therefore proposed to use this rate of exchange as the basis for bid comparison. The appraisal report recommends that, should TIP be the successful bidder, only the foreign exchange component - estimated at 50% of total item cost or about US \$250,000 - be reimbursed from the proposed credit (para 5.06). Since the procurement of this item would be on the basis of international competitive bidding I recommend that we agree to reimburse its total cost.

7. The report estimates that, for many years after project's completion, 80 - 90% of all direct exchange lines will still be used by business and government. The economic benefits of the project are reflected in the unusually high incremental rates of return, which for the microwave equipment is evaluated at 43%.

8. T & T still lacks an integrated financial system of its own. The management consultants financed under Credit 145-PAK have already started on the design of a modern accounting system and the corresponding organization. Implementation is expected to be completed by the end of FY 1972. Until then a firm basis for a rate covenant cannot be established; but the appraisal report indicates that, though the tariff structure could be improved, the level of tariffs has enabled T & T up till now to have a good earning record and to finance a major part of its expansion program. It recommends, therefore, that until introduction of the new accounting system, T & T should agree not to reduce its present tariffs without the Association's concurrence. Subsequently T & T will become a financially self-contained organization and will be required to achieve a minimum rate of return of 10%, calculated on an amount equal to average fiscal assets in operation plus working capital equal to 4% of net fiscal assets in operation (para. 7.08). From FY 1973 onward T & T will have the necessary financial data and will be required to assume all debt service obligations (para. 3.19).

In view of its increasing debt service, T & T should further undertake to seek the Association's approval before incurring any new debt, if the maximum annual debt service in future is not covered 1.5 times by the net revenue of the preceeding 12-month period (para. 7.06).

10. The proposed project is technically and financially sound and of high economic priority. I recommend that we invite representatives of the Government of Pakistan and T & T to negotiate a credit of US \$15 million subject to the conditions proposed in the appraisal report and in this memorandum. The credit would be relent to T & T for a term of 24 years, including four years grace.

> Gregory B. Votaw Deputy Director

Attachment

- 3 -

Population: 120 m GNP Per Cap; \$90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

		(\$ millions)									
			in all		al Year			Total	Total		
	-,	1970	1971	1972	1973	1974	1975	1964-68	1969-73		
Tubewells - ADC	IDA	17.0									
Irrigation - Chandpur	IDA	13.0									
Irrigation - Dacca Southwest	IDA	0.8									
Irrigation - Project Eng.	IDA	2.5									
Irrigation - Dacca Southwest	IDA	2.0	30.0								
Irrigation - Karnaphuli	IDA		0.0	10.0							
Irrigation - Muhuri	IDA			10.0	7.0						
Irrigation - Belkuchi	IDA				5.0						
Irrigation - Chandpur North	IDA				10.0						
Irrigation - Little Feni	IDA				10.0	10.0					
Irrigation - Barisal I	IDA					20.0					
Irrigation - Pabna	IDA					20.0	18.0				
Irrigation - Comilla	IDA										
Tea Machinery & Irrigation	IDA		5.0				15.0				
Tubewells EPWAPDA I	IDA		5.0	8.0							
Tubewells EPWAPDA II	IDA			0.0		25.0					
Chandpur North Engineering	IDA			1.0		25.0					
Barisal I Engineering	IDA										
EPWAPDA Consultants II	IDA		2.0	2.0							
EPWAPDA Consultants III	IDA		2.0		2.0						
EPWAPDA Consultants IV	IDA				2.0		0.0				
	TDA						2.0				
EP Education Unidentified	IDA			7.0							
EP Small Industries I	1000										
in omari industries 1	IBRD	3.0									
EP Highways II	IDA			12.5							
EP Highways III	IDA				13.5						
EP Railways	IDA		8.0								

							Construction of the local division of the lo	Bratter and a state
IBRD IDA Total	3.0 33.3 36.3	45.0	40.5	37.5 37.5	55.0 55.0	35.0 <u>35.0</u>	95.3	3.0 158.3 161.3
No.	5	4	6	5	3	3	6	21

Pakistan Division - 3/27/70

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

		(\$ millions)									
		1970	1971		1 Year 1973	1974	1975	Total 1964-68	Total 1969-73		
SCARP V	`' IDA			5.0							
SCARP VI	IDA			5.0	12.0						
Tubewells - Dipalpur	IDA				15.0	15.0		1.1			
incemento - pipatpui	IDA					12.0			•		
WP Education - Eng. Colleges	IDA	8.0									
WP Education Unidentified I	IDA				8.0						
WP Education Unidentified II	IDA				0.0		5.0				
							2.0	-			
WP Fertilizer Plant II	IBRD		30.0								
WAPDA Power Distribution	IDA	22.4									
UD U											
WP Highways III	IDA		10.0								
WP Highways IV	IDA			20.0		-					
WP Highways V	IDA					20.0					
Port Eng Karachi Port Constr. III - Karachi	IDA	1.0	75 0								
Port Constr. IV - Karachi	IDA		15.0								
Sui Northern Gas III	IDA IBRD	17.0				20.0					
Sui Northern Gas IV	IBRD	17.0		20							
Sui Northern Gas V	IBRD			5.0		20					
	TDIT					5.0					
Water Supply II - Lahore	IDA		5.0								

							-		
IBRD IDA	31.4	30.0	25.0	20.0	5.0	5.0		166.5 106.4	
Total	48.4	60.0	30.0	20.0	60.0	5.0	84.3	272.9	
No.	4	4	3	2	4	1	6	18	

Pakistan Division - 3/27/70

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

		(\$ millions)									
		1970	1971		1973	1974	1975	Total 1964-68	Total 1969-73		
Agric. Development Bank IV Agric. Development Bank V Agric. Development Bank VI	IDA IDA IDA EP WP		15.0 7.0 8.0		30.0 15.0 15.0	*	30.0 15.0 15.0		1 .		
Telecommunications II	IDA EP WP	<u>15.0</u> 3.0 <u>12.0</u>		*							
DFC - PICIC IX DFC - PICIC X DFC - PICIC XI DFC - IDBP I DFC - IDBP II DFC - IDBP III	IBRD IBRD IDR IDA IDA IDA EP WP	20.0 10.0 10.0	10.0 5.0 5.0	10.0 5.0 5.0	40.0 22.0 18.0		40.0 20.0 30.0 30.0	e			
East & West -	IBRD IDA Total No.	35.0 <u>35.0</u> 2	10.0 15.0 25.0 2	10.0 <u>10.0</u> 1	40.0 30.0 70.0 2		40.0 50.0 90.0 3	<u>314.7</u> 13	90.0 136.0 226.0 10		
4 1											
Pakistan Division - 3/27/70	IBRD IDA Total No.	20.0 100.7 120.7 11	40.0 90.0 130.0 10	5.0 75.5 80.5	40.0 87.5 127.5 9	5.0 110.0 115.0 7	40.0 90.0 130.0 7	162.0 332.3 494.3 25	259.5 400.7 660.5 49		
* Note: the IDA lending program is to be reduced to the IBRD lending program is to be reduced to	n	74.0	60.0 30.0		70.0 120	70.0 .0					

FORM NO. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN COMMITTEE

LM/M/70-10

March 31, 1970 SEP 0 9 2014

WBG ARCHIVES

CONFIDENTIAL

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Pakistan - Chandpur Irrigation II Project" held on March 20, 1970 in Conference Room B.

- DISTRIBUTION -

David Pearce Secretary Loan Committee

Committee:

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

Copies for Information:

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

LM/M/70-10

March 31, 1970

Minutes of Special Loan Meeting to discuss "Pakistan - Chandpur Irrigation II Project" held at 3:00 p.m. on March 20, 1970 in Conference Room B.

1. <u>Present:</u> Messrs. Cope (Chairman), Aldewereld, Broches, Evans, Sadove, Votaw, Wapenhans, Haynes, Iverson, Melmoth, Please, McCulloch, Reese, Suratgar and Pearce (Secretary).

2. <u>Issue:</u> The meeting had been called to consider Mr. Votaw's memorandum of March 20, 1970 to Mr. Cope, which described the status of negotiations for a proposed \$13 million credit to Pakistan to help finance the Chandpur Irrigation and Flood Control Project. The main issue for discussion concerned the Pakistan delegation's strong objections to a provision of Section 2.07 of the draft Project Agreement concerning a so-called betterment levy on irrigated farm land to cover the operation and maintenance costs of major works.

3. Discussion: The South Asia Department pointed out that the issue of recovering operation and maintenance and part of capital costs was of major importance not only to the proposed Chandpur Irrigation project but also to virtually every agriculture project in East Pakistan. The East Pakistan delegation had said that the Government accepted that additional revenue would have to be raised to enable the water and agricultural development program to be implemented. However, at this juncture it would be politically impracticable to impose charges, particularly for flood protection works or to accept a commitment that additional revenue would be raised by a specific measure, i.e. the proposed betterment levy. Nevertheless, they were prepared to agree to study over the next 12-18 months, in consultation with the Bank, the question of farmers' repayment capacity more intensively. In these circumstances and in view of the delegation's acceptance of satisfactory provisions with respect to three related issues (paras. (b) (c) (d) of Section 2.07 of the draft Project Agreement), the South Asia Department recommended acceptance of the Pakistan delegation's alternative proposal by means of an exchange of letters.

4. The Agriculture Projects Department, recalling earlier discussions on this subject preceding the decision to proceed with project appraisal, stated that it was fundamental that the Pakistanis should accept the principle of recovering the full operation and maintenance costs of major works within a reasonable period of time. If they could accept a provision in the Project Agreement to this effect, the amount and most appropriate means for recovering these costs could be discussed and agreed, for example, within a time limit of 12 months. The negotiators had already accepted a rental for low lift pumps, amounting to 4% of farmers' incremental income, and the proposed betterment levy would amount to only 1%, representing in practice only a marginal additional burden. 5. The Chairman agreed that the Pakistanis should accept the principle of recovery of operation, maintenance and part of capital costs. As far as the amount, form and method of collection of the levy was concerned, the Association's approach should be flexible. Since it was not clear at this stage precisely how far the Pakistanis were prepared to commit themselves in writing on this issue, the Chairman suggested that a letter of representation from the Government to the Association should be drafted and discussed in the negotiations. The Association could decide later if the agreed substance of this letter were adequate to meet its position on this matter.

David Pearce Secretary

Cleared by: Messrs. Cope Evans/Wapenhans Melmoth/McCulloch

cc: Loan Committee Participants FORM No. 60

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

SEP 0 9 2014

March 31, W970 ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

China - Second Power Project

Attached for information is a memorandum from the Director of the East Asia and Pacific Department to the Chairman of the Committee, dated March 31, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a second power project.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Copies for Information:

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

Committee:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

March 31, 1970

FROM: Raymond J. Goodman

SUBJECT: CHINA: Second Power Project

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed loan of \$44.5 million to the Taiwan Power Company for a second power project together with copies of the draft Loan Agreement and Guarantee Agreement. I propose to distribute the documents to the Executive Directors as soon as they have been cleared by the Cabinet. We expect to be able to put the proposal on the agenda of the meeting on April 21.

2. On February 18 the Appraisal Report (PU-29) was distributed to the Loan Committee. At that time, information about the Taiwan Power Company's financing plan was still incomplete. We recommended that the financing plan, in particular the question of how the remaining gap of \$47 million would be met, should be discussed during negotiations and that failing a decision on this matter on the part of the Government, a satisfactory financing plan be made a condition of effectiveness of the proposed loan. We learned subsequently about several changes in the Company's investment program which we found difficult to reconcile with the program submitted at the time of the appraisal. Consequently, Messrs. King and Vacchelli of the Public Utilities Projects Department visited Taiwan from February 26 to March 5, 1970 to discuss the investment program and the financing plan. They were able to reach full agreement on both matters and obtain satisfactory assurances from the Government that sufficient funds on suitable terms would be made available to the Taiwan Power Company to finance the investment program. The attached Appraisal Report (PU-29a) dated March 25, 1970 reflects the agreed investment program and financing plan.

3. In addition to the draft Loan Agreement and draft Guarantee Agreement attached for your information are the following draft Supplemental Letters:

- (a) Representations
- (b) Consultants
- (c) Lien under CIECD Agreement
- (d) External Debt

As these letters raise no substantial issues we do not intend to circulate them to the Executive Directors.

4. An economic report entitled "Current Economic Position and Prospects of the Republic of China" (AS-142a, dated September 11, 1968 in two volumes) was distributed to the Executive Directors on September 17, 1968. An economic mission is now in Taiwan to review its current economic position and prospects; its report should be ready for distribution to the Executive Directors by June 1970. The economic section of the attached President's Report, which has been cleared by Mr. McDiarmid, summarizes recent economic developments. A copy of the economic section has been sent to Mr. Friedman.

5. I would appreciate your giving any comments to Mr. Kraske (Ext. 2780) as soon as possible.

Attachments

cc: Mr. McNamara Loan Committee (no attachments) Mr. Cope FORM No. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 30, 1970 DECLASSIFIED

MEMORANDUM TO THE LOAN COMMITTEE

SEP 0 9 2014

WBG ARCHIVES

Central African Republic - Highway Maintenance Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 30, 1970 from the Western Africa Department, entitled "Central African Republic - Proposed IDA Credit for a Highway Maintenance Project" (LC/0/70-42).

Comments, if any, should be sent to reach Mr. Thalwitz (ext. 4741)
by 5:00 p.m. on Wednesday, April 1.

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 set out in paragraph 16 of the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Copies for Information:

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

Committee:

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

CONFIDENTIAL LC/0/70-42 SEP 0 9 2014 March 30, 1970 GARCHIVES

LOAN COMMITTEE

Memorandum from the Western Africa Department

CENTRAL AFRICAN REPUBLIC - Proposed IDA Credit for a Highway Maintenance Project

Introduction

1. The Government of the Central African Republic has requested IDA assistance for a highway maintenance program. In 1968, the UNDP financed a highway maintenance study and a feasibility and engineering study of the Sibut-Bambari road for which the Bank is Executing Agency. The highway maintenance study is now complete, and is the basis of the proposed project. This would be the second project we would finance in the Central African Republic. The first was for construction of the Bangui-M'Baiki road, approved in April 1969. The proposed five-year lending program is attached.

The Project

2. The project was appraised by a mission which visited CAR in October 1969. The report "Appraisal of a Highway Maintenance Project - Central African Republic (PTR-42, February 16, 1970) is attached. As described in the appraisal report, the project would cost \$4.6 million, and would consist of:

(a)	Purchase of highway maintenance equipment, spare parts and materials	US\$	2.6 million	
(b)	Technical assistance		1.5 million	
(c)	Feasibility study and detailed engineering of the Bangui-Bossembélé road		0.5 million	
	Total		4.6 million	

3. IDA would finance the foreign exchange cost estimated at US\$ 4.0 million, i.e. about 87 percent of the total capital cost of the project. The Government would make a contribution of the capital cost of US\$ 510,000 equivalent for road maintenance, and US\$ 130,000 equivalent for the Bangui-Bossembélé feasibility and engineering studies. The project would be carried out over a four-year period. In addition to Government's contribution to capital costs, the Government would meet the recurrent costs of the maintenance program of about US\$ 6.1 million equivalent during the period 1971-74. 4. Highway maintenance expenditures in CAR are financed through the Government budget. Creation of a Road Fund through which motor fuel taxes (estimated at about CFAF 420 million annually), increased if necessary, would be made available to the budget of the Department of Public Works, has already been discussed with the CAR authorities. These funds, in addition to the resources provided by the proposed credit, will enable the Government to carry out the four-year program. During negotiations, assurances should be obtained that the Road Fund will be established, and agreement should be reached on the legal basis and the date of effectiveness of this Road Fund.

5. The economic rate of return on the investment will be 24 percent, on the reasonable assumption that the traffic growth rate will be 8 percent, and on estimated savings of CFAF 325 million in operating costs by 1971, and CFAF 478 million by 1976. If an alternative traffic growth rate of 5 percent per year is assumed, the return would be substantially lower, but would still be about 12 percent, which is acceptable. The estimated economic return does not take into account non-quantifiable administrative and other benefits, such as reduction in distribution and inventory costs due to improved traffic conditions.

6. <u>Bangui-Bossembélé feasibility study</u>: The project includes a feasibility study for the improvement of the road from Bangui to Bossembélé. The Bangui-Bossembélé road would improve the link between CAR and Chad, and the access to Cameroon. It would also link the cotton region of Ouham and Ouham Pende to the capital. Present design standards are inadequate for existing traffic, averaging 100 vehicles per day. Provided the findings of the study are positive, the final engineering would also be carried out, and the project may be ready for financing in FY 72.

7. <u>Technical assistance</u>: The CAR Department of Public Works is supported by FAC technical assistance. It will need continuing assistance in carrying out the four-year program. FAC has now indicated that it would not be able to supply all the experts required. Under these circumstances, it would be preferable to employ a consulting firm which would provide the entire team of experts. During negotiations, agreement should be reached on the employment of consultants to be selected according to normal Bank procedures.

The Economy

8. An economic report is being prepared by the mission that visited the country in November 1969. It will be distributed to the Executive Directors before the proposed credit is presented.

9. The economy of the CAR is mainly based on diamonds, cotton and coffee. Although coffee production has stagnated, cotton production increased by 18 percent in 1968/69, and diamond production increased by 17 percent in 1968. Exports in the period 1966/68 were higher than in any earlier period. They are expected to increase during 1969-73 because of the expected continued increase in cotton production and the export of over 500 tons of uranium ore per year, starting at the end of 1972. A CFAF 8 billion (\$29 million) investment program to be spread over four years (1969-72) is underway for the uranium mining and processing plant. This investment of CFAF 2 billion annually, which is not included in the four-year Plan, corresponds to about 25 percent of the annual investments, public and private, under the Plan.

10. During the years 1966-69 imports rose considerably, mainly as a result of increased investments in textile and mining projects. The trade deficit rose to CFAF 3.7 billion (\$13 million) in 1967, but decreased to CFAF 1.3 billion (\$4.7 million) in 1968. No further improvement is expected before 1973 because the import of equipment for the uranium ore plant at Bakouma will weigh heavily on the balance of trade.

The CAR government is in principle committed to sound financing, 11. but it has not been able to carry this out, particularly over the last three years. A budget surplus of CFAF 111 million (\$400,000) in 1966 was followed by deficits of nearly CFAF 1 billion (\$3.6 million) in 1967 and 1968. Growing personnel expenditures and uncontrolled non-budgetary expenditures have contributed to this situation. The deficit is expected to be even larger in 1969, notwithstanding reduced development expenditures financed by the budget. There is little scope for tax increases as government revenues already absorb more than 30 percent of cash incomes. However, the budget deficit could be reduced by better expenditure control and by collecting licence fees from individual diamond producers, who now bear only an export tax equal to 15 percent of their production valued at world market prices. Reorganizing diamond production, which could be helped by the incroduction of licence fees, would also help to re-direct labor to agriculture, which has suffered from the diversion of labor to diamond mining.

12. CAR government policies have sometimes been erratic. The abrupt departure from and subsequent return to the Central African Customs and Economic Union (UDEAC) is an example; the Government's recent relations with foreign diamond mining companies is another. Furthermore, Government has not fully carried out compensation agreements reached with the French private power company (UNELCO).

13. In view of the limited potential for increasing public savings, it is necessary in general for external agencies to finance a high proportion of the total cost of projects. The proposed project is associated with substantial local costs for recurrent maintenance expenditures (paragraph 3 above), but the maintenance program will be insulated from the overall budgetary situation by the creation of a road fund for which fuel taxes will be earmarked (paragraph 4 above). 14. The Economic Committee considered CAR to be eligible for IDA funds on the grounds of low average incomes and modest growth prospects (ECM/69-11, March 25, 1969), and our recent mission concludes that this is still the case. While the present situation leaves room for improvement in government policies, we do not think that the situation has deteriorated so much as to warrant a reconsideration of Bank Group financing for this particular project. The other major lenders have not made their financing conditional upon improved economic performance. Since the Government has little experience with the stricter conditions imposed by the Bank, we can most effectively encourage improved performance through a continued dialogue with the Government and the other lenders. We therefore intend to discuss problems of Government policies and budgetary control during negotiations for this project. The attached lending program indicates that we have a number of projects under preparation. The Government will be informed that we need to see a substantial improvement in performance, particularly in fiscal matters, if we are to have an adequate basis for giving full support to their program, and that we will in due course want to discuss with them a number of possible measures in the light of the findings of the economic report, and reach agreement on some clear objectives.

Legal Issues

15. Apart from the dispute with the UNELCO power company referred to above, Government has nationalized a river transport company (CGTAE), and, following similar action by the government of Congo (B), has taken over the assets of an inter-governmental regional transport agency (ATEC) located in the country. These issues were discussed in the case of the recent Congo (B) credit operation, and we propose to take a similar position. During negotiations, we will urge the Government to find a solution to the outstanding issues of adequate compensation, particularly to UNELCO, and I propose to proceed with our lending for the proposed highway maintenance project, unless the Government proves totally unreceptive to our views. We will also make it clear to the Government that lack of progress towards this settlement could affect our future lending operations in the country.

Recommendation

16. I recommend that the Government of the Central African Republic be invited to send representatives to Washington to negotiate a credit of US\$ 4.0 million, substantially on the terms and conditions set forth in paragraphs 6.01, 6.02 and 6.03 of the attached report.

> Roger Chaufournier Director

Attachment.

Population: 1.46 m (1967) Per Cap Inc: \$110.

CAR - PAST LENDING OPERATIONS AND PROPOSED LENDING PROGRAM

							(\$ 1	illion	ns)								
		Through 1963		1965	1966		c a l 1968	Ye: 1969	1970	1971	1972	1973	1974	1975	Total 1964-8	Total 1969-73	Total 1971-5
Cotton Development Livestock Cocoa Telecommunications Power Power Education Roads I Road Maintenance Roads II	IDA IDA IDA IDA IDA IDA IDA IDA IDA IDA							• 4.2	4.0	2.0	3.0 3.0 4.0	4.0	4.0	4.0			
	IBRD IDA							4.2	4.0	2.0	3.0 11.0	4.0	4.0	4.0	-	3.0	3.0
+	Tota No.	1 <u>-</u>	-	-	-		-	<u>4.2</u> 1	4.0 1	2.0	<u>14.0</u> 3	<u>4.0</u> I	4.0 1	4.0	÷	28.2	28.0
Total IDA per capit	a ove:	r 5-yea	r perio	od 1/	1.1											\$16.2	\$14.9
IDA Credits Outstan	ding:																
- including undisbu - excluding undisbu		1	:		:	:	:	4.2	8.2 0.5	10.2	21.2 6.0	25.2 9.0	29.2 12.0	33.2 15.0		*	

1/ i.e. Total lending over 5-year period divided by estimated mid-period population.

FRHM NO. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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SEP 0 9 2014

March 27, 1970 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Development of Small Industries

1. The Committee is requested to consider, without meeting, the attached memorandum of March 27, 1970 from the South Asia Department, entitled "Pakistan - Proposed IBRD Loan for the Development of Small Industries in East Pakistan" (LC/0/70-41).

Comments, if any, should be sent to reach Mr. Cunningham (ext.
2774) by 5:00 p.m. on Tuesday, March 31.

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

Committee:

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

- DISTRIBUTION -

Copies for Information:

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

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LC/0/70-41

March 27, 1970

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LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Proposed IBRD Loan for the Development of Small Industries in East Pakistan

Introduction

1. The Government of Pakistan has requested a Bank loan to finance part of the foreign exchange requirements for the establishment of new small industries in East Pakistan. A loan of \$3 million is proposed which would meet 70% of these requirements over the next two years; the balance is expected to be met from other bilateral sources. Further details on the project are set out in the attached report "Appraisal of Development of Small Industries in East Pakistan" (No. Pl.4 of March 20, 1970).

2. The project was scheduled for Bank financing in the Five Year Lending Program most recently circulated to the Loan Committee along with Area Memorandum on Chandpur II Irrigation and Flood Control Project (LC/0/70 - 14 of February 11, 1970). The Lending Program was revised on March 20 to incorporate certain changes which are the increase in the amount for West Pakistan Education Engineering Colleges Project from \$6.5 million to \$8.0 million, the transfer of West Pakistan Highways III from FY 1970 to FY 1971 and the reduction of the amount proposed for PICIC in FY 1971 from \$40 million to \$10 million. A copy of the revised Lending Program is attached to this memorandum.

3. A loan of a similar amount has also been appraised for development of small industries in West Pakistan. However, doubts have arisen on the appropriateness of lending for that project at this stage partly because of the deterioration in management, but also in view of the impending dissolution of unitary government in West Pakistan. Therefore, it has been decided to defer further consideration of it for the time being.

4. Pakistan has achieved an impressive rate of industrial growth during the last two decades. But, this growth has been achieved through establishment of large-scale units, a process which has been criticised for having concentrated economic power in the hands of relatively few families. Also, industries have developed more extensively and more broadly in West Pakistan than in East Pakistan. In August and September of 1969, a special Bank mission (led by Mr. Avramovic) undertook a review of Pakistan's industrial sector. Its report, entitled "Industrialization of Pakistan: The Problems and Prospects" (Report SA-11a, of March 10, 1970) will be circulated to the Executive Directors within the next few days. This report drew attention to the role of small industries in providing a more diversified basis to industrial activity and ownership as well as servicing large-scale industries. 4. The Bank's first experience in providing financial assistance for the development of small industries was in Pakistan through Credit 30-PAK which was approved in 1963. This credit was concerned with financing small industries and related infrastructure and services on two industrial estates. selected in West Pakistan. The project was managed by the West Pakistan Small Industries Corporation (WPSIC). This credit was slow in being disbursed and encountered a number of difficulties, some of which, resulting from the India-Pakistan War, were clearly beyond the control of WPSIC. The most important lesson which was learnt was the vital role which commercial banks can play in the administration of loans to small industries; hence the emphasis on cooperation with commercial banks in this project.

The Project

5. The purpose of the proposed project is to make available foreign exchange for the establishment of new small industries in East Pakistan. The project will be managed by EPSIC, which is a public corporation established by the Government in 1957 to assist in the development of small industries. EPSIC indulges in a variety of activities including pilot projects, industrial estates, promotional schemes and lending operations. The charter allows for the public to subscribe up to 49% of the shares, but so far it has not been possible to make any sales. Therefore, the Corporation is wholly owned by the Government. It receives annual appropriations through the budget of the Government of East Pakistan.

This project is concerned with EPSIC's lending operations. 6. Hitherto, EPSIC has had very limited rupee funds for lending and no foreign exchange of its own. Initially, EPSIC started out with a program of rupee lending to cottage industries. This did not prove successful and so EPSIC began to shift the emphasis of its operations towards small manufacturing units. But this move has been frustrated through the lack of foreign exchange. To make up for this deficiency, a joint program with the Industrial Development Bank of Pakistan (IDBP), was set up whereby EPSIC carried out technical appraisals and carried 75% of the risk of projects which IDBP then financed. However, IDBP did not have the organization to handle effectively a large number of small loans in addition to which IDBP was really more interested in larger industries. As a result, this division of responsibility created delays and friction. These difficulties were discussed during the negotiation of IDA Credit 177-PAK to IDBP. With the forthcoming EPSIC loan in sight, it was agreed that IDEP should phase out of small industry loans in favor of EPSIC.

7. In 1967, EPSIC entered into an agreement with commercial banks under a program for which foreign exchange was provided by USAID. EPSIC undertook to carry out the technical and financial appraisal, while the commercial bank of the applicant, after determining creditworthiness, made a rupee loan. The foreign exchange requirement was then met by the Central Government from USAID funds on a cash basis; the Central Government being reimbursed immediately in rupees by the commercial bank from the applicant's rupee loan or his own resources. EPSIC and the commercial banks agreed to share the credit risk equally and to divide the interest spread of 3²% above State Bank rate with 1% to EPSIC and 2¹% to the commercial bank. As the commercial banks have a financial stake in the projects and as they have an extensive network of branches, this program has so far not experienced the difficulties encountered under the EPSIC/IDEP program.

8. The appraisal of projects by EPSIC is carried out by a department known as Small Industry Advisory Service (SIAS) which was set up in 1965. This department has received technical assistance from the Ford Foundation, Colombo Plan, and from USAID since 1969. The department has displayed considerable potential and comprises a lively group of officers. SIAS has a separate budget within EPSIC financed by the Provincial Government, in addition to which it retains its earnings from its share of interest and from other fees.

9. \$2.9 million from the IBRD loan would be made available for purchases of imported equipment and machinery for projects approved under the EPSIC/Commercial banks program. The procedures established under this program would continue to be applied and would therefore be similar to those under the USAID loan except that procurement would not be tied. The funds would be loaned to the ultimate beneficiaries at 4% above the State Bank rate with SIAS's share of this interest spread set at 1 3/4%; with the present State Bank rate at 5%, the ultimate beneficiary would be required to pay 9%.

10. \$0.1 million would be made available to provide consultancy services to SIAS. A full-time foreign consultant would be engaged to assist in the administration of projects financed under this loan. This consultant would be part of a four-man team from Checchi and Co., the remaining members of which would be financed by USAID.

11. The commercial banks have indicated their willingness to support this project and to make available the necessary rupee loan finance as required.

12. During negotiations, the Pakistan representatives will be asked to accept certain covenants and to give certain assurances as set out in Chapter 6 of the Appraisal Report. The important provisions to be accepted by the Government of East Pakistan (GOEP) and EPSIC are (i) a covenant that adequate funds will be made available for the financing of SIAS; (ii) two conditions of effectiveness, the first of which requires GOEP and EPSIC to have entered into an agreement with the commercial banks for supporting this . project while the second of which requires that EPSIC should have entered into arrangements for a minimum of four consultants for two years; and (iii) assurances on the organization and operations of SIAS and on the undertaking of a study of the financial and institutional requirements of small industries in the future. I do not expect the Pakistan authorities to have any difficulty in accepting any of these proposals. There may, however, be some pressure from the commercial banks that instead of the whole increase in the interest spread from 31% under the USAID program to 4% under the Bank loan going to EPSIC for SIAS, they should receive a share. If this point should become a serious issue in negotiations, I shall consider with EPSIC officials the alternatives of either acceding to the commercial bank's request or introducing the USAID formula.

13. Officials of USAID have indicated that while they are willing to continue to provide technical assistance in cooperation with this loan, they are not in a position to offer further loans to EPSIC.

14. The project would offer considerable benefits to East Pakistan. It would help to develop entrepreneurship and broaden industrial ownership. It would contribute about 70 percent of the foreign exchange costs required over the next two years by projects already in the pipeline. These projects would create 3,400 jobs in about 150 new small manufacturing units. A significant part of the output of these units is expected to contribute either foreign exchange earnings or savings(Chapter V of Appraisal Report).

15. I recommend that we invite representatives of the Government of Pakistan, the Government of East Pakistan, and EPSIC to negotiate a loan of \$3 million to be made available by the Government of Pakistan for purchase of imported equipment and machinery for projects sponsored under the EPSIC Commercial bank program. In accordance with the recommendations in para 6.01 of the Appraisal Report, it is proposed that the IBRD loan would carry a maturity of 25 years with a grace period of 5 years and the Bank's normal interest rate.

> Gregory B. Votaw Deputy Director

Attachments

Population: 120 m GNF Per Cap; \$90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

		(\$ millions)									
					1 Year		107	Total	Total		
		1970	1971	1972	1973	1974	1975	1964-68	1969-73		
Tubewells - ADC	IDA	17.0									
Irrigation - Chandpur	IDA	13.0						4			
Irrigation - Dacca Southwest	IDA	0.8									
Irrigation - Project Eng.	IDA	2.5									
Irrigation - Dacca Southwest	IDA		30.0								
Irrigation - Karnaphuli	IDA			10.0							
Irrigation - Muhuri	IDA				7.0						
Irrigation - Belkuchi	IDA				5.0						
Irrigation - Chandpur North	IDA				10.0						
Irrigation - Little Feni	IDA					10.0					
Irrigation - Barisal I	IDA					20.0					
Irrigation - Pabna	IDA						18.0				
Irrigation - Comilla	IDA						15.0				
Tea Machinery & Irrigation	IDA		5.0								
Tubewells EPWAPDA I	IDA			8.0							
Tubewells EPWAPDA II	IDA					25.0					
Chandpur North Engineering	IDA			1.0							
Barisal I Engineering	IDA			2.0							
EPWAPDA Consultants II	IDA		2.0								
EPWAPDA Consultants III	IDA				2.0						
EPWAPDA Consultants IV	IDA						2.0				
EP Education Unidentified	IDA			7.0							
EP Small Industries I	IBRD	3.0									
EP Highways II	IDA			12.5							
EP Highways III	IDA			75.0)	13.5						
EP Railways	IDA		8.0		1).)						
			5.0								

IBRD IDA	3.0 33.3	45.0	40.5	37.5	55.0	35.0		3.0 158.3
Total	36.3	45.0	40.5	37.5	55.0	35.0	95.3	161.3
No.	5	4	6	5	3	3	6	21

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

		(\$ millions)									
				Fisca	1 Year			Total	Total		
		1970	1971	1972	1973	1974	1975	1964-68	1969-73		
SCARP V	' IDA			5.0							
SCARP VI	IDA			2.0	12.0						
Tubewells - Dipalpur	IDA			£.	12.0	15.0					
ID Plustin Bra dallars	TDA	8.0									
WP Education - Eng. Colleges	IDA	0.0			0 0						
WP Education Unidentified I WP Education Unidentified II	IDA				8.0		r o				
wr Education onidentified II	IDA						5.0				
WP Fertilizer Plant II	IBRD		30.0								
WAPDA Power Distribution	IDA	22.4									
WP Highways III	IDA		10.0								
WP Highways IV	IDA			20.0							
WP Highways V	IDA					20.0					
Port Eng Karachi	IDA	1.0									
Port Constr. III - Karachi	IDA		15.0								
Port Constr. IV - Karachi	IDA					20.0					
Sui Northern Gas III	IBRD	17.0									
Sui Northern Gas IV	IBRD			5.0							
Sui Northern Gas V	IBRD					5.0					
Water Supply II - Lahore	IDA		5.0								
								~			

IBRD IDA	31.4	30.0	25.0	20.0	55.0	5.0		166.5	
Total	48.4	60.0	30.0	20.0	60.0	5.0	84.3	272.9	
No.	4	4	3	2	4	1	6	18	

P&B

3/20/70

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

		(\$ millions)							
		1970	1971	Fisca 1972	al Year	•	1975	Total 1964-68	Total 1969-73
Agric. Development Bank IV Agric. Development Bank V Agric. Development Bank VI	IDA IDA IDA EP WP		15.0 7.0 8.0		30.0 15.0 15.0		<u>30.0</u> 15.0 15.0		÷
Telecommunications II	IDA EP WP	<u>15.0</u> 3.0 <u>12.0</u>							
DFC - PICIC IX DFC - PICIC X DFC - PICIC XI DFC - IDBP I DFC - IDBP II DFC - IDBP III	IBRD IBRD IBRD IDA IDA	20.0	10.0	10.0	40.0		40.0		
Dro - IDBr III	IDA EP WP	10.0 10.0	5.0 5.0	5.0	22.0 18.0		20.0 30.0 30.0		
East & West -	IBRD IDA Total No.	35.0 <u>35.0</u> 2	10.0 15.0 <u>25.0</u> 2	10.0 10.0 1	40.0 30.0 70.0 2		40.0 50.0 <u>90.0</u> 3	<u>31/4.7</u> 13	90.0 136.0 226.0 10
ж. Ж.									
P&B 3/20/70	IBRD IDA Total No.	20.0 100.7 120.7 11	90.0	75.5	87.5	5.0 110.0 115.0	90.0	162.0 332.3 <u>494.3</u> 25	259.5 400.7 660.5 49
* Note: the IDA lending program is to be reduced to the IBRD lending program is to be reduced to		74.0	60.0 30.0	70.0	70.0	70.0			

FORM No. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 25, 1970 SEP 0 9 2014 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Malagasy Republic - Port of Tamatave Project

 The Committee is requested to consider, without meeting, the attached memorandum of March 25, 1970 from the Eastern Africa Department, entitled "Malagasy Republic - Port of Tamatave Project" (LC/0/70-39).

Comments, if any, should be sent to reach Mr. Lan (ext. 3615)
by 5:00 p.m. on Monday, March 30.

3. It is planned then, if the Committee approves, to inform the Government that, subject to agreement on draft legislation to establish the port authority, the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Committee:

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

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Reach 25,1970

LOAN COMMITTEE

Memorandum from Eastern Africa Department

MALAGASY REPUBLIC - PORT OF TAMATAVE PROJECT

Introduction

1. In May 1968, the Bank made a technical assistance grant of \$196,800 to the Malagasy Government to finance hydrological, economic and preliminary engineering studies and the preparation of a master plan for the development of the port of Tamatave. The studies, which were carried out by two French consulting firms (SOGREAH and BCEOM), were completed in the spring of 1969. The project was appraised in October 1969; the mission's report, "Appraisal of the Port of Tamatave Project", (PTR-48) is attached.

The Project

2. The proposed project provides for the implementation of the first phase of the master plan for the port of Tamatave, which resulted from the above studies. It consists of an extension of the existing breakwater, construction of two new berths, new transit sheds and ware-houses, provision of a new deepwater tanker mooring for petroleum tankers and mechanical equipment, consultants' services for final engineering design and supervision, and technical assistance in management and accounting. The project is expected to cover the investment requirements of Tamatave port until about 1979.

3. The Government rightly attaches high priority to the improvement and extension of the port of Tamatave, which serves the most populous and developed regions of Madagascar, including the capital Tananarive, and handles about 75 percent of the island's imports, 35 percent of exports and 20 percent of coastal traffic. In 1968 Tamatave handled about 460,000 tons of general dry cargo and 670,000 tons of petroleum products. Projections indicate that dry cargo traffic will more than double by 1979 and additional capacity will be required in the near future. Moreover, the present layout and equipment of the port do not permit efficient operation. The breakwater does not give adequate protection, quay aprons are narrow, transit sheds and warehouses are small, badly designed and poorly located. The loading and unloading of petroleum products, effected in the main area of shipping movement, creates considerable hazards. The proposed project is accordingly designed to remedy these deficiencies, as well as to provide the capacity needed to handle traffic projected until about 1979.

4. Total project costs are estimated at \$16.1 million. The appraisal report concludes that, subject to the conditions set out in paragraph 8.02, the project is suitable for a credit of \$9.6 million, which is the estimated amount of the foreign exchange costs. The proceeds of the credit would be on-lent by the Government to a new port authority (see paragraph 5 below) as a 24-year loan, including 4 years of grace, at the Bank's current interest rate at the time of credit signature. To complete the financing plan the Government would make an interest free advance of \$4 million equivalent and the port authority would contribute \$2.5 million from cash flow. The cost of construction of an oil pipeline from a point on the coast near the new tanker mooring to the Tamatave oil refinery, amounting to about \$0.9 million, would be financed entirely by the petroleum companies owning the refinery. The \$4 million Government advance to the port authority is calculated on the assumption that the project will be exempted from the 6 percent tax levied on construction works and consulting services. However, in case the Government's agreement cannot be obtained, I recommend that we do not insist, provided the Government would be willing to raise their total contribution to cover the amount of the tax.

5. The organization and management of the port have also to be improved. At present, management is in the hands of two government agencies: the Port Directorate and the Port Operations Section of the National Railways. Both are responsible, through separate channels, to the Ministry of Equipment and Communications. Neither has financial or administrative autonomy. The Malagasy authorities have already agreed in principle to establish an autonomous port authority for Tamatave. Draft legislation received recently is not fully responsive to the requirements indicated during the appraisal and a mission is now in the field to assist the Government in revising the draft. An invitation to negotiate, if the Committee approves proceeding with the proposed credit, would be issued only when substantial agreement on draft legislation has been reached. Passage of legislation satisfactory to the Association would be a condition of effectiveness. Establishment of the port authority in a form acceptable to the Association and appointment of the new Director General by March 31, 1971 would be a condition of disbursement in excess of \$400,000; this amount is required to meet the estimated foreign exchange cost of consultant services for final engineering and assets revaluation.

6. During negotiations, assurances will be obtained from the Government that an adequate return would be earned on the net fixed assets in use at Tamatave. To that end, port charges would be increased by 10 percent as a condition of effectiveness of the proposed credit and thereafter the tariff structure would be progressively revised with the assistance of consultants to achieve a rate of return on fixed assets rising from about 4 percent in 1974 to 7 percent in 1978.

7. The main economic benefits of the project would result from the elimination of costly port congestion and the reduction of cargo handling costs. The project is technically sound and economically justified; it is

expected to produce a first year economic return of 19 percent.

8. Procurement of equipment and contracts for execution of civil engineering and other works to be financed under the credit would be let in accordance with the Association's procedure for international competitive bidding.

The Appraisal Report recommends that expatriate personnel be 9. appointed initially to fill the top management posts, including those of Director-General, Chief Accountant, Chief Traffic Manager and Chief Training Officer. The port authority would be required to provide suitable local counterparts. Preliminary discussions indicate that the Government would not object to such appointments. However, should strong opposition develop during negotiations, I recommend, and Transportation Projects Department concurs, that we be prepared to accept the appointment of expatriates as advisers to a Malagasy Chief Accountant and Chief Traffic Manager, while insisting on executive appointments to the Director-General and Chief Training Officer positions. The argument for putting an expatriate in charge of training is that effective training requires both the implementation of a new and thoroughgoing program and the recognition of training as a priority and not, as at present, a subsidiary activity. Although provision has been made in the proposed credit to cover the salaries of four expatriate positions for three years, we would explore during negotiations to what extent any of these could be suitably filled under bilateral aid.

10. Lending operations in the FY 1970-FY 1975 lending program for Malagasy are summarized in the attached table. The present port development project would be followed by the Lake Alaotra Development - irrigation project, which is expected to be submitted to the Loan Committee by the end of March; presentation to the Executive Directors is scheduled for July 1970.

The Economy

11. A Bank economic mission visited Madagascar last November/December. Its preliminary findings are that economic growth in the last five years has not been very rapid, although faster than in the preceding five-year period. Whereas per capita income probably declined from 1961 to 1965, it seems to have increased since then by approximately 1.5 percent a year. In the last few years the Government has increased its public savings and has pursued a much more active investment policy, but owing to the lack of proper project preparation the results have often been below expectations. Progress has been particularly slow in agriculture. There have been a certain number of investments in industry, mostly for import substitution, textiles and brewing, for example. The major foreign private investment in recent years has been for the exploitation of chromite deposits.

12. The development prospects for the next few years are clouded by the uncertain outlook for two of the country's main products, vanilla and sugar, although Madagascar will gain some benefit from firmer coffee prices. The rapid growth of population (2.2 percent), will continue to require considerable investment in the production of foodstuffs. In view of the country's increased investment and public savings, its low income and difficult balance of payments prospects, Madagascar should continue to be eligible for IDA funds in soft-blend proportions. Up to now the country has received a total of \$25.6 million from the World Bank Group, of which \$14.5 million or 57 percent consisted of IDA credits.

Recommendation

13. I recommend that, as soon as we have reached substantial agreement on draft legislation to establish the port authority, the Association should enter into negotations with the Government of Malagasy Republic for a credit of US\$9.6 million for the Port of Tamatave project, substantially in accordance with the terms and conditions summarized in paragraphs 8.02, 8.03 and 8.04 of the appraisal report.

> Michael L. Lejeune Director

Attachment

• • Population: 6.4 m. GNP Per Cap.: \$100

IVa. MALAGASY - 5 YEAR LENDING PROGRAM

	(\$ millions)									
		1970	1971		al Year 1973		1975	Total 1964-68	Total 1969-73	
		1010	17/1	1712	15/15	17/4	1715	1704 00	1707 15	
1										
Livestock II	IDA			3.0						
Livestock III	IDA						5.0			
Irrigation - Alaotra	IDA		5.5							
Irrigation - Morandava I	IDA			2.0						
Irrigation - Morandava II	IBRD					7.5				
	IDA					7.5				
Forestry	IDA					3.5				
Agricultural Credit I	IDA		2.0				4.4			
Agricultural Credit II	IDA						5.0			
Agric. Devt Andapa	IDA				5.0					
Industrial Dairy Farm	IDA			1.0					-	
Didy Rice Farming	IDA					5.0				
1										
DFC I	IDA		2.0							
DFC II	IBRD				3.0					
	TDA									
Education	IDA				5.0					
Tourism	IBRD				2.5					
IOULISM	IDAD				2.5					
								,		
Port - Tamatave	IDA	10.0					-			
Port - Northwest	IBRD	2010					5.0			
Roads III	IBRD			15.0			5.0		· · · ·	
11	IDA			5.0						
Roads IV	IBRD						10.0			
н	IDA						5.0			
Railroad	IBRD				6.0					
and the second se										
Unallocated	IBRD						5.0			
		1.1								
ŧ										
÷.					14					
	TRAD			15 0			00.0			
	IBRD	10.0	0.5	15.0	11.5	7.5	20.0	4.8	32.8	
	IDA	10.0	9.5	11.0	10.0	16.0	15.0	10.0	45.0	
	Total	-	9.5	26.0	21.5	23.5	35.0	14.8	77.8	
	No.	1	3	4	5	3	5	2	15	
P&B 3/20/70						1				

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P&B 3/20/70

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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SEP 0 9 2014

March 25, 1970 BG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Rwanda - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 25, 1970 from the Eastern Africa Department, entitled "Rwanda - Proposed IDA Credit for a Highway Project" (LC/0/70-40).

 Comments, if any, should be sent to reach Mr. de Lusignan (ext. 3603) by 5:00 p.m. on Monday, March 30.

3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

> David Pearce Secretary Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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LC/0/70-40 SEP 0 9 2014

LOAN COMMITTEE

March 25, 1970WBG ARCHIVES

Memorandum from the Eastern Africa Department

RWANDA - Proposed IDA Credit for a Highway Project

The Project

1. The attached appraisal report (PTR-49 dated March 20,1970) recommends an IDA credit of US\$10.4 million equivalent, for a highway project in Rwanda. This would be the first World Bank Group operation in Rwanda. The credit would finance the foreign exchange cost of US\$9.3 million equivalent and local currency costs amounting to US\$1.1 million equivalent. The total project cost, including taxes and duties, is estimated at \$10.9 million equivalent. The proposed credit would thus finance 95 percent of total project costs, a proportion required by the economic and financial situation of Rwanda (see para. 8).

2. The project, which is expected to be completed within four years, would consist of:

(a) construction of a 79 km paved road between the capital, Kigali, and Gatuna, on the Uganda border, including the preparation of bidding documents and supervision of construction by consultants, and provision for one year's full maintenance of the road by the construction contractor;

(b) purchase of road maintenance equipment.

3. The project was identified in April 1966 when a PMEA mission visited Rwanda. It was appraised in December 1969 after completion of a feasibility and detailed engineering study financed by the European Development Fund (FED).

4. Rwanda depends on neighboring countries for access to the sea. The northern parts of the country find their natural outlet through Uganda and Kenya; Kampala (Uganda) and Mombasa (Kenya) are the market and transshipment centers for most Rwandese imports and exports. The project road would replace a longer low standard earth road and link up with a section of road between the Uganda border and Kampala being constructed under credit 164 UG. The overall distance between Kigali and Kampala would be shortened by 73 km, and all weather driving conditions greatly improved, resulting in substantially lower transport costs. The project is estimated to have an internal rate of return of slightly over 13 percent.

5. At the request of the Government, the proposed credit would include a provision for road maintenance equipment. Present Rwandese road maintenance services cannot cope adequately with the existing national road system; and certainly would not assure proper maintenance of the project road. Therefore, the development of a maintenance program to make effective use of equipment is also imperative. Prior to credit negotiations, agreement will be obtained from the Government on the execution of a highway maintenance study to be financed by UNDP. A Plan of Operation for such a study, together with a feasibility and engineering study of the 60 km Gisenyi-Ruhengeri road in northern Rwanda, is under negotiation. The maintenance and feasibility studies, together with the procurement of maintenance equipment and spare parts, were the object of a proposed credit of \$380,000 for a "Highway engineering and maintenance project" (appraisal report No. TO-663b). The credit was negotiated in November 1968, but the Government finally decided against the proposal, in March 1969, on the grounds that the country should not borrow - even on IDA terms - to finance studies. Subsequently, the Bank assisted the Government in preparing the UNDP project mentioned above, for which the Bank will be the executing Agency.

6. The five year lending program (FY 1970-1975) for Rwanda is summarized in the attached table. Depending on the conclusions of the maintenance study and the timing of the preparation of a maintenance program, the road transport project included in the program for FY 1973 may have to be split into two parts, one of which could be brought forward.

The Economy

7. Rwanda is one of the poorest countries in Africa. The population of 3.5 million has a per capita income of only \$50 per year. The country is densely settled and has limited agricultural land and few natural resources. Its major export crop is coffee. Because of its small size and great poverty, current expenditure for the most essential services cannot be covered by Government revenues. Some of this expenditure, as well as all the government's contribution to development expenditure which averaged \$800,000 a year over the last four years, has had to be financed by central bank credit. This has led directly to balance of payments difficulties and Rwanda has had four stand-by arrangements with the IMF between 1966 and 1969. All other public sector investments (an average of \$5 million a year over the last 3 years) have had to be fully financed by foreign aid, mainly from Belgium and FED.

Issue

8. The only issue is the proportion of project costs to be financed by the Association. In determining the amount of the proposed Credit, we have to recognize that Rwanda could make no contribution to project costs in excess of the receipts that would accrue from taxes and duties during construction without having recourse to central bank credit, since no other local resources are available. To do so would be inflationary and would, moreover, run contrary to the policies required by the IMF under its standby agreements. The economic logic of the situation therefore points to the need for an IDA Credit of \$10.4 million. I recognize that financing 95 percent of the total project cost would be exceptionally high, although we have done so in effect on one occasion (Credit no. 55 - Niger). I am exploring whether we could arrange some contribution to local costs from another donor. The only source appears to be Belgium. I have put the question to them and I am awaiting their response. Should the Belgian Government be prepared to contribute to the local costs of the project, we would reduce the amount of the proposed Credit accordingly. If the Belgian Government is not so willing, I consider that we have no reasonable alternative but to make an IDA Credit in the amount of \$10.4 million.

Recommendation

9. Subject to the notification of the Government's agreement to the Plan of Operation, I recommend that the Government of Rwanda be invited to send representatives to Washington to negotiate a credit for a project estimated to cost \$10.4 million, substantially on the terms and conditions set forth in paragraphs 6.01 and 6.02 of the Appraisal Report.

> Michael L. Lejeune Director

Attachment

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Population: 3.5 m Per Cap Inc: \$50

IVa. RWANDA - 5 YEAR LENDING PROGRAM

		(\$ millions)								
		Fiscal Year Total						Total		
		1970	1971	1972	1973	1974	1975	1964-68	1969-73	
Livestock - Mutara	IDA			4.0						
Marshland Reclamation I	IDA			1.0						
Marshland Reclamation II	IDA					3.5				
Education Unidentified I	IDA				3.0					
Education Unidentified II	IDA					3.0				
Power Unidentified	IDA						3.0			
Road - Kigali-Gatuna	IDA	10.4								
Transportation Unidentified	IDA				5.0					
Unallocated	IDA					3.0				
Unallocated	IDA						5.0			

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IDA	10.4	5.0	8.0	9.5	8.0
No.	1	2	2	3	2

<u>23.4</u> 5 FORM No. 60 (4-68) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

March 23, 1970

SEP 0 9 2014 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Democratic Republic of The Congo - SOCOFIDE

1. The Committee is requested to consider, without meeting, the attached report of February 24, 1970 entitled "Outline of Proposal for Establishment of Societe Congolaise de Financement du Developpement (SOCOFIDE) in the Democratic Republic of The Congo" (LC/0/70-38). The minutes of a Staff Investment Committee meeting held on March 4 to consider this report are also attached for information (SIC/M/70-12 dated March 16, 1970).

Comments, if any, should be sent to reach Mr. de Lusignan (ext.
3603) by 1:00 p.m. on Thursday, March 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.

- DISTRIBUTION -

David Pearce Secretary Loan Committee

Committee:

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

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LC/0/70-38

LOAN COMMITTEE

March 23, 1970

Memorandum from the Eastern Africa Department

DEMOCRATIC REPUBLIC OF THE CONGO Proposed \$5 million credit for the Société Congolaise de Financement du Développement (SOCOFIDE)

Introduction

1. Bank Group assistance for the establishment of a development finance company had been sought by Congolese Governments as far back as 1963. However, internal disturbances precluded contemplating any operation until late 1967, when political and, more particularly, economic conditions in the wake of a monetary reform, started to improve. Bank Group activities resumed in 1968 with the sending of an economic mission during which, at the request of the Government, the need for a development finance institution was also examined. It was found that there was a substantial, unsatisfied, demand for medium-and long-term finance for new investments, particularly in manufacturing industry, which would justify the establishment of a development finance company. The Bank Group therefore undertook to help the Government and private sponsors in the Congo set up such a company.

2. An organized approach followed in September 1968 with the establishment of a study group for the prospective company in which the Government participated. The Bank Group took an active part in the work of this group, helped formulate draft articles and policy guidelines, devised a capital structure, and put together a diversified group of foreign shareholders to participate in its share capital. Concurrently with these activities, the Bank Group pursued project preparation in the field of transportation which led in May 1969 to the first lending since independence, a \$6 million IDA credit for a Highway Technical Assistance and Maintenance project. Proposed lending in FY 1970-FY 1975 is summarized in the attached table.

The Project

3. Attached is a report dated February 24, 1970 entitled "Outline of Proposal for the Establishment of the Société Congolaise de Financement du Développement (SOCOFIDE)" in Congo Kinshasa. The proposal summarizes the basis on which the Government and the sponsors of the company have agreed to proceed. As is described in the Outline and its attachments, SOCOFIDE will be a private development finance company in which the Congo Government will hold 25 percent. SOCOFIDE will be authorized to invest in privately managed and controlled business enterprises in any economic sector. The objectives, operational criteria, investment and financial policies to be followed are set out in Attachment 3 of the Outline as approved by SOCOFIDE's Board of Directors in February 1970.

4. The creation of SOCOFIDE was authorized by special decree of the President of the Republic dated January 9, 1970, and established on January 10 with a nominal capital of Zaires 100,000 (\$200,000). Its first Board of Directors has been elected and has appointed its first chairman, Mr. Edouard Mambu, director of studies and advisor to the Governor of the National Bank of Congo. With the agreement of the Bank Group, the Board of SOCOFIDE has appointed, as of March 15, 1970, Mr. Serge Guetta, formerly deputy director general of the Société Tunisienne de Banque, as its first director general. He will serve on secondment from the Bank, for an initial term of two years. In an Establishment Convention entered into between the Government and SOCOFIDE, the Government has accorded SOCOFIDE important tax and other advantages. The Government would for example bear the foreign exchange risk for SOCOFIDE's borrowings abroad up to an aggregate total of \$30 million. The share capital is to be increased to Zaires 2 million (50 percent to be paid in on subscription, 50 percent within two years thereafter) during a public issue in April, in which it is envisaged that about 12 major financial institutions in Europe, USA and Japan, and IFC, will participate with Zaires 525,000 (\$1,050,000) and Zaires 375,000 (\$750,000), respectively.

5. The paying in of the IFC and foreign subscriptions will be contingent upon the Government and SOCOFIDE having entered into an Advance and Loan Agreement for Zaires 3 million (\$6 million), on the disbursement of the Advance in its entirety (Zaires 1 million, i.e. \$2 million), and on the fulfillment of the conditions of effectiveness of the proposed IDA credit of \$5 million. The Proposal envisages that IFC will take a seat on the Board of Directors of SOCOFIDE.

6. Estimates of potential business for SOCOFIDE range between a low of \$20 million and a high of \$60 million equivalent in its five years of operation. Approximately three-fourths of its lending is likely to be for imported equipment. Financial forecasts prepared indicate that SOCOFIDE should break even in 1970 and could make a tax-free net profit increasing from some 4 to 5 percent in 1971 to some 15 percent in 1974. SOCOFIDE's zaire resources will, by agreement of February 12, 1970, with the National Bank (the central bank), be reconvertible into foreign currencies for temporary high-yielding investments abroad, until they can be used on medium- and long-term in the Congo in accordance with SOCOFIDE's objectives.

The Economy

7. A comprehensive analysis of the economic and financial situation of the Congo is contained in the report (AF-850) of the 1968 Economic Mission. The next mission is scheduled for April 1970. There are a number

of indications that the overall economic situation in the Congo has improved. Due to sustained high copper prices, accumulated foreign exchange reserves had reached \$226 million at the end of 1969, the equivalent of about four months imports. The 1969 budget year closed with a surplus and the Government appears determined to keep the 1970 expenditures within the budget forecasts. In September 1969, an agreement was reached between the Congolese Government and the Union Minière on compensation for the nationalization of the latter's assets in the country. New investment has been encouraged by the new Investment Code adopted in June 1969. These developments, together with continued political stability and greater internal security, as well as improvements in the economic and financial policies of the Government, have created a more favorable climate for investment than at any time since Independence. The Government wishes to consolidate this climate of confidence and thereby to attract foreign private investment. On the whole, the prospects of SOCOFIDE's ability to stimulate and assist new and productive investments appears at present as good as, or better than, in 1968.

Issues

8. The Proposal envisages a \$ 5 million credit from the Association to meet SOCOFIDE's foreign exchange requirements for about 2 years and an investment by IFC in the share capital of about 20 percent of SOCOFIDE's share capital of Zaires 2 million (\$ 4 million). These remain to be negotiated with the Government and SOCOFIDE. The proposed credit would follow the general pattern of IDA credits in support of development finance companies. The Government would relend proceeds of the credit to SOCOFIDE at the Bank's current interest rate at the time of credit approval. There would be no commitment charge. SOCOFIDE would repay the Government according to a composite amortization schedule based on the terms of the sub-loans by SOCOFIDE, not exceeding 15 years. Disbursement of the credit and of the sub-loan to SOCOFIDE would be on the basis of withdrawal requests by SOCOFIDE, subject to an initial "free limit" of \$50,000 for individual sub-projects within an aggregate limit of \$1 million. Effectiveness of the IDA credit would be conditional on the paying in of IFC's subscription.

9. Attached are the minutes of IFC's Staff Investment Committee meeting of March 4, 1970. The Committee considered the proposal for SOCOFIDE to be sound and recommended an IFC investment of \$750,000 in SOCOFIDE's share capital, subject to Congo membership in IFC becoming effective. The remaining membership formalities are expected to be completed shortly.

Recommendation

10. I concur with the Proposal and recommend that we invite representatives of the Government of the Democratic Republic of the Congo and SOCOFIDE to negotiate the proposed \$5 million IDA credit in conjunction with an IFC investment of \$750,000.

> Michael L. Lejeune Director Eastern Africa Department

Attachment

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LC/0/70-38

LOAN COMMITTEE March 23, 1970

Memorandum from the Eastern Africa Department

DEMOCRATIC REPUBLIC OF THE CONGO Proposed \$5 million credit for the Société Congolaise de Financement du Développement (SOCOFIDE)

Introduction

1. Bank Group assistance for the establishment of a development finance company had been sought by Congolese Governments as far back as 1963. However, internal disturbances precluded contemplating any operation until late 1967, when political and, more particularly, economic conditions in the wake of a monetary reform, started to improve. Bank Group activities resumed in 1968 with the sending of an economic mission during which, at the request of the Government, the need for a development finance institution was also examined. It was found that there was a substantial, unsatisfied, demand for medium-and long-term finance for new investments, particularly in manufacturing industry, which would justify the establishment of a development finance company. The Bank Group therefore undertook to help the Government and private sponsors in the Congo set up such a company.

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CONFIDENTIAL

LOAN COMMITTEE

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March 23, 1970 SEP 0 9 2014 WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

The Gambia - The Bathurst Port Project

Attached for information is a memorandum from the Director of the Western Africa Department to the Deputy Chairman of the Committee, dated March 23, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for the Bathurst Port Project.

> David Pearce Secretary Loan Committee

Committee:

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

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Copies for Information:

OFFICE MEMORANDUM

To : Mr. S.R. Cope

March 23, 1970

From : Roger Chaufournier

Subject : THE GAMBIA - The Bathurst Port Project

1. I attach for your approval a copy of the draft Report and Recommendation of the President to the Executive Directors on a proposed credit of US\$2.1 million to the Government of The Gambia to assist in financing the Bathurst Port Project. Also attached are copies of the draft Development Credit Agreement with the Government. It is planned to distribute the credit documents to the Executive Directors in time for consideration at a meeting on April 7, 1970.

2. A draft appraisal report (No. PTR 40) dated February 5, 1970 was considered by the Loan Committee on February 11, 1970. The Appraisal report is being reviewed in the light of the negotiations and will be sent to you separately. The only substantial change is an increase of the proposed credit by US\$ 100.000 to a total of US\$ 2.1 million in order to take into account the results of soil surveys recently carried out by the consultants.

3. In conformity with the Loan Committee decision you will note that, pursuant to Section 4.02 (a) of the draft Development Credit Agreement, the Borrower shall create a Port Authority to be responsible for the operation, maintenance and development of facilities at the Port of Bathurst. As of the start of its operations, the Bathurst Port Authority shall assume a debt towards the Borrower, in an amount equal to the amount of the Credit disbursed or reimbursed by the Association.

4. A report entitled "The Economy of The Gambia" (AW-12a) was circulated to the Executive Directors on December 3, 1969.

5. The oral presentation to the Board by Mr. Adams will stress the significance to the economy of the proposed project.

6. This memo and the papers mentioned herein have been cleared with representatives of the other Departments concerned.

7. I would appreciate it if you would give any comments you may have on the draft documents to Mr. Adams (extension 4736) as soon as possible.

Attachments

cc: Mr. McNamara

Loan Committee (no attachments)