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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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January 26, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Finland - Third Road Project

1. The Committee is requested to consider, without meeting the attached memorandum of January 26, 1970 from the Europe, Middle East and North Africa Department, entitled "Finland - Proposed $25 million Bank Loan for the Third Road Project" (LC/O/70-7).

2. Comments, if any, should be sent to reach Mr. I.M. Wright (ext. 4708) by 1:00 p.m. on Thursday, January 29.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

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LC/O/70-7

January 26, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

FINLAND - Proposed $25 million Bank Loan for the Third Road Project

1. The appraisal report on the Third Road Project (PTR-37), dated January 16, 1970, is attached hereto for consideration by the Loan Committee.

Background

2. The present total of Bank lending to Finland is $243.5 million. Between 1949 and 1962 the Bank made nine loans (all fully disbursed) mainly for power and industry. Since then we have made two loans for roads totalling $48.5 million (both fully disbursed) and, following IFC's equity investment of about $160,000 in 1963, three loans totalling $43 million to the Industrialization Fund of Finland (IFF), of which $24.9 million had been disbursed as of December 31, 1969. There are no outstanding problems, and the road and IFF loans have been very successful.

3. There are no further loans under consideration for FY 1970, but we expect to make a fourth loan to IFF early in FY 1971. The Five-Year Lending Program envisages total lending of $105 million in FY 1970-1974 (see Annex). The Bank's net lending (disbursements less repayments of principal) to Finland over these five years would be only about $4 million. In this period, however, the Bank's net contribution would be negative, since estimated total debt service including interest will exceed disbursements by $29 million, giving an average annual outflow of almost $6 million.

4. Through the previous two road loans, the Bank has played an important role in assisting the Government in its efforts to improve transport and modernize the organization responsible for roads, the National Board of Roads and Waterways (NBR). Prior to the first loan, road design and construction works were executed by NBR's own forces and only a limited amount of specialized construction was carried out by contract. As a result, the works were carried out at high cost and over unduly long periods. The Bank's first road project introduced the principle of international competitive bidding on relatively large contracts and the use of consultants for road design and construction supervision. Since then NBR has adopted these procedures for all its works, and it has reorganized its internal operations accordingly.

5. The first loan also provided for a study of the transport sector, including recommendations for improving each transport mode, transport policy and coordination, and for a ten-year investment program. The recommendations resulting from this study have been used effectively by the Government to formulate its investment programs and to take steps towards improving transport coordination. The significant institutional reforms resulting from Bank loans should be completed by the establishment of a Ministry of Transport during the implementation period of the third road project. It is therefore intended that the proposed loan should conclude the Bank's participation in Finland's road development.

The Project

6. The appraisal mission from the Transportation Projects Department visited Finland in May 1969. Their report is attached and recommends a \$25 million loan for 20 years including a three year period of grace. Although these terms are reasonable on project grounds, I recommend that the term of the loan be reduced from 20 to 15 years in order to conform with Bank practice of granting shorter terms to its more developed members. The two previous road loans were for terms of 15 years.

7. The total construction cost of the third road project is estimated as follows:

		(US\$ million)
I.	Construction of 4-lane expressway Tattiharju-Jarvenpaa, including interchanges and approach roads	21.0
II.	Paving of about 2,800 km. of roads (1970-71)	31.2
III.	Contingencies	8.8
	Total	61.0

8. The proposed loan will finance the foreign exchange component of the construction costs, which has been estimated on the basis of detailed studies made by NBR. Depending upon whether contracts are won by local or foreign contractors, the foreign exchange component for the expressway would range from 22 to 47 percent, and for the paving program from 34 to 56 percent.

9. The appraisal mission estimates that about half the contracts for both the expressway and the paving program will be awarded to foreign contractors. For the expressway this is about the same proportion as for the two previous projects, but for the paving program, the proportion of contracts awarded to foreign contractors is expected to be higher (half as against one quarter previously) because of the growing interest of foreign contractors and because domestic paving contractors are already heavily engaged. The weighted average foreign exchange component of the construction costs would thus be about 40 percent or \$25 million. It is proposed that disbursement will be effected on the basis of this percentage.

10. In addition to financing the local currency costs of construction, the Government will finance the total cost of land acquisition and of construction supervision (around \$5.0 million equivalent). The cost of engineering and preparatory works (around \$2.0 million equivalent) has already been borne by the Government.

The Economy

11. The report "Current Economic Position and Prospects of Finland" (EMA-1) circulated to the Executive Directors on November 7, 1968, reviewed the high rate of growth of the Finnish economy in 1960-65 and the following recession; described the October 1967 devaluation and the stabilization measures associated with it; and reviewed the subsequent economic recovery. An updating economic mission in November 1969 confirmed the favorable assessment of Finland's economic prospects given in the previous report. An updating economic memorandum will be available by the time the Road Project would be presented to the Executive Directors.

12. The Economic Committee, in reviewing the 1968 report, concluded that the economic performance and prospects of Finland justified continued Bank lending. Notwithstanding the high per capita income, Finland in the foreseeable future would continue to be a net importer of capital in order to meet the requirements of the structural changes taking place. The Committee also concluded that the Government was actively and effectively seeking external capital but that in the eyes of foreign investors, Finland's geographical and political position was a special limiting factor in addition to general market conditions.

13. Finland will need further external assistance in the next several years, and the case for Bank lending has not changed significantly in the past year or so. Efforts to raise external capital resulted in gross long-term capital inflow of $245 million in 1967, $330 million in 1968, and $202 million in the first ten months of 1969. As the situation of European capital markets was relatively favorable, 16 bond issues totalling about $185 million were placed during these years, primarily on the German market. Much of the capital inflow has, however, consisted of bank and suppliers credits with relatively short maturities and high interest rates. Net capital inflow, after increasing by $22 million to $115 million in 1968, declined substantially in 1969 because of repayment obligations and large increases in long-term export credits granted to foreign buyers of Finnish ships and heavy machinery.

14. Finland's total external public debt outstanding at September 30, 1969 was about $819 million, $124 million greater than in December 1968. $162 million of the debt is owed to IBRD. In 1970, service on external public debt is estimated to be $92.3 million (of which $21.3 million on account of IBRD loans), and the debt service ratio is expected to be less than 4 percent of current foreign exchange earnings. The debt-service ratio in 1973-74 should not be appreciably higher than in 1970, provided the inflow mainly consists of long-term loans. However, the international capital markets are unlikely to provide Finland with sufficient amounts of capital from issues of long term bonds, and recourse to banks and suppliers credits will have to continue. Should Finland's external capital requirements have to be financed mostly by such medium-term financial credits, the debt service burden could increase significantly. Nevertheless, Finland has an excellent debt servicing record, and is considered creditworthy for Bank loans.

Recommendation

15. I recommend that the Bank invite the Government of Finland to send representatives to negotiate a loan of up to $25 million for the Third Road Project substantially on the conditions set forth in Section 6 of the appraisal report except for the term of the loan, which would be 15 years as discussed above in paragraph 6 of this memorandum.

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

Attachment

Population: 4.7 m
Per Cap. Inc: $1,510

FINLAND - 5 YEAR LENDING PROGRAM

ANNEX

		($ millions)							
		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Agriculture Unidentified	IBRD				20.0				
Agriculture Unidentified	IBRD						10.0		
IFF III	IBRD	22.0							
IFF IV	IBRD			25.0					
IFF V	IBRD					25.0			
Highways III	IBRD		25.0						
	IBRD	22.0	25.0	25.0	20.0	25.0	10.0	69.5	117.0
	No.	1	1	1	1	1	1	4	5

P & B 1/14/70

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 23, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Instituto de Fomento Industrial - Corporacion Financiera

1. The Committee is requested to consider, without meeting, the attached memorandum of January 23, 1970 from the South America Department, entitled "Colombia: Proposed Loan to Banco de la Republica for Use by Instituto de Fomento Industrial - Corporacion Financiera" (LC/0/70-5).

2. Comments, if any, should be sent to reach Mr. Flood (ext. 2191) by 5:00 p.m. on Wednesday, January 28.

3. It is planned then, if the Committee approves, to inform the Government and representatives of the Banco de la Republica and Instituto de Fomento Industrial that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/70-5

January 23, 1970

LOAN COMMITTEE

Memorandum from the South America Department

COLOMBIA: Proposed Loan to Banco de la República for Use by Instituto de Fomento Industrial - Corporación Financiera

1. Attached is the draft Appraisal Report DB-60, recommending a Bank loan of US$5 million to the Banco de la República for use by Instituto de Fomento Industrial - Corporación Financiera (IFI) on the terms and conditions listed in paragraphs 84 to 95 of the Report.

2. The proposed loan would be the third made to Colombia as part of the current year's lending program, which comprises six projects. The other five projects are listed on the attached copy of the current five-year lending program for Colombia. The Second Livestock loan was signed on December 29. Negotiations are expected to begin in early February on the Second Education Project. Appraisal reports are currently being prepared for the Chivor I Hydro Project ($45 million), the Medium-Size Cities Water Supply Project ($25.5 million) and the Sixth Highway Project ($28 million). Consideration of a Family Planning Project, originally in the FY 1970 program, has been deferred indefinitely.

3. The Bank's lending program for FY 1970 is based on the achievement by Colombia of a certain level of economic performance, as measured against specific performance targets. An economic mission visited Colombia in September - October to review performance, particularly in the key areas of fiscal policy, export diversification and public utility tariff policy. The mission reports that central government fiscal performance in 1969 will be slightly below target but prospects for 1970 are that targets for that year will be met or even substantially exceeded. Exports other than coffee and petroleum rose from $158 million in 1968 to an estimated $200 million in 1969. With respect to public utility tariff regulation, the Government has made considerable progress towards employing the concept of a rate of return on currently revalued assets, and we propose to keep the matter under continuing review.

4. The Bank has made three loans totalling $62.5 million to the Banco de la República for use by five private development finance companies. The proposed loan would be the first Bank loan for the benefit of a Government - controlled development finance company in Colombia and would have as its principal purpose providing IFI with foreign exchange required to help finance its expanding program of medium and long-term investments in industrial enterprises and projects which are either too large or too complex to attract adequate amounts of investment from private sources.

5. IFI's manager has recently resigned and the Report recommends that a new manager satisfactory to the Bank be appointed prior to submission of the proposed loan to the Executive Directors and that the Government be required to consult with the Bank prior to future management changes. I doubt the feasibility, however, of obtaining the Government's agreement to such consultation. The IFI manager is a Presidential appointee and the best that we were able to obtain when a similar case arose in connection with the Telecommunications Loan (499 CO) was an agreement promptly to inform the Bank of any management changes and to furnish the Bank with information concerning the experience and competence of the new management. In agreement with the DFC Department, therefore, I recommend that we ask the Government and IFI for the right to consult on future management changes, and, if it refuses, that we accept the Telecommunications formula.

6. The Appraisal Report recommends that the loan be made to the Banco de la República and reloaned to IFI (with the guarantee of the Government). However, the Government, as a matter of general policy, and IFI, as a matter primarily of prestige, have so far insisted that the loan be made directly to IFI. We agree that it would be convenient to make the loan to the Banco de la República and will attempt to obtain the agreement of the Government and IFI to this effect. If we are unsuccessful, however, we will agree with the DFC Department on an alternative channel, preferably, in my opinion, a loan directly to IFI.

7. The Appraisal Report recommends that arrangements be made for the Government to guarantee IFI against exchange losses on all existing and future foreign loans. I agree that we should require a Government guarantee against exchange losses on any future foreign borrowings and any future commitments under existing loans, and that we should ask for a Government guarantee on the amounts already committed to sub-borrowers under existing loans. The amount of such existing commitments, however, is small in relation to IFI's projected net earnings, and IFI already adds eight percent (the projected annual rate of exchange rate devaluation) to the ten percent sub-borrower interest rate when it assumes the exchange risk itself. If, therefore, we fail to obtain the Government's agreement to guarantee IFI against exchange losses on amounts already committed under existing loans, South America and DFC Departments will agree on an alternative proposal. My preference in such event would be a solution similar to the one which the Loan Committee approved for the proposed loan to the Republic of Ecuador for two Development Finance Companies, i.e., IFI would be required at the end of each year to establish a provision sufficient to cover the estimated loss that would be incurred in the payment of debt service due in the following year, after taking into account the eight percent already charged to the sub-borrowers.

8. The Appraisal Report recommends inclusion within the loan of $350,000 to finance a team of technical experts to assist the Ministry of Development in the formulation of industrial policies. It has now become apparent, however, that the Government is no longer much interested in the proposed technical assistance, probably because it has only about six months left in office. For this reason and also because the Industrial Projects Department is planning to send a six-man contingent to Colombia to review the industrial sector as a part of the February Economic Mission, I recommend that the technical assistance proposal be eliminated (without, however, reducing the proposed amount of the Loan). DFC Department does not object to this recommendation.

Recommendation

9. I recommend that the Bank commence negotiations of a loan of US$5 million to the Banco de la República for use by IFI on the terms and conditions set forth in the Appraisal Report suitably modified to take into account the recommendations described in paragraphs 5 and 8. As far as the matters discussed in paragraphs 6 and 7 are concerned, South America and DFC Departments agree that there is no issue requiring Loan Committee consideration at the present time and that none should arise later unless during negotiations we fail to obtain the agreement of the Government and IFI to the applicable recommendation of the Appraisal Report, and DFC and South America Departments are then unable to agree on alternative proposals.

Gerald Alter
Director

Attachment

COLOMBIA: Bank/IDA Lending Program
(US$ Millions)

	1966	1967	1968	1969	Total through FY 1969	1970	1971	1972	1973	1974	Total FY 1970 to 1974
AGRICULTURE	1/16.7	1/9.0		1/17.0	5/52.7						8/113.3
Livestock II						18.3					
Livestock III								15.0			
Livestock IV									15.0		
Agricultural Credit II								20.0			
Agricultural Credit III										15.0	
Land Settlement I							5.0				
Atlantico Irrigation II							10.0				
Cesar Irrigation								15.0			
EDUCATION				1/7.6	1/7.6						3/26.5
Education II						6.5					
Education III								10.0			
Education IV										10.0	
POWER			1/18.0	1/18.0	17/241.8						2/75.0
Chivor I Hydro						45.0					
Interconnection Hydro									30.0		
TRANSPORTATION				2/35.5	10/198.2						5/100.0
Highways VI						28.0					
Highways VII								27.0			
Highways VIII									20.0		
Urban Transport I								15.0			
Railways VI								10.0			
WATER SUPPLY AND SEWERAGE			1/14.0		1/14.0						4/95.5
Medium-sized Cities I						25.5					
Medium-sized Cities II								20.0			
Medium-sized Cities III										25.0	
Bogota II							25.0				
DEVELOPMENT FINANCE COMPANIES	1/25.0		1/12.5	1/25.0	3/62.5						5/75.0
DFC (IFI) IV						5.0					
DFC (DFC) V							25.0				
DFC (IFI) VI								5.0			
DFC (DFC) VII									30.0		
DFC (IFI) VIII										10.0	
INDUSTRIES AND MINING					1/30.0						
TELECOMMUNICATIONS		1/16.0			1/16.0						1/7.0
Telecommunications II							7.0				
TOTAL	41.7	25.0	44.5	103.1	39/622.8	128.3	72.0	137.0	95.0	60.0	28/492.3
(of which IDA)					(1/19.5)						

South America Department
1-20-1970

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

January 23, 1970

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MEMORANDUM TO THE LOAN COMMITTEE

Greece - National Investment Bank for Industrial Development S.A.

1. The Committee is requested to consider, without meeting, the attached memorandum of January 23, 1970 from the Europe, Middle East and North Africa Department, entitled "Greece - Proposed $15 million Bank Loan to National Investment Bank for Industrial Development S.A. (NIBID II)" (LC/0/70-6).

2. Comments, if any, should be sent to reach Mr. Nijhof (ext. 4707) by 4:00 p.m. on Wednesday, January 28.

3. It is planned then, if the Committee approves, to inform the Government and representatives of the National Investment Bank for Industrial Development S.A., 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

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Committee:

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

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LC/0/70-6

January 23, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Greece - Proposed $15 million Bank Loan to National Investment Bank for Industrial Development S. A. (NIBID II)

1. The appraisal report on the National Investment Bank for Industrial Development S.A. (DB-59), dated December 10, 1969, is attached hereto for consideration by the Committee. The proposed loan would be the second Bank loan to NIBID, and in fact to Greece. The previous loan of $12.5 million was made in March 1968 and is almost fully committed; the final date for commitment has been extended from December 31, 1969 to June 30, 1970 to allow full commitment of the loan. About $5.5 million has been disbursed up to December 31, 1969.

2. The Bank has one other operation under consideration for Greece in FY 1970, an education project comprising five technical schools which is tentatively scheduled for consideration by the Executive Directors in April. The Bank's Five Year Lending Program 1970-74 (attached) envisages total lending of about $140 million.

Introduction

3. Under the 1962 Agreement of Association between the Common Market and Greece, Greek manufactured products have enjoyed duty-free access to the EEC countries since 1968, while the Greek tariff on imports from the EEC is to be fully phased out by 1984. While Greece has adopted the discipline of decreasing protection, it is evident that without increased efficiency and the introduction of new techniques Greek manufacturers will in time be hard put to compete both in the foreign and in the increasingly vulnerable home market. Heavy capital requirements, the conservative attitudes of family management and lack of familiarity with modern production and marketing techniques are among the major problems to be overcome.

4. It is in this general context that the setting up of NIBID in 1963 must be viewed. As an internationally-owned private development finance institution, it is operating in the private sector in Greece where its contribution to the industrialization process in terms of providing finance, promoting joint ventures and giving advice to enterprises is of growing significance.

The Project

5. NIBID was formed in 1963. Its present share capital is Dr 300 million ($10 million), of which 55 per cent is held by the National Bank of Greece, 7 per cent by IFC and the balance by thirteen foreign banks from nine countries. The Board of Directors is composed of 18 members, 9 of which are appointed by the National Bank of Greece and 9 by the foreign shareholders, including 1 nominated by IFC.

6. Since its creation in 1963 to the end of June 1969, NIBID has approved a total of 90 loan and equity operations amounting to US$45.8 million equivalent. NIBID's investments are well diversified. The textiles industry has received the largest amount of financing with 18 per cent of the total. The chemical industry (including pharmaceutical producers) and the metals industry follow with 13 per cent each, building materials plants with 12 per cent and food products factories with 11 per cent. Twenty four per cent of the aggregate amount approved was for the establishment of new projects.

7. In purely financial terms, NIBID's impact on the Greek economy has so far been modest. Nevertheless, it has been making a steady and increasing contribution to industrial development. It has been active in assisting joint ventures, has introduced higher standards of project evaluation to many clients, and has been instrumental in establishing a new consulting company, Arthur D. Little - Hellas. The Bank Group's assistance to NIBID has been a material factor in this achievement and has helped NIBID to maintain its autonomy as a private financial institution.

8. NIBID foresees no difficulty in continuing to borrow for its local currency requirements from its present sources, namely, the National Bank of Greece, its principal shareholder, and from the Central Bank. In addition, a long term subordinated Government loan has recently been agreed. There remains, however, the problem of obtaining foreign exchange resources. In January 1969 NIBID's General Manager, Mr. George Gondicas, visited the principal European capital markets and New York to explore the possibilities of raising a long-term loan from private sources. He found that it was impossible to do so on terms NIBID could afford, given its effective lending rate of 8.5 per cent. The European Investment Bank was planning to lend to NIBID at the time of the first Bank loan early in 1968, but EIB lending to Greece was suspended following the 1967 revolution and is unlikely to be resumed in the immediate future. Although NIBID should and will continue to seek alternative sources of foreign exchange, for the time being Bank lending represents its only source of foreign exchange at reasonable terms. NIBID's satisfactory performance justifies continued Bank assistance.

9. A large number of projects are presently in the pipeline and NIBID's commitments during 1970 and 1971 are expected to reach $55 million equivalent including about $25 million in foreign exchange. Since the balance of the

existing Bank loan has now been almost fully committed, new foreign exchange funds are needed. In view of the desirability that NIBID diversify its sources for foreign exchange, it would be appropriate for the Bank to lend to NIBID at this time for a period somewhat shorter than the normal 2-year approach to development finance company funding. In this light, a $15 million loan is proposed, which would cover NIBID's foreign exchange needs for somewhat more than one year. NIBID's forecast of future operations is realistic, and with sufficient resources it should be able to achieve the projected levels. NIBID remains a creditworthy borrower.

10. A number of issues will be discussed during negotiations (see primarily paragraph 77 of the appraisal report). These include the need for NIBID to explore other sources of foreign exchange, the debt-equity ratio, coverage of the foreign exchange risk, and the Bank's insistence that NIBID's project appraisals henceforth should focus more explicitly on the economic aspects. The Bank will also raise once again the question of the early appointment of a Deputy General Manager.

Political Background

11. The present military regime in Greece came to power in 1967 and despite its adverse external image and considerable doubts about its internal popularity, there is little sign at the moment of an early change in the Government. There seems to be no effective opposition to the present Government, and therefore the principal question appears to be in what direction it will evolve and at what pace. Although the recent withdrawal of Greece from the Council of Europe has increased the Government's political isolation, there seems to be no reason why the Government would not continue with its policies for a number of years to come and there is no indication that it is willing to push forward toward more parliamentary conditions.

The Economy

12. The last report "Current Economic Position and Prospects of Greece", (EMA-9a) was circulated to the Executive Directors on June 25, 1969. The Economic Committee (EC/M/69-16) in reviewing this report, concluded that notwithstanding problems in performance Greece could be considered creditworthy for the limited amount of Bank lending proposed in 1970 and 1971 (about $40 million for NIBID, education and roads). The main difficulties in the Greek economy are structural. Much production is high cost and not internationally competitive and economic reforms as well as additional capital are necessary to improve the long-term outlook. Economic development is also affected by uncertainties concerning the economic policies of the regime and the political future of the country. Nevertheless, while no firm figures are available, the Bank of Greece estimates that in 1969 GNP in fixed prices increased by more than 8 per cent and investment by about 16 per cent. Industrial and agricultural production are estimated to have risen by 10 per cent and 8 per cent respectively during the same period. Some progress has been made in the preparation and implementation of the

public investment program and in rationalizing agricultural policies, and some effort seems also to have been made to increase public savings by economizing in public expenditures. Foreign exchange reserves have risen in 1969. To some extent, however, this improvement conceals greater reliance on suppliers' credits and short-term commercial loans. An updating economic mission is presently in Greece and its report would be available at the time the proposed loan would be presented to the Executive Directors.

13. Until 1966, Bank lending to Greece was precluded because of unsettled external pre-World War II debts, totalling some $300 million. At the moment all the major disputes over defaults on Greece's publicly held external debt have been resolved except for a $0.13 million Swedish loan dating from 1926, while there are also still two inter-governmental debts to the UK and Canada outstanding. Holders of the Swedish loan have been offered a settlement by the Greek Government. Settlement of the UK claims of $9.5 million, originating in 1833, 1898 and 1902, is underway, and we understand that Greece has also made an informal offer to the Canadian Government for the settlement of the $6 million loan dating from 1919, which Greece originally claimed to be a war debt and as such not subject to settlement. It appears unlikely that these Governments would want to raise any objections on these grounds and we believe the matter of unsettled pre-war debts is no longer an obstacle to lending to Greece.

14. Greece's foreign exchange reserves are equivalent to about 2-1/2 months of imports. The recent increase in external public debt is still slight and debt service in 1969 may have amounted to about 7 per cent of export earnings. Although the debt service burden will further increase, it should remain manageable despite recent borrowing on relatively unfavorable terms. The major concern in lending to Greece at present stems from the possibility of an uncautious over-reaction on the part of the Government to criticism in Europe, and the reluctance on the part of external investors to make sufficient long-term finance available. Greece is a country where the elements affecting economic performance and creditworthiness are deeply intertwined and developments in this connection will therefore need to be kept under review. Greece, as a Part II country, has agreed to release its outstanding 90 per cent subscription to IDA as of July 1, 1970.

Recommendation

15. I recommend that the Bank invite the Government and the National Investment Bank for Industrial Development S.A. to send representatives to negotiate a loan of $15 million to NIBID on the lines indicated in paragraph 77 of the appraisal report.

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

ANNEX I

IVa. GREECE - 5 YEAR LENDING PROGRAM

Population: 8.8 m
Per Cap Inc: $800

		($ millions)							
		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Irrigation I	IBRD				15.0				
Irrigation II	IBRD						20.0		
NIBID II	IBRD		15.0						
NIBID III	IBRD				15.0				
NIBID IV	IBRD						20.0		
HIDB I	IBRD					10.0			
Education I	IBRD		10.0						
Education II	IBRD					10.0			
Roads I	IBRD			15.0					
Roads II	IBRD					10.0			
	IBRD		25.0	15.0	30.0	30.0	40.0	12.5	100.0
	No.		2	1	2	3	2	1	8

P & B 12/12/69

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 23, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Cameroon - Road Project

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

To: Mr. S.R. Cope January 23, 1970

From: Bruce M. Cheek

Subject: CAMEROON - Road Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan and credit to the Federal Republic of Cameroon for a road project. Drafts of the Loan and Credit Agreements and the two supplemental letters dated December 18, 1969 are also attached. Apart from confirmation by the Government that the cost overrun on the railway, as explained in paragraph 3 below, will be financed, there are no special conditions to be complied with before Board presentation. We also expect Government's approval of the draft documents shortly. Assuming action on both these points, Board presentation would be on February 10, 1970.

2. During negotiations, we agreed that the project would be financed by an IDA credit of $7.0 million and a Bank loan of $12.0 million, instead of $6.0 million and $11.8 million respectively, as agreed by Loan Committee.

3. We also told the delegation that the justification of the N'Gaoundere-Garoua road depends on completing the Trans-Cameroon railway. We have been informed that FED and USAID had recently agreed on financing the unexpected cost overrun on the Yaounde-N'Gaoundere section and that the Government was about to sign the corresponding construction contract with Italian and West German companies. We expect official confirmation from the Government shortly; the project will not be presented to the Board until such assurance is received. The railway is now expected to be completed in 1974. The road may be completed by 1973, but we do not think that the project should be delayed now: the cost estimates would have to be revised again, and we will now have a margin of safety should it be carried out less quickly than planned.

4. An economic study of the northernmost section of the Garoua-Mora road (254km) is being made by consultants to the Chad Basin Commission and financed by USAID as part of a proposed regional road linking Chad to Nigeria through Northern Cameroon. This work will be completed before the study of the whole Garoua-Mora road begins and any overlap in the economic study will be avoided by instructing the consultants to take account of the previous USAID financed work on this section. It has been agreed during negotiations that if it should subsequently transpire that USAID is also prepared to finance detailed engineering of this section, then the detailed engineering would be deleted from the Bank/IDA project.

5. The two studies of the Garoua-Mora and Douala-Pont du Nkam roads would also be awarded after the usual Bank procedures, but it was agreed during negotiations that the contracts for engineering supervision will be negotiated with the DIWI/SCET Cooperation group that have done the detailed engineering and which were themselves chosen by the Government on the basis of the Bank's procedures.

6. Apart from including the modifications recommended in the Loan Committee memorandum concerning these two additional highway studies and the increased financing agreed upon during negotiations, the Appraisal Report has not been substantially altered and is therefore not attached. There will be no retroactive financing.

7. A report entitled "Current Economic Position and Prospects of the Republic of Cameroon" was circulated to the Executive Directors on September 4, 1968. A copy of the draft President's Report has been sent to Mr. Friedman.

8. The oral presentation by Mr. Wilkinson of the Western Africa Department will refer to the role of the Bank in developing Cameroon's transport system.

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

10. I would appreciate it if you would give any comments you may have on the draft documents to Mr. Marot (4743) as soon as possible.

Attachments

cc: Mr. McNamara
Loan Committee (without attachments)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 21, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Second Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of January 21, 1970 from the South America Department, entitled "Brazil - Proposed Bank Loan for Second Highway Project" (LC/0/70-4).

2. Comments, if any, should be sent to reach Mr. Carnemark (ext. 2687) by 5:00 p.m. on Monday, January 26.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/70-4

January 21, 1970

LOAN COMMITTEE

Memorandum from South America Department

BRAZIL: Proposed Bank Loan for Second Highway Project

1. Attached is Appraisal Report No. PTR36 recommending a Bank Loan of US$ 100 million to Brazil to assist in the financing of construction, paving and improvement of 2,139 Km. of federal and state highways. The proposed loan would be the second one for highway construction in Brazil. In fiscal 1969, the Bank made a loan of US$ 26 million for the First Highway Project.

The Lending Program

2. The proposed loan would be the second to be made to Brazil as part of the current fiscal year's lending program, which comprises three projects. A proposed $25 million loan for industrial credit to Banco do Nordeste do Brasil will be presented to the Executive Directors on January 20. An appraisal report is currently being prepared for the Marimbondo Hydroelectric Project, which we expect to submit for joint financing in March. The five-year lending program (fiscal years 1970-1974) is attached.

The Economy

3. The recent economic report on Brazil (Current Economic Position and Prospects of Brazil, WH-195a, December 19, 1969) describes developments through the third quarter of 1969 and analyzes the outlook for 1970-1974. During 1969 Brazil maintained a high rate of economic growth -- GNP increased by seven percent in both 1968 and 1969 -- while making continued progress toward internal and external financial stability. The rapid growth in tax revenues (increasing from roughly 20 to 30 percent of GNP over the last five years) and an effective control of public sector expenditures have eliminated bad management of government finances as the major cause of monetary expansion and high rates of inflation. The rate of inflation has been reduced from an annual rate of over 100 percent in early 1964 to slightly over 20 percent in 1969; further reductions are expected to take place relatively slowly as progress will depend more upon difficult structural adjustments than upon monetary and fiscal measures. The Government has rejected "shock treatment" through monetary, fiscal and wage measures as too costly in terms of output and employment objectives and unlikely to lead to lasting improvement. Official price policies -- including exchange rates and most interest rates -- have been adapted to the need to avoid serious distortions in resource allocation.

The present economic management promises a good prospect of rapid economic growth and external solvency.

4. The flexible exchange rate policy adopted in August 1968 as well as tax incentive and credit measures are producing a much needed expansion in nontraditional exports, a key element in longer run external financial stability. These policies, and improved prices for traditional exports, particularly coffee, are expected to result in an increase in export earnings of over 15 percent in 1969. The increase in imports will be less than 10 percent, while disbursements of medium and long-term loans have been increasing as a result of the higher authorization levels in recent years. As a consequence of these trends, net short-term international reserves adjusted for increases in short-term debt are expected to show an improvement of well over $100 million when final 1969 figures become available. This represents a great improvement over 1968 (when short-term borrowing rose by $400 million while reserves declined slightly), and reflects the Government's determination to make wise use of the present increase in foreign exchange receipts resulting from the coffee boom. During the next several years Brazil must, however, mobilize increasing gross inflows of medium and long-term loans on suitable terms in order to finance its import requirements as investment expenditures continue to increase. Even assuming continued success of the export promotion program, disbursements of medium and long-term loans should rise from about $400 million in 1968 to $1,000 million by the mid-1970's; commitments should average $950 million annually in 1970-1974 in order to generate this level of disbursements. Brazilian officials recognize that they must prepare an external financing and debt management program to be able to mobilize capital on this scale. Effective controls on short-term public and private sector external borrowing were established in 1969, but an overall plan to mobilize and allocate the necessary flow of medium and long-term external resources has not yet been completed. Short-term debt policy should also be covered in the program, particularly to insure that the gains from the present high coffee prices continue to be used to strengthen Brazil's liquidity position. In our dialogue with Brazilian officials we are stressing the need to prepare such a program. As our own lending program progresses we shall keep under review the adequacy of the Brazilian effort in this respect and evaluate their implications for Bank lending.

Transport Policy Coordination

5. The recent Bank association with the transportation sector in Brazil began in 1965 when, through a technical assistance grant of $1.5 million we participated in the financing of, and supervised, the first phase of the Transport Survey comprising the railroads, coastal shipping, the ports of Santos, Rio de Janeiro, and Recife and highways in four states. A second phase of the survey, partly financed by the UNDP and AID and supervised by the Bank, covering highways in the remaining principal states, is just now being completed.

6. Since the completion of the first phase of the Survey we have had a continuing exchange of views with the Government regarding the implementation of the Survey recommendations and the reform of the transport sector. We informed the Government in 1967 that the Bank would be prepared to recommend to its Executive Directors a continuing and significant financial support of projects in the transport sector, provided that the Government formulated an acceptable program for the reform of the sector and provided that there was satisfactory progress in the implementation of this program.

7. Accordingly, prior to the presentation to the Executive Directors of the First Highway Loan, the Government presented to the Bank a Plan of Action outlining the specific measures it proposed to take in the sector through 1971. One year has now elapsed since the implementation of this program began. Before the appraisal of this project we reviewed in detail the Government's performance in respect of policies outlined in the Plan of Action and found them to be satisfactory. In the railways, where the problem of organization, operations and investment priorities are most complex, a serious effort is under way to reduce uneconomic operations, to improve investment programs and to introduce a more efficient operational and management system. For highways, the Government is implementing the investment program recommended by the Transport Survey and it seems that short term political objectives are being subordinated to economic criteria. In the ports sector, the Government has begun the task of rationalizing the accounting systems and tariff structures of the major ports.

8. Discussions have been held with the Government on a second Plan of Action for the transport sector covering the period 1970-1972. General agreement has been reached with the Government on a set of measures which we have identified as important to the further progress of the sector. Specific targets for the reduction of the railway deficit will be set. The planning organization of the National Highway Department would be strengthened and the construction and maintenance functions of this Department would be gradually transferred to the State Highway Departments. The National Ports Department would be reorganized and an autonomous status would be given to the three major ports. We expect to obtain from the Government a letter or memorandum incorporating this second Plan of Action for the transport sector prior to the negotiations of the proposed Second Highway loan, and should be satisfied with such a plan prior to presentation of the loan to the Executive Directors.

The Project

9. The proposed project consists of:

a) The construction and paving of eight Federal and State road sections with a total length of 872 Km.

b) The improvement and paving of nine Federal and State road sections with a total length of 1,267 Km.

c) Consulting services for the detailed engineering of one of the highways included in the project and for supervision of the construction of all highways included in the project.

d) Consulting services for the detailed engineering of 3,066 Km. and feasibility studies of 4,000 Km. of roads proposed for inclusion in future Bank highway projects.

e) Consulting services to strengthen the planning unit of the National Highway Department and to improve methods and procedures of construction supervision.

10. All highways included in the project were identified by the Transport Survey as being of high economic priority. The economic rates of return on the project roads range from 18 to 47 percent. About 50 percent of the roads included for construction are located in the Northeast. These roads would significantly meet this region's most urgent need for a better road network. The program of feasibility and detailed engineering studies included in the project emphasizes the development of Brazil's western region, an area identified by the agricultural sector mission to have a large potential for agricultural development. The proposed studies would cover the region's most important trunk roads.

11. The total project cost is estimated at US$ 256.5 million and the foreign exchange component at US$ 52.5 million. A Bank loan of US$ 100 million, equivalent to about 40 percent of the total project cost would be appropriate in view of the Bank's role in the transport sector, and also such cost sharing is in line with the conclusions of the Country Program Paper.

12. The Bank loan would consist of the following:

a) Civil works - $83.5 million for financing 40 percent of the construction cost of the highways included in the project.

b) Supervising consultants - $6.8 million, for financing 40 percent of the cost of local consulting services and the foreign exchange costs of services rendered by foreign consultants to supervise construction of the highways included in the project.

c) Detailed engineering for one of the highways included for construction in the project - $0.3 million representing retroactive financing of the foreign exchange expenditures since July 1, 1969 for the detailed engineering of BR-324 included for construction in the project.

d) Feasibility studies and detailed engineering of highways suitable for inclusion in future Bank Projects - $3.2 million representing 40 percent of the total cost of feasibility studies for 4,000 Km. of highways, and $5.1 million representing 40 percent of the total cost for detailed engineering of 3,066 Km. of highways.

e) Other consulting services - \$0.4 million to finance the foreign exchange cost of consulting services to assist the National Highway Department in organizing an effective planning unit, and \$0.7 million representing the foreign exchange cost of consulting services to assist the National Highway Department in improving its construction supervision.

13. The construction of the project would be completed by late 1973 and the Transportation Projects Department recommends for the proposed Bank loan a maturity of 25 years including four years of grace. Such terms are also consistent with Brazil's economic position.

14. The loan would be made to Brazil and the project would be administered by the National Highway Department (DNER). Execution of the project would be the responsibility of DNER for federal highways and of the corresponding State Highway Departments (DERs) for state highways. The execution of construction on highways which belong to the national as well as to the state highway network, would be delegated to the respective DERs. The Bank would sign project agreements with the states of Minas Gerais, Santa Catarina, and Rio Grande do Sul, as the DERs in these states would be responsible for the construction of state highways or delegated national highways. The Federal Government would enter into subsidiary agreements, acceptable to the Bank, with these states as well as with states where the state highway departments would be responsible for detailed engineering and feasibility studies included in the project.

IDA Allocations

15. According to the latest program, the total commitment of IDA credits in the current fiscal year in Latin America will be a maximum of \$16.5 million. However, even this assumes that it would be possible to make an \$11 million IDA credit for a livestock project in Ecuador, where some clarification of fiscal and monetary policies is still required. In view of the prospect for such a low level of IDA operations in Latin America, the Committee may wish to consider whether part of the financing for the proposed Brazil highway project should not be provided in the form of IDA credits attached to highways in the Northeast.

Recommendation

16. I recommend that the Bank inform the Government of Brazil that it is prepared to negotiate a Bank loan of \$100 million under the terms and conditions set forth in the attached appraisal report.

Gerald Alter
Director

Attachment

Brazil - Lending Program 1970-74

	Total to 1969	Fiscal Years 1970	1971	1972	1973	1974	Total 1970-1974
		(In US$ million)					
Agriculture	1/40.0						222.0
Agricultural Credit BNB			30.0				
Agricultural Credit					60.0		
Irrigation Sao Francisco			8.0				
Land Settlement - Maranhao				10.0			
Oil Palm - Bahia				4.0			
Agriculture Unidentified - Northeast				25.0			
Agriculture Unidentified				25.0			
Agriculture Unidentified						30.0	
Agriculture Unidentified						30.0	
Education	-		10.0				10.0
Industry & Mining	1/22.0						125.0
MBR Iron-ore				25.0			
Iron-ore North						50.0	
Steel				50.0			
Development Finance Companies	-						210.0
BNB I		25.0					
BNB II				35.0			
BNB III						40.0	
Industrial Finance I			50.0				
Industrial Finance II					60.0		
Power	20/542.1						260.0
Marimbondo		80.0					
Osorio & Capim Branco			50.0				
Itauba				30.0			
Sao Simao					50.0		
Itumbiara						50.0	
Transport	4/54.0						705.0
Highways II		100.0					
Highways III			100.0				
Highways IV				100.0			
Highways V					100.0		
Highways VI						100.0	
Ports I			20.0				
Ports II				10.0			
Railways I				45.0			
Beltway Sao Paulo			60.0				
Transport Unidentified					35.0		
Transport Unidentified					35.0		

Brazil - Lending Program 1970-74 cont'd.

	Total to 1969	1970	1971	1972	1973	1974	Total 1970-1974
	(In US$ Million)						
		Fiscal Years					
Water Supply	-						30.0
Water Supply - Sao Paulo			30.0				
GROSS TOTAL	658.1	205.0	358.0	359.0	340.0	300.0	1562.0
No.	26	3	9	11	6	6	35
Possible Slippage	-	-	108.0	109.0	90.0	50.0	357.0
Net Total	658.1	205.0	250.0	250.0	250.0	250.0	1205.0

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Glison

CONFIDENTIAL

LOAN COMMITTEE

January 19, 1970

MEMORANDUM TO THE LOAN COMMITTEE

India - Kadana Irrigation Project

Attached for information is a memorandum from the Director of the South Asia Department to the Chairman of the Committee, dated January 19, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for an irrigation project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
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Copies for Information:

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The Economic Adviser to the President
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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: January 19, 1970

FROM: I.P.M. Cargill

SUBJECT: INDIA - Kadana Irrigation Project

1. I attach, for your approval, a copy of a draft Report and Recommendation of the President to the Executive Directors on a proposed Association credit of $US35.0 million equivalent to India for the Kadana Irrigation project and copies of the draft credit documents. In addition to the credit agreement, there will be a project agreement with the Government of Gujarat. I propose to distribute these documents and a revised Appraisal Report to the Executive Directors on January 22, and to present the project for their consideration at a meeting on February 3. The credit documents will also include: the letter referred to in Paragraph 5 below; a letter recording details of the manner in which the Government of Gujarat will execute certain parts of the project; and a letter regarding external debt. Drafts of these letters are attached but we do not intend to distribute them to the Executive Directors.

2. In my earlier memorandum to the Loan Committee (LC/O/69-93, October 27, 1969) and in the draft Appraisal Report (PA-27, October 6, 1969), which were circulated and considered without meeting, the recommended amount of the credit was $US36.0 million. At your request the amount of the credit was reduced, to provide financing equivalent to 50 percent of the remaining local currency costs and 100 percent of the estimated foreign exchange costs.

3. The draft Appraisal Report recommended that before the credit was presented to the Executive Directors, the Government of Gujarat should have appointed a qualified engineer to head the Soil Conservation Branch of the Department of Agriculture of Gujarat and a qualified senior engineer under him having overall responsibility for the Branch's work in the project area. These appointments have been made to the satisfaction of the staff.

4. During negotiations, two principal issues arose. The first involved procedures to be followed in the procurement of certain items of equipment required for the project with a total estimated cost of $US3.0 million. The Government of India was prepared to accept international competitive bidding for these items, provided that the level of preference allowed to domestic suppliers would be 27.5 percent or the prevailing customs duty, whichever was lower. This question was raised with Mr. McNamara who said that in the absence of widespread support at

the recent discussion by the Executive Directors for increasing the "normal" level of preference, and in view of the relatively small amount of equipment involved, the Government of India should be allowed to reserve for domestic procurement any item which it did not wish to put to international tender at a maximum preference of 15 percent. The Government agreed to procure by international competitive bidding with a maximum preference of 15 percent, items with a total estimated cost of $US2.3 million where the prevailing customs duty is 15 percent or lower. The remaining items on this list of equipment, with an estimated cost of $US0.7 million, will be reserved to local suppliers, but no items so procured will be financed out of the proceeds of the Association credit. Other goods, with a total estimated cost of about $US0.2 million and which are not suitable for international competitive bidding, will be imported and financed under the credit.

5. The second issue involved the Association's wish to be assured that adequate funds would be provided for the prompt execution of the project by the Government of Gujarat. Some Bank group projects in India have suffered delays partly as a result of inadequate provision of rupee financing. Association representatives felt that in order to guarantee a certain minimum level of financing, the credit documents should provide for on-lending by the Government of India to the Government of Gujarat of the proceeds of the Association credit plus certain additional amounts, for specific and exclusive use on this project. This arrangement was difficult for the Indian authorities to accept because it would have required a change from the normal means of transfer of development resources from the Centre to the States for the Fourth Plan - procedures which were worked out as the result of a lengthy and difficult political dialogue. Since the Association's concern was that annual budgetary provisions should be adequate for prompt execution of the project (a matter which in the final analysis lay in the hands of state legislators), it was agreed that a letter would be signed in conjunction with the credit agreement recording the joint intention of the Governments of India and Gujarat to review with the Association annually the proposed schedule of construction for the project for the next Indian fiscal year and the financial requirements and proposals to meet this schedule. In addition, the draft letter provides that the Association will be informed annually as to the proposed allocations before these are finally settled.

6. As you are aware from our earlier discussions, local currency financing will constitute approximately 93 percent of disbursements under the credit (on the assumption that all bids put to international tender will be won by foreign suppliers). In the draft President's Report, I have linked the justification for this to the desirability of the Bank group making a major effort to assist in India's agricultural sector in view of its particular importance. This necessarily requires a willingness to finance large amounts of local currency costs.

7. No significant changes have been made in the principal characteristics of the project itself. A marked-up copy of the Appraisal Report is attached to this memorandum.

8. The economic section of the President's Report has been cleared by the Chief Economist and a copy of the Report has been sent to the Economic Adviser to the President for information and comment.

9. This memorandum and the papers mentioned herein have been cleared by the other Departments concerned.

10. I propose that, with a view to strengthening the argument for local currency financing, the theme of the presentation of the credit be the importance of the agricultural sector to India's economy and the priority which agriculture should receive in our lending program.

11. I would be very grateful if you could give your comments on these papers to Mr. Dunn (Extension 3510) at your earliest convenience.

Attachments

I.P.M. Cargill
Director

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

Form No. 60 (4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

Ahlan

CONFIDENTIAL

LOAN COMMITTEE

LC/A/70-1

January 16, 1970

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Monday, January 19, 1970 at 3:00 p.m. in Room C1006.

AGENDA

Malaysia

The Committee will consider the attached memorandum of January 16, 1970 from the East Asia and Pacific Department entitled "Malaysia - Second Jengka Triangle Project" (LC/0/70-3).

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
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Vice President (IFC)

CONFIDENTIAL

LC/0/70-3

January 16, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

Malaysia - Second Jengka Triangle Project

Background

1. There is attached for the consideration of the Committee an Appraisal Report "Malaysia - Second Jengka Triangle Project" (PA-31) dated January 16, 1970. A Bank loan of US$14 million (MA-533) was made in April 1968 to finance the first stage of the land settlement scheme; execution of the project by the Federal Land Development Authority (FLDA) is satisfactory. However, there is a need to improve FLDA's financial management and to use the forestry resources of the Triangle efficiently.

2. The Jengka Triangle lies approximately in the center of West Malaysia in the State of Pahang and is the subject of Malaysia's first regional development program. Under this program, which was based on a Master Plan prepared by consultants and financed by a Bank technical assistance grant, about 93,000 acres would in three stages be cleared of forest, planted with crops - mainly oil palms and rubber trees - divided into holdings of about ten acres each, and allotted to some 9,000 families. Physical and social infrastructure would be established and a forest industry complex would be created.

3. The Second Jengka Triangle Project consists of two sub-projects - a second phase of land settlement and a forest industry complex - which are different in nature and which will be executed by two different statutory Government corporations, the Federal Land Development Authority (FLDA) and the Majlis Amanah Ra'ajat (MARA) respectively. For these reasons and in view of the differences in loan terms, administration and disbursement it is proposed that two loans be made: (i) a Bank loan of US$13 million equivalent to cover part of the cost for the second stage of land settlement in the Jengka Triangle and (ii) a Bank loan of US$8 million equivalent to cover the foreign exchange cost of a forest industry complex. Malaysia would be the borrower because both executing agencies are still being subsidized by the Government and their ability to service the proposed Bank loans cannot be established. Furthermore legislation necessary to make them eligible as borrowers would be time consuming. The Government would relend the proceeds of the proposed Bank loans to the executing agencies, FLDA and MARA, on terms and conditions similar to those of the Bank loans to it. In order to establish

direct relationships with the executing agencies, there would be project agreements between the Bank and FLDA and MARA. Both loans would be negotiated jointly and be presented to the Executive Directors at the same meeting.

Bank Lending Program

4. The proposed loans would be the Bank's 12th and 13th loans for Malaysia; they would bring the Bank's total lending to Malaysia to US$250.8 million. In addition to the 1968 loan for the Jengka program, two loans have been made for irrigation, four for electric power and one each for industrial development, telecommunications, water supply and education. The execution of Bank projects in Malaysia and the rate of loan disbursements have been satisfactory. As of November 30, 1969 the amount of these loans held by the Bank, net of cancellation, sales and repayments, was US$201.9 million. In addition, the Bank has made a loan to Singapore guaranteed by Malaysia. There are no loans other than the proposed loans in the Bank's lending program for FY 70; in FY 71 loans are expected to be made for power generation, telecommunications and port expansion. The latest tabulation of the 5 year lending program is attached hereto as Annex I.

5. The Bank's lending program is to be reviewed in the context of a new country program paper in early March. The review will take into account the findings of the economic mission which visited Malaysia in October/November 1969 and of an operational mission scheduled to visit Malaysia in January/February 1970.

The Economy

6. Investment priorities and resource allocation under the First Malaysia Plan (1966-70) have generally been consistent with economic requirements. Plan execution has followed the priorities indicated, but has fallen short of the targets set in the plan. Investment in the public sector has been largely in the infrastructure required to foster a more diversified agriculture. The core of the public sector investment program consists, therefore, of projects, which take a long time and are difficult to prepare. Their foreign exchange content is generally low and therefore not acceptable for financing by most foreign donors. Also in some cases the terms and conditions of the offers, particularly those involving tied aid, were not acceptable to the Government which generally insists on full international competition. Consequently offers of foreign project aid have remained largely unused. Due to the present condition of the external capital markets, market borrowings have not come up to expectations. Nevertheless, public investment did not fall off as much as might have been expected because Malaysia drew on her foreign exchange reserves to the extent of about US$70 million a year during 1966-1968. Moreover, public savings and domestic borrowing helped to partially offset the decline in capital inflows.

7. Inspite of political events which led to racial tensions, severe street riots and the declaration of a state of emergency the economy has recovered rapidly from the slowdown in 1967. The GNP growth rate was 5.8 percent in 1968 compared with 3.8 percent in 1967 and the rate is likely to exceed that of 1968 by a large margin in 1969, mainly because rubber prices went up sharply as the result of an increase in demand. Malaysia was able to take advantage of this situation by increased tappings of existing stands and the coming into production of new improved varieties. Expansion of exports of palm oil and forestry products also contributed. As a result, the balance of payments position improved and foreign exchange earnings continued to increase and foreign exchange reserves exceeded US$800 million or 6½ months of imports by the end of the third quarter of 1969. However, since the factors underlying present high rubber prices and demand are probably short-term, the recent growth performance and the balance of payments surplus are not expected to continue. Also,although government revenues increased from 20.5 percent of GNP during 1961-65 to 22 percent in 1966-69, public savings have fallen because of substantial increases in current expenditures. Their rise is expected to continue because firstly, defense and security needs will increase with the British withdrawal and the unsettled political situation and secondly, wage and salary reforms are overdue. The problem of financing public sector investment will therefore become more acute. This comes at a time when increased public investment is needed because private investment, affected by the May 1969 disturbances, has slowed down considerably and strong pressures exist to create more employment opportunities immediately, particularly in rural areas.

8. It is important that Malaysia's development effort does not now lose momentum when strong social pressures exist to relieve urban unemployment, to improve farm incomes and to stop the drift towards the cities of the rural unemployed. The two projects now proposed for Bank financing will make efficient use - both economically and socially - of Malaysia's main underutilized resources, productive land and unemployed or underemployed labor, and deserve the Bank's full support, including the provision of local currency financing for the land settlement project.

9. The general case for local currency financing in Malaysia has been made in the past and will be considered again at the time of the annual review in March of the country program paper which will take into account the findings of the recent economic mission. However, there is no doubt about the justification for local currency financing in this particular case because of the high priority of the project and its comparatively low foreign exchange content.

Land Settlement Project

10. The project consists of the clearing of about 32,000 acres of forest and of the planting of 16,800 acres of oil palms, 13,650 acres of rubber and 700 acres of other crops. These 700 acres would be used for

commercial scale diversification trials. It is expected that the crop rotations used would begin with a legume and be followed by a grain crop. The project would bring the total planted acreage in Jengka to about 58,000 acres leaving some 35,000 acres for the third and last stage of the Jengka Triangle Program which is expected to begin in 1972. The planting of both oil palms and rubber takes into account (i) suitability of soils within the project area and (ii) forecasts of future prices for both crops. The Bank's forecasts indicate that a drop of present prices by the mid-1970's to the level of US$160 per ton c.i.f. U.K. ports for palm oil and 16 U.S. cents per pound (London) for rubber, on which project earnings and settler's incomes have been calculated, is more likely to occur for palm oil than for rubber. However, based on these prices the economic rates of return are estimated at about 18 percent for oil palm and about 11 percent for rubber. A sensitivity analysis shows that it is unlikely that these returns would fall below 9 percent for either crop.

11. Each settler would be indebted to FLDA for the cost of his house, of clearing his house-lot and of developing 10 acres of oil palm or rubber. A minimum interest rate of 6¼ percent, the standard rate on all FLDA schemes, would be charged and capitalized during the development period. The loans will be repayable over fifteen years commencing in the sixth year after palm planting and the eighth year after rubber planting. A management fee will be charged by FLDA. However, it is proposed that both the management fee and the interest rate on settler's loans would be geared to commodity prices and thus to settler's incomes. Settlers would be required to sell all latex or palm produce to factories or mills specified by FLDA and they would receive payment from FLDA after deductions have been made for transport and processing costs, loan service and other charges.

12. The Federal Land Development Authority, which will execute the project, over the last 12 years has developed almost 300,000 acres throughout Malaysia on which 100,000 people have settled. About 218,000 of the 300,000 acres were developed over the last five years. FLDA is satisfactorily managing both the first stage Jengka project and some 80 other smaller settlement schemes. Its financial management has not, however, kept pace with its rapid expansion and certain steps are required, including the appointment of a Financial Director, to improve financial administration and procedures. FLDA will carry out land clearing, oil palm and rubber tree planting, maintenance for an initial period after planting. Construction of roads, provision of water supplies and of various social services will be carried out by the appropriate departments of the Federal and State Governments.

13. The total cost of the project is US$28.5 million and the proposed Bank loan would finance about 46 percent of the total cost. The foreign exchange component, including interest on the Bank loan during the period of disbursement of about seven years, is presently estimated at US$7.2 million. Thus the proposed Bank loan of US$13 million would finance US$5.8 million of local currency expenditure. For administrative

reasons disbursements would be related only to those parts of the project which are being executed directly by FLDA.

Forestry Project

14. The project would comprise a forest industry complex adequate to efficiently extract, process and market lumber from the Jengka Triangle and after the mid 1970's from the adjacent Tekam and Berkeleh forest reserves. The complex would consist of a mechanized logging unit with an annual extractive capacity of 150,000 tons of logs; a sawmill with an annual capacity of about 60 million square feet and houses, offices and buildings required for management personnel and labor.

15. The project would be carried out by a subsidiary of MARA; its establishment, to the satisfaction of the Bank, will have to be completed before the terms of the Bank loan are finalized. Because of its poor operating and financial record, MARA's existing subsidiary for forestry development, Sharikat Kebangsaan Kayu Kanan (SKKKB), would not be a satisfactory vehicle for the project, unless it is reorganized so that it can be managed with a reasonable degree of commercial and financial autonomy. In order to expedite project preparation and to ensure its successful execution, MARA signed a management agreement with Cantrans Services (1965) Ltd. in September 1969 for a four-year period commencing October 1, 1969. Cantrans is a Canadian business and administration company with experience in forestry development. In return for a total fee of Can$1.7 million, it will supply consulting services, and in general undertake on behalf of MARA's subsidiary the establishment and operation of logging and timber processing in the Triangle. Cantrans will also train Malaysians locally and in Canada with a view to their being able to take over at the end of the four year period. Assurances will be obtained during negotiations that, unless otherwise agreed with the Bank, a further management contract should be entered into with a concern satisfactory to the Bank after termination of the agreement with Cantrans.

16. The project would provide employment for about 1,200 people, would systematically and efficiently exploit the forest resources in the project area which otherwise would be wasted, and would provide foreign exchange earnings estimated at US$41 million over the period to 1980. Furthermore, the establishment of an efficient and profitable forestry complex in the Jengka Triangle together with the development of markets for Malaysian forest products could lead through its demonstration effect to better utilization in the future of Malaysia's other forest resources. Based on project earnings for the period to 1980, by which time the processing machinery would be near the end of its useful life, and on price assumptions which are conservative in view of the almost inevitable future rise in tropical hardwood prices the economic rate of return is expected to exceed 30 percent.

17. The total cost of the project excluding interest on the Bank loan is US$11.8 million. The foreign exchange component including the

Cantrans management fee is US$8 million or 68 percent of total project costs and would be covered by the proposed Bank loan. Retroactive financing for consultants' services, beginning October 1, 1969, is estimated at US$0.4 million. Bids are being invited for forestry equipment which will cost an estimated US$0.8 million; the Bank's agreement will be sought for contracts which will have to be awarded before the signing of the proposed loan. Interest on the Bank loan during the period of disbursement would not be financed by the Bank, as net earnings from the project should be sufficient to meet interest payments almost from the beginning. The proposed Bank loan would be for a period of 12 years.

Recommendations

18. The Appraisal Report lists the steps to be taken before inviting negotiators (paragraph 8.01), the assurances to be obtained during negotiations (paragraph 8.02) and the steps to be completed before the proposed Bank loans are presented to the Executive Directors (paragraph 8.03). I am in agreement with these suggestions.

19. I recommend that we notify the Government of Malaysia, FLDA and MARA respectively that we are prepared to negotiate a Bank loan of US$13 million for the second stage land settlement in the Jengka Triangle and a Bank loan of US$8 million for the creation of a forestry industry complex in the Triangle as soon as the steps listed in paragraph 8.01 of the Appraisal Report have been taken. If the Committee agrees with this recommendation, I will write the Government regarding these steps and the matters refered to in paragraphs 8.02 and 8.03 of the Appraisal Report. In order to expedite the processing of the proposed loans I am arranging for representatives of the Area, Agriculture and Legal Departments to visit Malaysia. Theywill review progress with the parties concerned in particular regarding the improvement of FLDA's financial administration and procedures and the establishment by MARA of the entity to carry out the forestry project.

Raymond J. Goodman
Director
East Asia and Pacific Department

Population: 10.0 m
Per Cap Inc: $315

IVa. MALAYSIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Jengka Land Settlement II	IBRD		19.0						
Jengka Land Settlement III	IBRD				15.0				
Other Land Settlement	IBRD					15.0			
Agricultural Credit I	IBRD				8.0				
Agricultural Credit II	IBRD						10.0		
Livestock	IBRD				4.0				
Crumb Rubber Processing	IBRD				2.0				
Telecommunications I	IBRD	4.4							
Telecommunications II	IBRD			8.0					
Telecommunications III	IBRD						15.0		
DFC - MIDF II	IBRD				4.0				
DFC - MIDF III	IBRD						6.0		
Education I	IBRD	8.8							
Education II	IBRD				8.0				
Education III	IBRD						10.0		
Power IV	IBRD	11.5							
Power V	IBRD			12.0					
Power VI	IBRD			25.0					
Sabah Ports	IBRD			10.0					
Road Construction I	IBRD				15.0				
Road Construction II	IBRD						15.0		
Railways	IBRD					10.0			
Kuala Lumpur Water Supply	IBRD	3.6							
Ipoh Sewerage	IBRD				3.0				
Kuala Lumpur Sewerage	IBRD					3.0			
Unallocated	IBRD					10.0			
Unallocated	IBRD						10.0		
	IBRD	28.3	19.0	55.0	59.0	38.0	66.0	165.9	199.3
	No.	4	1	4	8	4	6	6	21

P & B 10/15/69

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
SEP 09 2014
WBG ARCHIVES

January 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Malawi - Power Project

Attached for information is a memorandum from the Deputy Director of the Eastern Africa Department to the Chairman of the Committee, dated January 12, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for a power project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO: Mr. J. Burke Knapp 12 January, 1970

FROM: J. H. Williams

SUBJECT: MALAWI - Proposed Power 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 $5.25 million equivalent to the Republic of Malawi. Copies of the draft Development Credit Agreement and the Draft Project Agreement are also attached. It is planned to distribute these documents and the Appraisal Report to the Executive Directors for consideration at a meeting on or about January 27, 1970.

2. The Appraisal Report (PU-24 dated November 7, 1969) was considered at the Loan Committee Meeting held on November 14, 1969 and approved vide Minutes No. LC/M/69-14 dated December 1, 1969. During negotiations, except for shifting the proposed diesel generation unit from Blantyre to Lilongwe, no changes were made in the proposed project. The Appraisal Report is, therefore, not attached.

3. The proposed IDA Credit will help finance the Hydroelectric Power station at Tedzani Falls and a 3 MW diesel unit at Lilongwe. The African Development Bank (ADB) is making a loan to the Republic of Malawi of $3 million to help finance the related transmission lines and an extension of the transmission system to the new Capital at Lilongwe. This project is the first instance of parallel financing involving IDA and ADB and a Memorandum of Understanding has been negotiated between IDA and ADB. A draft of this Memorandum is attached herewith. It is not planned to distribute it to the Executive Directors.

4. An Economic Report entitled "Current Economic Position and Prospects of Malawi" (No. AE-5a) was distributed to the Executive Directors on January 7, 1970 (R-70-1). The conclusions of the Economic Report are summarized in Part V of the draft President's Report.

5. The theme for Board presentation of the proposed power project will be "The importance of Malawi's water resources for general economic development and power generation".

6. This memorandum and the papers mentioned have been cleared by the representatives of the departments concerned.

7. I would appreciate your giving your comments to Mr. Panikar (extension 4075) at your convenience.

Attachments

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

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
SEP 09 2014
WBG ARCHIVES

January 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Yugoslavia - Industrial Projects

Attached for information is a memorandum from the Director of the Europe, Middle East and North Africa Department to the Chairman of the Committee, dated January 12, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for industrial projects.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

TO: Mr. J. Burke Knapp January 12, 1970

FROM: Munir P. Benjenk

SUBJECT: YUGOSLAVIA - Loan for Industrial Projects

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed loan of $18.5 million to the Yugoslav Investment Bank for Industrial Projects - 1970, together with a copy of the draft Appraisal Report and the draft Loan and Guarantee Agreements. It is planned to distribute these documents to the Executive Directors on January 15 for consideration on January 27.

2. In addition to the Loan and Guarantee Agreements, the documentation will include three supplemental letters. The letters on external debt and on representations by the Yugoslav Investment Bank are routine and are not attached. The third letter, which is attached, states the Government's intention to exchange views with the Bank on policies towards the automobile industry and to carry out a comprehensive study of the steel industry. This letter was approved by you during the negotiations. It is not intended to distribute the supplemental letters to the Executive Directors.

3. A Special Loan Committee was held on December 8, 1969 to consider the green cover Appraisal Report and the memorandum of December 3, 1969 (LC/O/69-106) from this Department. The Committee decided (see LM/M/69-53 of December 23, 1969) that a minimum interest rate of 8 percent should be charged by the Yugoslav Investment Bank on its relending of the proceeds of the Bank loan to the subsidiary borrowers, that certain amendments to the Appraisal Report should be made and that the proposed assurances to be obtained during negotiations about future consultations on policies toward the automobile industry should be made less onerous. These matters are appropriately reflected in the attached papers.

4. The amount of the loan was increased from $18.1 million to $18.5 million during negotiations with your approval to cover contingencies for the SISAK steel tubes project arising from the revaluation of the German mark.

5. This memorandum and the papers mentioned herein have been cleared with all departments concerned. The economic section of the draft President's Report has been cleared with Mr. C. H. Thompson. This section outlines the main conclusions of the Economic Report, which is expected to be distributed to the Executive Directors in February.

6. The oral presentation would be made by Mr. El Darwish of the Industrial Projects Department and would explain the rationale for the Bank's lending to the automotive industry in Yugoslavia at this time.

7. I would appreciate your giving your comments on these papers to Mr. Upper (ext. 4721) at your convenience.

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

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 12, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Karachi Port Trust Engineering Project

1. The Committee is requested to consider, without meeting, the attached memorandum of January 12, 1970 from the South Asia Department, entitled " Pakistan - Development Credit for the Karachi Port Trust Engineering Project" (LC/0/70-2).

2. Comments, if any, should be sent to reach Mr. Fares (ext. 2069) by 5:00 p.m. on Thursday, January 15.

3. It is planned then, if the Committee approves, to inform the Government and the Karachi Port Trust that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions set out in paragraph 12 of the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/70-2

January 12, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Development Credit for the Karachi Port Trust Engineering Project

Introduction:

1. The Government of the Islamic Republic of Pakistan has requested an IDA credit to finance the foreign exchange costs of engineering and consulting services and studies required for construction of further berths and facilities in the port of Karachi. The attached report "Karachi Port Trust - Appraisal of Proposed Credit for Engineering and Consulting Services" (No.PTR 35, dated January 6, 1970) estimates these costs at about $1 million (60% of total costs) and recommends approval of Pakistan's request. The Karachi Port Trust will finance the local costs estimated at about $650,000 equivalent, as well as any overruns. In case of overruns the Government of Pakistan will make available to KPT the necessary foreign exchange.

2. So far IDA has made twenty-eight credits to Pakistan totaling about $379 million net of cancellations. It is expected that other credits totaling about $72 million will be recommended for approval before the end of the current FY. The Bank has made thirty loans in Pakistan totaling about $614 million net of cancellations.

Background:

3. The port of Karachi is the only port serving West Pakistan, an area of over 300,000 square miles with a population of about 60 million. It is well managed by a Board, "The Trustees of the Port of Karachi", known as the Karachi Port Trust (KPT). In general its staff are competent and their employment history shows a trend of continuity in office seldom found elsewhere in Pakistan. The result has been an excellent performance record.

4. To date KPT has received two Bank loans. Loan No. 126 PAK ($14.8 million) was made in 1955. The project consisted of reconstruction and modernization of 13 cargo berths and construction of cargo handling facilities and transit sheds, and was satisfactorily completed in 1962. The second loan, (No. 376 PAK) in an amount of $17.0 million, was made in 1964 to finance a new oil pier, widening and deepening of the main

navigable channel, construction and reconstruction of berths, rehabilitation of a breakwater, engineering services and the preparation of a Master Plan for the port. Due to unsuitable soil conditions which had not been foreseen earlier, the design for the reconstruction of some berths required substantial modification and the Closing Date was extended from March 31, 1969 to June 30, 1972. The other items of the project were completed on time. As of December 31, 1969 about $8.8 million remained undisbursed. It is now expected that the project will be completed, and the balance of the loan fully disbursed by the revised Closing Date.

5. The Master Plan financed under the second loan identified the Western Backwater as the next area for major expansion, where deeper-draft berths for container traffic and bulk-handling facilities could be built. The UNDP has been approached to finance the economic, traffic and engineering studies required before a final decision on the development in this area can be made. UNDP is likely to approve this request in the current FY and the Bank has indicated its willingness to be the executing agency. The studies would take two years and another 6 years will be required for land reclamation, final engineering and construction. Therefore, new berths in the Western Backwater are unlikely to be available before 1979.

6. In the meantime new berths and other facilities are urgently needed. Through double banking of ships, berth occupancy in the past two years has been over 100%. Though the port operates efficiently ships are experiencing delays and unloading costs are substantially higher for double banked ships.

The Project

7. A further increase in operational efficiency alone will not relieve congestion. Eight new berths and associated service facilities will be required. Possible sites for their construction in the present deepwater area of the port have been identified. KPT will use the proceeds of the proposed credit to have various alternative designs prepared. After comparative study of these designs final engineering will be undertaken for the selected solutions and terms of reference will be drafted. The engineering project is expected to be followed by a construction loan or credit in FY 1971, in an amount now estimated at $15 million. The engineering credit would also finance a feasibility study of alternative methods of crude oil handling. KPT is preparing draft terms of reference for these studies to be reviewed by the Association.

8. The various factors which will affect the growth rate of cargo handled through the port of Karachi - economic growth of both Karachi and Pakistan, possibility and location of a second port, trend towards containerization, grain handling, timing and location of the proposed steel mill - will be taken into consideration in the UNDP study. For this reason the appraisal report makes no attempt at this stage to evaluate the probable effect of these factors on traffic forecasts.

Even if the most conservative growth rate - or no growth - is assumed, the limited expansion to which the proposed engineering credit is related, would be justified.

9. Though KPT's administration in general is competent, its accounting system has not kept pace with modern developments. It is therefore also proposed to finance the services of accounting consultants with the aim of developing a management accounting system to complement the present system of budgetary accounting. The Association has drawn up terms of reference for these services.

10. Agreement on terms of reference for all aspects of the project will be reached during negotiations for the proposed credit. By the time the credit is presented to the Executive Directors it is expected that KPT will have negotiated satisfactory contracts with consultants. Reasonably firm cost estimates will emerge from these negotiations, and the amount of the proposed credit might have to be adjusted somewhat at that time.

11. It is proposed that the credit should be for a period of 10 years, including two years grace, and that it would be refinanced out of the proceeds of any subsequent loan or credit made by the Bank/IDA for the construction of the respective harbor facilities.

Recommendation

12. I recommend that we invite representatives of the Government and KPT to negotiate a credit of about $1 million to be relent by the Government to KPT for the same period (10 years) at the Bank's prevailing interest rate.

I.P.M. Cargill
Director

Attachment

Population: 126m
Per Cap Inc: $112

IVa. PAKISTAN-EAST - 5 YEAR LENDING PROGRAM

		($ millions)							
				Fiscal Year				Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Tubewells - ADC	IDA		6.0						
Irrigation - Chandpur	IDA		10.0						
Irrigation - Dacca Southwest	IDA		1.0						
Irrigation - Project Eng.	IDA		2.0						
Irrigation - Dacca Southwest	IDA			24.0					
Irrigation - Karnaphuli	IDA				14.0				
Irrigation - Muhuri	IDA				5.0				
Irrigation - Little Feni	IDA					10.0			
Tubewells - EPWAPDA I	IDA				8.0				
Tubewells - EPWAPDA II	IDA						30.0		
Irrigation - Belkuchi	IDA					5.0			
Irrigation - Kurigram	IDA				10.0				
Chandpur North Engineering	IDA				1.0				
Barisal I Engineering	IDA				2.0				
Irrigation - Chandpur North	IDA					10.0			
Irrigation - Barisal I	IDA						20.0		
EPWAPDA Consultants I	IDA	2.0							
EPWAPDA Consultants II	IDA			2.0					
EPWAPDA Consultants III	IDA					2.0			
Tea Machinery & Irrigation	IDA			5.0					
EP Education Unidentified	IDA				7.0				
EP Small Industries II	IBRD				5.0				
EP Small Industries III	IBRD						5.0		
Highway - Bridge Eng.	IDA		2.0						
EP Highways II	IDA				12.5				
EP Highways III	IDA					13.5			
EP Railways	IDA			8.0					
	IBRD				5.0		5.0		5.0
	IDA	2.0	21.0	39.0	59.5	40.5	50.0		162.0
East Pakistan - Total		2.0	21.0	39.0	64.5	40.5	55.0	95.3	167.0
	No.	1	5	4	9	5	3	6	24

P & B 12/12/69

IVa. PAKISTAN-WEST - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Tarbela Project	IBRD	25.0							
SCARP V	IDA				10.0				
SCARP VI	IDA					12.0			
Dipalpur Tubewells	IDA						15.0		
WP Education - Eng. Colleges	IDA		5.0						
WP Education Unidentified	IDA				8.0				
WP Fertilizer Plant I	IBRD	32.0							
WP Fertilizer Plant II	IBRD			30.0					
WP Fertilizer Plant III	IBRD				30.0				
WP Small Industries III	IBRD				5.0				
WP Small Industries IV	IBRD						5.0		
WAPDA Power Distribution	IBRD		20.0						
Railways IX	IBRD	14.5							
WP Highways II	IBRD	35.0							
WP Highways III	IDA		10.0						
WP Highways IV	IDA				20.0				
WP Highways V	IBRD						10.0		
" "	IDA						22.5		
Karachi Port Eng.	IDA		1.0						
Karachi Port Constr. III	IBRD			15.0					
Karachi Port Constr. IV	IBRD						20.0		
Sui Northern Gas II	IBRD	8.0							
Sui Northern Gas III	IBRD		17.0						
Lahore Water Supply II	IDA		5.0						
	IBRD	114.5	37.0	45.0	35.0		35.0		231.5
	IDA		21.0		38.0	12.0	37.5		71.0
West Pakistan -	Total	114.5	58.0	45.0	73.0	12.0	72.5	84.3	302.5
	No.	5	6	2	5	1	4	6	19

P & B 12/12/69

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

($ millions)

		Fiscal Year 1969	1970	1971	1972	1973	1974	Total 1964-68	Total 1969-73
Agric. Development Bank III	IDA	30.0							
Agric. Development Bank IV	IDA			15.0					
Agric. Development Bank V	IDA					35.0			
	EP	10.0		10.0		12.0			
	WP	20.0		5.0		23.0			
Telecommunications I	IDA	16.0							
Telecommunications II	IDA		11.5						
	EP	6.0	2.5						
	WP	10.0	9.0						
PICIC VIII	IBRD	40.0							
PICIC IX	IBRD			40.0					
PICIC X	IBRD					50.0			
Other DFCs I	IDA		20.0						
Other DFCs II	IBRD				10.0				
Other DFCs III	IBRD						10.0		
	EP	10.0	5.0	10.0	3.0	12.0	3.0		
	WP	30.0	15.0	30.0	7.0	38.0	7.0		
Small Industries	IBRD		10.0						
	EP		5.0						
	WP		5.0						
East & West -	IBRD	40.0	10.0	40.0	10.0	50.0	10.0		150.0
	IDA	46.0	31.5	15.0		35.0			127.5
	Total	86.0	41.5	55.0	10.0	85.0	10.0	314.7	277.5
	No.	3	3	2	1	2	1	13	11
Total Pakistan -	IBRD	154.5	47.0	85.0	50.0	50.0	50.0	162.0	386.5
	IDA *	48.0	73.5	54.0	97.5	87.5	87.5	332.3	360.5
	Total	202.5	120.5	139.0	147.5	137.5	137.5	494.3	747.0
	No.	9	14	9	15	8	8	25	55
* Note: the IDA lending program is to be adjusted to -		48.0	74.0	60.0	70.0	70.0	70.0		322.0

P & B 12/12/69

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

bhjon

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/70-1

January 9, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Korea - Third Railway Project" held on January 5, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/70-1

January 9, 1970

Minutes of Special Loan Meeting to discuss "Korea - Third Railway Project" held at 5:00 p.m. on January 5, 1970, in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Goodman, Knox, Fontein, Sella, Street, Kraske, Jaycox and Pearce (Secretary).

2. Issue: The Chairman had called the meeting to review a memorandum from the East Asia and Pacific Department (subsequently distributed to the Loan Committee as LC/O/70-1 on January 6), which recommended a $40 million loan to finance part of the foreign exchange costs of the Korean National Railroad's (KNR) investments during the last two years of its 1967-71 development plan and an additional $15 million IDA credit to cover the remaining foreign exchange gap in KNR's financing plan. The main issue for discussion was the amount of the proposed financing for the project and its distribution as between the Bank and IDA.

3. Discussion: The Chairman said that the Area Department's proposal for an additional $15 million credit to cover the remaining foreign exchange gap in KNR's financing plan had to be considered initially in the light of available IDA resources. However, since a proposed irrigation project, for which a $15 million credit had been allocated in FY 1970, would be delayed until FY 1971 and the proposed third railway project would be the only FY 1970 Bank/IDA operation in Korea, which was an important IDA country, he had concluded that the Area Department's recommendation for $15 million IDA financing of the railway project was justified.

4. The remaining question therefore was whether the IDA financing should be additional to the proposed $40 million loan or part of a $40 million financing package (i.e. a loan and credit of $25 million and $15 million respectively). The meeting was told that the proposed $40 million loan represented KNR's financial gap for the project period (1970-71). This, however, was less than the project's foreign exchange component; on the basis of the latter, amounting to $81.3 million, a loan of $55 million, supplementing bilateral aid and suppliers' credits totalling about $25 million, could be justified and had originally been recommended by the appraisal mission. While additional suppliers' credits might be obtained, albeit on fairly hard terms, the Bank was reluctant to advocate this in view of Korea's present foreign debt structure. Indeed, the Bank had recommended that the Koreans should reduce the amount of their short- and medium-term external debt, including suppliers' credits.

5. Finally, it was noted that an additional $15 million would not leave KNR with an excessive amount of cash. On the basis of information available to the appraisal mission, there would be a shortfall of some US$12 million in 1969 which it was envisaged KNR would meet either by local short-term borrowing or, more likely, by rephasing investment expenditures over later years, when there would be sufficient funds for this purpose. However, this would tend to preserve existing tightness of working capital, previously criticized by the Bank. An additional $15 million Bank/IDA financing would resolve this problem satisfactorily.

6. Decision: The Chairman decided that, subject to an amendment concerning the proposed treatment of possible savings on the foreign exchange items to be financed by the Bank/IDA, the Area Department's memorandum should be distributed to the Loan Committee for comment on the basis of a proposed $40 million loan and $15 million credit. A final decision on the precise amount of Bank and IDA assistance could be made later, without further meeting.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Chadenet
Goodman/Kraske
Knox/Jaycox

cc: Loan Committee
Participants

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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January 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Korea - Third Railway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of January 6, 1970 from the East Asia and Pacific Department, entitled "Korea - Proposed $40 million Loan and $15 million Development Credit for the Korean National Railroad" (LC/0/70-1).

2. Comments, if any, should be sent to reach Mr. Kraske (ext. 2780) by 5:00 p.m. on Friday, January 9.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/70-1

January 6, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

KOREA - Proposed $40 million Loan and $15 million Development Credit for the Korean National Railroad

1. Attached is an Appraisal Report (PTR-34) dated December 15, 1969, recommending a $40 million Bank loan to finance part of the foreign exchange costs of the Korean National Railroad's (KNR) investments during the last two years of its 1967-71 development plan. As explained in paragraph 8 below, we recommend an additional $15 million IDA credit which would cover the remaining foreign exchange gap in KNR's financing plan.

The Economy

2. An economic mission visited Korea in September 1969 and expects to complete its report in January. Its principal findings are that the Korean economy continues to grow very rapidly, with a growth in prospect for this year at the record level of 15%. A bumper rice harvest following poor crops in the last two drought years accounts for the exceptional expansion of GNP this year. Exports have also been increasing at the very high rate of 35%.

3. High investment and growth targets have been consistently exceeded during the period of the Second Plan which started in 1967, but at some risk to financial stability, both domestic and external. The cumulative effects of a 10% annual rise in prices over the last three years, without commensurate adjustments in the exchange rate, are now being felt, particularly in the demand for imports. There is also the danger of a wage/price spiral developing which would make it more difficult to bring inflation under control and eventually would impair economic growth. The gap between investment and savings has continued to widen and the terms of foreign assistance have hardened.

4. The last Economic Report of March 10, 1969 (EAP-4a) expressed concern over the excessive accumulation of short- and medium-term foreign debt which would lead to a peak debt service ratio of only slightly below 20% by 1971. In response, at the last Consultative Group Meeting in April, the Government promised to review carefully its investment program and to take stern measures to curtail the indiscriminate acceptance by the private sector of short- and medium-term credits. It also announced its intention to limit loans with a term of three years or more so as to keep the service on such obligations below 15% of projected foreign exchange earnings. A Standby Agreement concluded with the IMF in April also stipulated ceilings on additional short- and medium-term debt (ten years or less) which the Government has observed.

5. It now appears likely that Korea will take these and other measures necessary to deal with the problems which stem from too rapid economic growth. Its intentions are in part reflected in the 1970 fiscal budget as well as in the annual development plan. Other measures including a recent adjustment of the exchange rate have been taken to curtail non-essential imports, stimulate exports, increase savings and work toward monetary stability. The IMF is at present negotiating a new Standby Agreement for 1970 but has not so far reached agreement with the Government on lower ceilings on additional short- and medium-term foreign debt. The debt service ratio for 1969 is estimated by the Government at slightly over 11% compared with 7% for 1968.

Lending Program

6. The size of the Bank Group's lending program in Korea and the blend of Bank and IDA lending will be considered in the context of the review of the Country Program Paper in February. There is no doubt that the economy is at a critical stage at present. The Government has shown signs of its determination to slow down the investment rate in order to contain inflation and to improve the external financial position. Government revenue and Government savings have continued to improve substantially, and the budget for the current year is almost balanced. For 1969, the foreign debt structure is likely to improve somewhat, mainly because of a large increase in long-term public loans and less rapid growth in short- and medium-term private external debt, although the total amount of both is still rising. The debt service ratio after 1975 should come down gradually to a reasonable level, provided the Government continues to limit the amount of commercial loans, particularly short-term loans. The four-year grace period of the proposed Bank loan would avoid adding to the projected peak of debt service obligations in 1971 as well as take into account the construction period of the project. Its 25-year term would be in line with Korea's need for long-term finance and is justified for this type of project.

7. Transportation and agriculture deserve priority in future Bank/IDA activities as they have been neglected in the past and have not expanded in line with industrial growth. Some assistance would also be given to the industrial sector which has been the driving force in Korea's economic growth, through lending to the Korea Development Finance Corporation. In the past, the Bank Group has lent for railway expansion, highway studies, agriculture and industry. As the attached lending program shows, we propose to follow this approach in the future. The lending program for the current year provided for two operations: a $40 million loan for the proposed railway project and a $15 million development credit for an irrigation project.

8. The Appraisal Report for the railway project in its present form recommends a Bank loan of $40 million. The appraisal mission recommended earlier to raise this amount so as to cover substantially the $56 million gap in the foreign exchange requirements of the railway's investment program for 1970-71 not covered by bilateral assistance and

suppliers' credits. In view of the size of our overall lending program for Korea and having in mind the competing claims of other projects in agriculture, highway construction, education and industry, we felt that we should not exceed the amount of the Bank loan allocated for the project in the lending program. However, a mission to appraise the irrigation project planned for the current fiscal year has recently returned from Korea and reported that the project would require at least another six months of preparation before it can be appraised and processed. The delay of the irrigation project would not allow us to provide assistance to Korea in amounts and on terms commensurate to her needs. In these circumstances and in view of the fact that a higher amount of Bank Group assistance for the railway project would be justified on project grounds, it is recommended to make use of the IDA funds allocated to Korea for the current fiscal year by adding $15 million of IDA funds to the proposed Bank loan of $40 million for the railway project.

The Project

9. The proposed project would be the Bank Group's third lending operation to benefit KNR. An IDA credit of $14.0 million for freight cars assisted KNR in its first Five-Year Investment Program 1962-66. A second IDA credit of $11.0 million for rolling stock and consultants' services which was approved in December 1967, is supporting KNR's current investment program. This program originally assumed an investment of $240 million equivalent during the 1967-71 period. Korea's economic growth has, however, been more rapid than was forecast when the country's second Five-Year Development Plan (1967-71) was drawn up. The increase in industrial production has been especially remarkable. This, in turn, has placed a severe strain on the transport system. The economy relies heavily on rail transportation which handles about 77% of the country's total freight traffic and nearly half of the passenger traffic. KNR, in response to the mounting demand for transport capacity, increased the size of its investment program by almost 30% to $310 million equivalent ($148 million in foreign exchange). This rise is designed to enable KNR to handle a traffic demand 10% greater than was envisaged in 1967 when the original program was formulated.

10. The proposed project consists of the last two years of the revised program. The total cost of the project is estimated at $142.5 million equivalent with a foreign exchange component of about $81.3 million; $55.0 million of the latter would be financed by the $40 million Bank loan and $15 million IDA credit. Additional foreign exchange will be provided through foreign bilateral assistance ($18.7 million) and suppliers' credits ($6.2 million). KNR's cash generation would cover the rest of the foreign exchange cost and local currency expenditures during the project period. The proposed loan and credit would finance specific imported goods, procured through international competitive bidding. These would include: 50 diesel locomotives, 2,740 freight cars, components for locally assembled passenger cars, telecommunications equipment, mechanized track maintenance equipment,

and consulting services. Korean firms are expected to participate in bidding for some of the freight cars and would be accorded a 15% nominal preference margin in bid evaluation. The calculation of the foreign exchange cost of freight cars assumes that foreign firms would win all the bids. As the Bank Group's contribution to the financing of the project is substantial and the foreign exchange component of locally manufactured cars likely to be high, we propose to restrict our financing to foreign exchange cost.

Proposed Conditions of the Loan

11. KNR is managed well. Its productivity per employee is impressive compared to other railroad systems in the world. Even so, its overall operations could be improved if the excessive degree of control exercized by the Government in staff, budgetary and financial matters were relaxed. The problems caused by KNR's insufficient freedom to act in these matters are such that they increase in seriousness as the demand for transportation facilities rises. For these reasons, we requested and obtained assurances from the Government under the Agreement for the second railway credit that KNR would be reorganized as a public corporation or other autonomous entity by the end of 1969, and that, whatever the eventual organization solution, KNR would be given more authority and flexibility in accounting, budgeting and staff matters. Despite repeated reminders from us no action has been taken in this regard. On July 1, 1969, we wrote to the Deputy Prime Minister saying that we expected that during negotiations the Government would outline specific steps which would be taken to increase KNR's autonomy in financial and personnel management, including its exemption from the time-wasting and unnecessary requirement of keeping accounts based on the governmental pattern in addition to the commercial accounting system developed with the help of the first IDA credit for the railroad. The Deputy Prime Minister replied on August 4 that he would expect the Government to be in a position to outline specific steps to be taken on these matters by the time of negotiations. We have, as yet, not been informed what the Koreans will suggest and cabled the Government on December 19 that we want to know what they intend to do before we invite representatives for negotiations. The Appraisal Report recommends that measures to increase KNR's autonomy should be implemented before the proposed lending operation is presented to the Executive Directors. I suggest that we reserve our position on this matter until we have heard from the Government.

12. KNR's financial situation is sound; nearly two-thirds of the funds required for the project will be internally generated by KNR. The provisions of the second railroad project stipulated that tariffs would be at a level sufficient to realise a minimum 5% return on average net fixed assets in use for the years 1969 and 1970 rising to not less than 6% thereafter. The rate of return was 4.4% for 1968 and is expected to

fall slightly short of the 5% target in 1969 mainly because of substantial increases in wages and salaries. An increase in tariffs which is expected to come into effect on January 1, 1970 will improve the rate significantly to 7.6% for 1970. Agreement should be reached during negotiations that a minimum rate of 7% per annum be earned from 1970 onwards. This would enable KNR to generate sufficient funds to maintain adequate working capital and to finance a material portion of its projected capital expenditures.

13. The Appraisal Report lists a number of other points to be discussed and agreed during negotiations. The most noteworthy of these relates to the implementation of recommendations of consultants financed from the proceeds of the second credit to advise on the problems of coal handling and distribution. Efficient coal transportation is hampered by the dispersion of shipping and receiving stations in addition to the lack of organization on the part of mine owners and briquet manufacturers. The significance of the problem for KNR may be judged by the fact that coal accounts for over one-third of the commercial traffic handled by it. The consultants report makes many useful suggestions which, if followed, would result in considerable financial benefits for KNR. The implementation will, however, require coordination of a number of parties - private and governmental. The implementation of these suggestions will be discussed during negotiations.

14. The appraisal mission found that KNR is deficient in certain types of technical expertise required to study some of the problems confronting it. Two of these relate to the maintenance of diesel locomotives (and railcars) and the advisability of building a new workshop. It is intended that the conclusion of a contract with qualified consultants to examine these questions be made a condition of effectiveness of the proposed loan. KNR will also need the help of consultants to complete its proposals for the modernization of its telecommunications network, and to carry out the detailed engineering design work involved. The consultants terms of reference for all of the three studies mentioned above will be discussed during negotiations.

15. Subject to a satisfactory reply by the Government to our cable enquiring about action to be taken to increase KNR's autonomy, I recommend that the Government of Korea be invited to send representatives to Washington to negotiate a loan of $40 million and an IDA credit of $15 million both to be relent to KNR at the then current Bank lending rate for 25 years including four years of grace.

Attachment

Douglas J. Fontein
Deputy Director

KOREA - 5-YEAR LENDING PROGRAM

Population: 30.5 m
Per Cap. Inc: $170

		($ million)							
		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
All-Weather Farming I	IBRD	45.0							
All-Weather Farming II	IDA						25.0		
South-West Irrigation	IDA		15.0						
Agricultural Credit I	IBRD				10.0				
Agricultural Credit II	IDA					15.0			
Seed Production	IBRD			8.0					
Livestock	IDA			10.0					
Deep-Sea Fisheries	IBRD				8.0				
DFC - KDFC II	IBRD	20.0							
DFC - KDFC III	IBRD			20.0					
DFC - KDFC IV	IBRD					20.0			
Education I	IDA	14.8							
Education II	IDA				15.0				
Education III	IBRD						15.0		
Thermal Power I	IBRD					25.0			
Thermal Power II	IBRD						25.0		
Highway Studies	IDA	3.5							
Highways I	IBRD			25.0					
Highways II	IBRD				35.0				
Highways III	IBRD						35.0		
Railways III	IBRD		40.0						
Railways IV	IBRD					20.0			
	IBRD	65.0	40.0	53.0	53.0	65.0	75.0	5.0	276.0
	IDA	18.3	15.0	10.0	15.0	15.0	25.0	11.0	73.3
	Total	83.3	55.0	63.0	68.0	80.0	100.0	16.0	349.3
	No.	4	2	4	4	4	4	2	18

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

Mr. Williams

CONFIDENTIAL

LOAN COMMITTEE

January 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Singapore - Development Bank of Singapore Project

Attached for information is a memorandum from the Deputy Director of the East Asia and Pacific Department to the Chairman of the Committee, dated January 5, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan to the Development Bank of Singapore.

David Pearce
Secretary
Loan Committee

\- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp January 5, 1970

FROM: Mr. Douglas J. Fontein

SUBJECT: Singapore: Development Bank of Singapore Project

1. Attached for your approval is a copy of a draft Report and Recommendation of the President on a proposed Loan to The Development Bank of Singapore Limited (DBS). Also attached is a draft Loan Agreement with the DBS, a draft Guarantee Agreement with the Republic of Singapore and a draft supplemental letter on the Debt:Equity Ratio. The letter regarding Representations and External Debt are routine and are not attached.

2. Assuming we receive the necessary approvals from DBS and the Government in time, we plan to distribute the Loan and Guarantee Agreements to the Executive Directors on January 8 for consideration at their meeting of January 20.

3. The draft Appraisal Report (DB-55), recommending a Bank loan of US$10.0 million, was distributed to the Loan Committee on November 13 for consideration without meeting. During negotiations the DBS delegation requested that the loan amount be only US$5.0 million because they felt that US$10.0 million could not be committed during the next 18 months; it was hard to predict accurately the scale of DBS' growing operations, and this would be DBS' first experience in using Bank funds. The Bank's standard commitment charge made DBS reluctant to borrow more funds than it could be really sure of using in the immediate future. DBS intends to come back to the Bank for a second loan of US$10 million in due course. The delegation was told that we could give no undertaking when a second loan could be appraised and that DBS might have to wait about two years between loans.

4. The Appraisal Report had also proposed as a condition of effectiveness that arrangements satisfactory to the Bank would be made between the Government and DBS, making DBS' normal lending rate applicable to any relending of the balance of the Government loan and two Government lines of credit. We had felt it illogical for DBS to relend these funds at a subsidized rate of 7% per annum. However, it became clear during negotiations that DBS' financial stability is not at stake, particularly as the funds have been almost entirely committed and the small amounts available for relending are expected to be used up by 1970. We therefore agreed to delete this condition of effectiveness.

5. The Appraisal Report has been revised to reflect the above decrease in loan amount and deletion of condition of effectiveness. Other changes are minor. Two copies of the revised Appraisal Report are attached.

6. A report (EAP-9a) on the current economic position and prospects of Singapore was distributed to the Executive Directors on October 21. The economic section of the draft President's Report has been sent to The Economic Adviser to the President for information.

7. In the presentation to the Executive Directors we intend to comment on Singapore's industrialization policy.

8. This memorandum and the documents mentioned herein have been cleared with the other departments concerned.

9. I would appreciate your giving any comments you may have to Mr. J. Foster, extension 2273, at your earliest convenience.

c.c. Mr. McNamara
Mr. Cope
Loan Committee (no attachments)

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 5, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Ceylon - Mahaweli Ganga Development Project

Attached for information is a memorandum from the Deputy Director of the South Asia Department to the Chairman of the Committee, dated January 5, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan and credit for the Mahaweli Ganga development project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO: Mr. J. Burke Knapp January 5, 1969

FROM: Gregory B. Votaw

SUBJECT: CEYLON - Proposed Loan and Development Credit for the Mahaweli Ganga Development Project

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed loan and development credit of $14.5 million each for the Mahaweli Ganga development project, together with the draft loan and credit agreements. The only other supplemental documents are the usual external debt letter and a supplemental letter with a map defining the project area, copy attached, which I do not think it is necessary to distribute to the Board.

2. The green cover appraisal report was distributed to the Loan Committee on November 25, 1969, with our memorandum LC/O/69-103 of the same date. The main changes agreed upon in negotiations were as follows:

(a) As indicated in paragraph 8 of the November 25th memorandum, the Government proposals regarding the setting up of an organization to carry out the project differed from the information previously given to the appraisal mission. The main difference was that instead of setting up an authority having a full complement of staff to carry out the project the proposed Board would have only a few permanent staff members and that arrangements would be made for the works to be carried out largely by special units in the Irrigation and Agriculture Departments under the direction of senior staff members of the Board. This would avoid the need for seconding large numbers of staff to the Board and permit greater flexibility in making staff changes when appropriate. These arrangements were discussed thoroughly during negotiations and we consider them satisfactory to give the Board adequate authority over the departmental special units. Moreover, it was agreed that a certain number of key positions would be filled by persons seconded to the Board and that the General Manager would be given direct control over the personnel of the Irrigation Department. The legislation establishing the Board could not be enacted before the Christmas recess of Ceylon's Parliament and is now expected to be passed some time in February. Consequently, its enactment, as well as the establishment of an adequate organizational structure for the Board and the appointment of key staff, have been made conditions of effectiveness as was in any case envisaged in the green cover report.

(b) The green cover appraisal report proposed that for minor civil works Bank/IDA would finance the direct import of equipment, materials and other items necessary for the purpose. The procurement arrangements agreed upon are set out in schedule 3 to the development credit agreement. They provide for a 15% preference for local manufacturers. This preference is expected to apply to some vehicles for a total amount unlikely to exceed $100,000. Ceylon's customs tariff system provides for Commonwealth preferences. The procurement schedule acknowledges this and provides for a bid evaluation procedure in two rounds; first to determine the lowest foreign bid including duties, and second to determine the lowest bid. I should also point out that, as stated in the Loan Committee memorandum, all bids would be evaluated at the FEEC rate which now applies to such imports even of Government departments. During negotiations the Ceylonese delegation pointed out that some of the civil works, for which no international competition is expected, will be awarded to local contractors after local bidding. This was agreed and to simplify the disbursement procedures a percentage representing the estimated foreign exchange component has now been adopted for disbursement purposes.

3. Arrangements for disbursing the IDA credit first were further discussed with representatives of Legal and Controller's departments and have been agreed upon whereby only interest and commitment charges will be disbursed from the Bank loan until the credit has been fully disbursed even if commitments (other than irrevocable ones) were given by the Bank.

4. The final cost estimates furnished during negotiations have remained in line with the preliminary estimates contained in the green cover appraisal report. The total cost of the project is estimated at $50 million, of which the foreign exchange component would be $29 million. A new table (Annex 13) has been added which translates the foreign exchange component into rupees at the FEEC rate. This does not affect the estimated economic return since the higher FEEC rate had already been taken into account in the calculation.

5. A suitable theme for Board presentation would be to outline the basic concept of the Mahaweli Ganga Development Project and its significance for the future economic development of Ceylon.

6. This memorandum and the attached papers have been cleared with the departments concerned. The economic section of the draft President's Report has been cleared with Ben King. This section outlines the main conclusions of the economic report presently under preparation. Although the economic report is expected to be distributed towards the end of January, I do not think it necessary to await its circulation before presenting this project to the Board.

7. I would be grateful is you could give your comments on the attached documents to Mr. Roulet, Extension 2495, so that they can be distributed to the Executive Directors, if feasible, for a meeting on January 20th.

Attachments

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