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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Sixth Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 6, 1970 from the South America Department, entitled "Colombia - Proposed Loan for Sixth Highway Project" (LC/0/70-23). The map for the appraisal report has not been completed as yet and will be incorporated in a later edition.

2. Comments, if any, should be sent to reach Mr. Flood (ext. 2191) by 5:00 p.m. on Tuesday, March 10.

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

Henry G. Hilken
Secretary's Department

- 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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Directors, other Departments
Special Adviser to the President
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Vice President (IFC)

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LC/O/70-23 SEP 09 2014

March 6, 1970 WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the South America Department

COLOMBIA: Proposed Loan for Sixth Highway Project

1. Attached is the draft Appraisal Report No. PTR-44, recommending a Bank loan of US$32 million to the Republic of Colombia to help finance a sixth highway project.

2. The proposed loan would be the fourth made to Colombia as part of the current year's lending program, which comprises loans for eight projects. (See the attached copy of the five-year lending program.) The Cali, Bucaramanga, and Palmira projects were originally conceived in the lending program as a single loan package for a Medium-Sized Cities Water Supply Project but will now be treated as separate loans for each city, namely, $18.5 million for Cali, $7 million for Bucaramanga and $2 million for Palmira. These loans and a proposed $52 million loan for the Chivor I Hydro Project all will be submitted to the Loan Committee shortly.

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 October to review performance, particularly in the key areas of fiscal policy, export diversification and public utility tariff policy. The Economic Report (No. WH 197a of February 10, 1970) which resulted from that mission shows that central government fiscal performance in 1969 was slightly below target but prospects for 1970 are that targets for this 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 toward employing the concept of a rate of return on currently revalued assets, and we propose to keep the matter under continuing review.

4. Five Bank loans and one IDA Credit totalling $103.55 million have been made for highway development in Colombia. The objective of these loans has been, initially, to create a viable national highway network and, subsequently, to upgrade and expand the network and to improve its maintenance. The proposed loan would finance: (1) the paving of approximately 1,600 kms of highway (representing an increase of over 30 per cent in the paved portion of Colombia's national highway

network); (2) the construction of a major bridge across the river at Barranquilla, (3) the upgrading of 9.5 kms. of highway between el Pailon and Buenaventura and (4) consulting services for the supervision of the paving and construction work. The amount of the proposed loan was raised from $28 million to $32 million following a review, during field appraisal, of the cost estimates of the various elements of the project.

5. The draft Appraisal Report recommends (paragraphs 2.20 and 6.01(i)) that the Bank should decide its position with respect to unification of the petroleum exchange rate after reviewing the findings of the economic mission now in Colombia, and that if it is decided to require a commitment on this subject, it should be obtained as part of the negotiations of the highway loan. Since preparation of the draft Appraisal Report, South America and Transportation Projects Departments have agreed that we should obtain during the general economic policy discussions currently in progress in Colombia the following commitment on rate unification:

> The Government intends to initiate in 1970 the process of adjusting the exchange rate applicable to the purchase of crude petroleum for internal refining with a view to increasing this rate to the level of that in the exchange market as soon as possible, in order to avoid the increasing cost due to the ever widening spread between the two rates.

In the event that we are unable to obtain such commitment during the discussions, we recommend that we advise the Government of Colombia that we will be able to go forward with the FY-1971 lending program only when such commitment is obtained (or the measure is taken).

6. The financing of local currency expenditures would be limited, as explained in the Appraisal Report (paragraph 4.16) to about $800,000 representing a portion of the costs of local consultants expected to be employed by the Borrower on the Project. I assume that the justification for this kind of financing of local currency expenditures, namely that it will permit us to finance a reasonable share (50 percent) of the costs of the consultants who will supervise construction of the Bank-financed paving and construction work, will create no major problem.

7. The Colombian Government is eager to invite bids for the entire paving program as soon as possible, and while we have not yet received a precise bidding schedule, close to one-half of the paving contracts and the contract for the Barranquilla Bridge may be awarded before the loan is presented to the Executive Directors. It appears unlikely, however, that any expenditures will be incurred on any of these contracts before signature of the loan agreement. South America and Transportation Projects Departments agree that we should be prepared to finance such contracts, provided, of course, that they have been awarded following procedures acceptable to the Bank.

Recommendation

8. I recommend that the Bank commence negotiations of a loan of US$32 million to the Republic of Colombia on the terms and conditions set forth in the Appraisal Report suitably modified to take into account the recommendation described in paragraph 5 above.

Gerald Alter
Director

Attachment.

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

	1966	1967	1968	1969	Total through FY 1969	1970	1971	1972	1973	1974	1975	Total FY 1970 to 1975
AGRICULTURE	1/16.7	1/9.0		1/17.0	5/52.7							7/74.5
Livestock II						18.3						
Livestock III								15.0				
Livestock IV										15.0		
Land Settlement I							5.0					
Atlantico Irrigation II							1.2					
Cesar Irrigation I								10.0				
Cesar Irrigation II											10.0	
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							2/67.0
Chivor I Hydro						52.0						
Interconnection Hydro									15.0			
TRANSPORTATION				2/35.5	10/198.2							4/89.0
Highways VI						32.0						
Highways VII								27.0				
Highways VIII										20.0		
Railways VI								10.0				
WATER SUPPLY AND SEWERAGE			1/14.0		1/14.0							6/97.5
Medium-sized Cities I (Cali)						18.5						
Medium-sized Cities II (Bucaramanga)						7.0						
Medium-sized Cities III (Palmira)						2.0						
Medium-sized Cities IV								20.0				
Medium-sized Cities V										25.0		
Bogota II									25.0			
DEVELOPMENT FINANCE COMPANIES	1/25.0		1/12.5	1/25.0	3/62.5							4/95.0
DFC IV (public)						5.0						
DFC V (private and public)							30.0					
DFC VI (private and public)									30.0			
DFC VII (private and public)											30.0	
INDUSTRIES AND MINING					1/30.0							
TELECOMMUNICATIONS		1/16.0			1/16.0							1/7.0
Telecommunications II							7.0					
UNALLOCATED								19.0	10.0	20.0	30.0	4/79.0
TOTAL	41.7	25.0	44.5	103.1	39/622.8	141.3	43.2	101.0	90.0	80.0	80.0	31/535.5
(of which IDA)					(1/19.5)							

South America Department
February 24, 1970.

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

March 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Nigeria - Nigerian Industrial Development Bank (NIDB)

1. The Committee is requested to consider, without meeting, the attached memorandum of March 6, 1970 from the Western Africa Department, entitled "Nigeria - Proposed Loan to the Nigerian Industrial Development Bank, Ltd.,"(LC/0/70-24).

2. Comments, if any, should be sent to reach Mr. Osgood (ext. 4524) by 10:00 a.m. on Wednesday, March 11.

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

Henry G. Hilken
Secretary's Department

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Committee:

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

CONFIDENTIAL

LC/O/70-24

March 6, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

Nigeria - Proposed Loan to the Nigerian Industrial Development Bank, Ltd

Background

1. The attached report "Appraisal of the Nigerian Industrial Development Bank, Ltd," dated February 26, 1970, recommends a second loan to the Nigerian Industrial Development Bank, Ltd (NIDB) to cover its needs for foreign exchange commitments through 1972. This report was prepared by a Development Finance Companies Department mission that visited Nigeria in November, 1969.

2. IFC took the lead in promoting the establishment of NIDB in January 1964 and has subscribed £N 0.5 million ($1.4 million), or 25 percent of NIDB's ordinary share capital. Since NIDB's establishment IFC has been represented on the Board, first, by Mr. J.G. Beevor, and, since June of 1967, by Dr. Ali Akbar Khosropur.

3. An agreement for a Bank loan of $6.0 million was first negotiated with NIDB and the Federal Government of Nigeria in early 1966, but, because of the unsettled political conditions in the country at that time, this loan was not made until March 5, 1969, following a further appraisal in late 1968. This loan, intended to cover NIDB's foreign exchange requirements through 1970, is being committed more rapidly than anticipated and it now appears that it may be fully committed by September.

4. In the negotiation of its first loan from the Bank, NIDB agreed to employ an adviser. This position was recently filled by Mr. Ziaur Rahman Ahmed, until recently Deputy Managing Director of the Industrial Development Bank of Pakistan and now a staff member of the Bank, who has been seconded to NIDB for a two-year period. Further, in view of various uncertainties regarding NIDB's management at the time the first loan was made, the crediting of the second half of the loan was made subject to a review of NIDB's situation in late 1969. This review, undertaken by the DFC Department mission last fall, was favorable and the balance of the loan was declared available for crediting to the Loan Account on December 22, 1969

The Economy

5. The most recent Bank report on economic conditions in Nigeria, "Interim Report on Nigeria's Economic Position and Prospects" (AW-10a), dated September 8, 1969, was circulated to the Executive Directors on September 15, 1969. A December, 1969, updating mission concurred with the conclusions of the Interim Report.

6. The civil war in Nigeria ended without significant damage to the country's long term productive capacity. Because of its vast natural resources and extensive, although largely untrained, manpower reserves, Nigeria's future economic prospects are very promising. If there are no further major political disturbances, Nigeria should soon become one of the world's eight largest oil exporters. The prospects for expanded exports of agricultural commodities are also favorable. As a result of higher producer prices now being offered by the marketing boards and the introduction of improved production techniques, output of cocoa is expected to increase substantially. Although Nigeria has accumulated a significant payments backlog on account of non-military imports (equivalent to two months' imports as of November 1969) and remittances of profits and dividends, the country apparently managed to pay the bulk of the foreign exchange cost of the war from current earnings, and did not resort to long-term foreign borrowing to finance military imports. External public debt outstanding actually declined in 1969. In view of the favorable outlook for export earnings - especially those associated with petroleum - and the country's presently low debt service ratio (approximately 6 percent), Nigeria is now in a position to borrow substantial amounts abroad on conventional terms.

7. The Bank's last economic report on Nigeria discussed economic developments through December 1968 and concluded that the Nigerian economy - outside the Eastern States - had shown remarkable resilience in absorbing the strains of the war. The Bank mission in December found that during 1969 these strains had become more evident. The impact of the war differed from sector to sector and was most pronounced in its direct or indirect effects on the balance of payments, government finances, and domestic prices. Although there are no figures for GNP in 1968/69, the limited information available suggests that real output in those areas not directly affected by the hostilities may have increased modestly during the past year. Petroleum production and manufacturing output recorded substantial gains. Production of domestically consumed foodstuffs may have also increased, but not as rapidly as domestic demand.

8. Nigeria's balance of payments position deteriorated somewhat further during 1969. Gross official reserves were maintained at the level of approximately £N 40 million to which they had sunk in late 1967, but short-term trade credits rose significantly. Thus, the country's net foreign exchange position declined from £N 30 million to £N 18 million or to the equivalent of only one month's imports.

9. Government (Federal and State) current revenues were virtually unchanged in 1969 from the previous year's level of £N 159 million, but combined recurrent expenditure rose by 30 percent to £N 228, thus leading to a fourfold increase in the government current account deficit. Government investment expenditures were cut back more than 25 percent to £N 36 million in 1969. The overall deficit rose nearly £N 40 million to £N 116 million and was, for the most part, financed through sales of Treasury bills and certificates -

principally to the commercial banks. Commercial bank lending to the private sector actually declined, reflecting the embargo on remittances of investment income and lack of adequate investment opportunities. Thus, the banks continued in a very liquid position, and money supply increased only moderately.

10. The past year's deficit financing may foreshadow an even more inflationary situation than that prevailing in 1969. The 11 percent rise in the consumer price index which occurred during the year ending September 1969 was, however, a specific sectoral problem, not directly related to monetary developments. Higher prices for domestically produced food was the principal element affecting the consumer price index. Despite some increase in domestic food production, distribution difficulties, coupled with increased purchases by the Armed Forces, the government's obligation to feed civilians in recaptured areas and the scarcity of imported foods, resulted in sharply rising prices.

11. Although there was apparently little actual damage to the oil fields and installations, petroleum companies, worried about the safety of their personnel, suspended some of their operations and, consequently, petroleum production did not increase as much in 1969 as the Bank's 1968 mission anticipated. Petroleum exports rose from £N 37 million in 1968 to £N 133 million in 1969; net foreign exchange receipts from petroleum, including new investment from abroad, amounted to £N 69 million last year, compared to £N 28 million in 1968. Production has expanded rapidly in the weeks since the end of the civil war reaching some 800,000 barrels per day in February 1970, and it is expected to exceed the 1 million barrels per day mark before mid-1970, thus tending to confirm earlier industry projections of an average rate of 1 million barrels per day (50 million tons annually) this year.

12. In the immediate postwar period, the government must deal with the threatening inflationary situation and provide relief to the war-affected areas. Foreign governments and international agencies have offered relief assistance. The Federal authorities have, however, assumed the main responsibility for the relief effort. This means that for some time resources released by the military are likely to be absorbed by the relief program rather than transferred to development purposes. The government is unlikely soon to relax import restrictions significantly in view of anticipated continuing pressure on the balance of payments and the need for protection of import substitution industries developed during the war.

13. Fortunately, Nigeria's longer-term prospects for increasing foreign exchange earnings and government current revenues are bright, due primarily to the favorable outlook for petroleum receipts. A renewed inflow of private investment and foreign aid may also be prudently anticipated. Nigeria emerged from civil war with a low and favorably structured external public debt. To satisfy the demands of reconstruction and orderly development during the next few years,

however, substantial - but presently undetermined - foreign resources will be required to supplement Nigeria's own effort. Immediate rehabilitation requirements are likely to impose new strains on the balance of payments even as export earnings begin to rise. An increase in Bank lending to Nigeria, as proposed in the Country Program Paper, will help to assure the success of the country's reconstruction and development program.

The Project

14. NIDB provides and guarantees long-term loans and invests in equity capital. Its subsidiary, Icon Securities Limited (ICONSEC), places and underwrites new issues of securities. During the past year NIDB further improved its organization - particularly in regard to the processing of projects - despite some setbacks due to the departure of certain senior personnel. Further strengthening is needed in project supervision and much improvement is called for in the area of administration and accounting. These problems are, however, solvable and the recent arrival of an adviser improves the outlook in this respect. The appointment of a Deputy General Manager within the next year or so - while the Bank adviser is still available to assist with his training - must be given priority by NIDB's management.

15. Although the company's financing of indigenous enterprises is not unsubstantial (about one-third of its total portfolio), NIDB is criticized for not doing enough on behalf of Nigerian entrepreneurs. Large numbers of indigenous businessmen can be reached only through a program of assistance to small industry. NIDB has submitted proposals to the Government in this regard. The Bank should support NIDB's and the Government's efforts in this area and the proposed economic mission to Nigeria in April will study the situation and explore ways in which the Bank might help.

16. Critics of NIDB have contrasted NIDB's recent approvals of several projects sponsored by a resident foreign family group with the level of its assistance to Nigerians. During negotiations NIDB should be encouraged to consider amending its Statement of Policies to provide a limit on its commitments to any single group of enterprises which are closely linked by common ownership and/or management. Although there is no guarantee that establishing such a limit will effectively prevent concentration on closely related groups, public knowledge of this policy change may serve to allay criticism.

17. NIDB must also improve the appraisal standards it employs in assessing the long range competitiveness and economic merit of its clients' projects. This is necessary if NIDB is not to finance projects which depend upon excessively protective arrangements for their economic viability. During negotiations we shall emphasize to the Nigerians the Bank's objectives in this regard and, as a minimum, require that the evaluation of each project include an assessment of the protective measures pertaining to it and their impact on the long-term viability of the proposed operation.

18. As of November 30, 1969, NIDB's total resources amounted to almost £N 9.00 million made up of £N 2.25 million share capital, £N 4.00 million Government Loans, £N 2.14 million Bank Loan and £N 0.60 million reserves including retained earnings.

19. Despite the civil war, NIDB's operations have expanded substantially since 1968, reflecting practically undisturbed economic conditions in the areas not immediately affected by hostilities. Largely as a result of import substitution activities which began on a major scale in 1968 and progress towards backward integration of the textile industry which began later, and the subsequent availability of foreign exchange resources as a result of the first Bank loan, NIDB's business increased rapidly during the past two years. Gross approvals in 1969 amounted to £N 2.4 million, over three times the volume in 1968. Although this was a very substantial expansion, NIDB's business volume is still quite modest for an economy of Nigeria's size.

20. Although NIDB had no financial expenses until 1969, its profitability has been low from the beginning, largely because of high administrative costs, and because of a high proportion of equity investments which have not begun paying off and of liquid assets on which current returns are low. However, profitability has improved in the past three years.

21. The company's financial position has also improved considerably during the past year. Its portfolio does, however, contain several investments in difficulties - some situated in the former war zone, and others elsewhere suffering from start-up problems. NIDB has large reserves (almost £N 600,000, equivalent to 18 percent of its portfolio as of September 30, 1969) which appear fully adequate to absorb any losses that can be foreseen. For the purpose of this evaluation the Mission has conservatively estimated a much higher level of potential losses (£N 260,000, including those on ICONSEC's portfolio) than that currently anticipated by NIDB itself.

22. ICONSEC has had virtually no activity since before the outbreak of the civil war, and has suffered losses continuously since 1966, largely due to the depreciation of its investments in Eastern Nigeria and the reduced volume of underwriting business. As of September 30, 1969, 65 percent of the organization's investments were in the East, so that some further substantial write-offs, as suggested above, may still be necessary. ICONSEC's future role and function remain to be clarified.

23. NIDB is entering the postwar period with considerable momentum and a well-stocked project pipeline. The return of peace to Nigeria and the ensuing government recovery program should provide a further strong stimulus to economic activity in the private sector. NIDB faces this period in Nigeria's development as the only national institution active in the field of industrial development financing and is in a strong position to meet the likely future demand for industrial investment.

24. NIDB's approvals in the period 1970-72 are likely to total about £N 6.9 million; commitments should be almost equal. The foreign exchange component of this financing is estimated at £N 4.3 million

equivalent, of which £N 1.35 million, sufficient to cover needs through September 1970, is available under the existing Bank loan. This leaves a foreign exchange gap of approximately £N 3 million or $8.3 million. (NIDB has adequate local currency resources to meet its requirements during this period.) In view of the conservatism of the assumptions employed in these estimates, the Report recommends a loan of up to $10 million. However, given the possibility that in the next year or two NIDB may obtain additional assistance from sources such as Kreditanstalt and the African Development Bank with which it has initiated discussions and the desirability of not going beyond NIDB's clearly estimated requirements for the two-year period following full commitment of the present loan, I recommend that the amount of the proposed loan be $8 million. The Development Finance Companies Department agrees with this modification.

Issues for Consideration

25. During negotiations the following topics will be discussed with representatives of NIDB:

a) Improvements needed in NIDB's project supervision, administrative and accounting work;

b) Review of ICONSEC's future role and the appointment of a full-time director;

c) Appraisal standards to be used by NIDB to avoid financing clients relying on unduly protective arrangements for the viability of their projects;

d) Inclusion in NIDB's Statement of Policies of a limit on assistance to any single group of interlocked enterprises; and

e) Prospects for the appointment of a Deputy General Manager.

26. As a basis for the negotiations the Bank will advise the NIDB representatives that it intends to:

a) Continue to require prior approval of each project using $100,000 or more of the proceeds of the proposed loan;

b) Limit aggregate commitments by NIDB within the "free limit" to not more than one-fourth of the total loan amount; and

c) Reiterate in the new agreement the provisions of Section 5.02 of the first loan agreement regarding NIDB's employment of an adviser to its General Manager.

NIDB will also be informed that the proposed second loan is to be substantially on the terms and conditions now generally applicable to Bank loans to established development finance companies, i.e., that the NIDB no longer qualifies for concessionary terms with respect to the Commitment Charge.

Prospective Operations

26. The Bank has made nine loans and two credits to Nigeria totaling $252 million. Apart from the current NIDB project originally scheduled for $10 million in FY 1971, the attached Five-Year Lending Program is the one prepared prior to the conclusion of the civil war, when neither the duration of the war nor the nature of the eventual political settlement could be clearly foreseen. The Lending Program anticipated a substantial expansion of Bank activities and was drawn up in terms of projects which we believed would be of high priority regardless of the outcome of the hostilities then in progress.

27. The Nigerian authorities are currently preparing a four-year reconstruction and development plan. The end of the war provides an opportunity for the Bank to re-examine its Lending Program in Nigeria with a view toward helping the country both to meet its reconstruction needs and to resume its long-term development drive. Currently, a mission is visiting the Western State to appraise a cocoa project and a pre-appraisal mission is examining various proposals emanating from a Road Transport Survey of the Northern States and Western State. In early March several senior Bank staff met with Nigerian officials in Lagos for the first round of talks to explore ways in which the Bank might best assist Nigeria with its rehabilitation problems. An economic mission is scheduled to visit Nigeria about mid-April.

Recommendation

28. I recommend that the NIDB and the Federal Government of Nigeria be invited to send representatives to Washington to negotiate a loan of $8 million equivalent, on the terms and conditions outlined in paragraphs 25 and 26 which are in accord with paragraphs 74 and 75 of the Appraisal Report.

Bruce M. Cheek
Deputy Director

Population 54.0 million
Per capita GDP $90

NIGERIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year							
		1970	1971	1972	1973	1974	1975	1964/68	1969-73
Cocoa and Oil Palm	IBRD		17.0						
Rubber and Cocoa	IBRD			10.0					
Livestock	IBRD			20.0					
Agricultural Credit/ Fisheries	IBRD				5.0				
Agriculture Unidentified	IBRD					15.0			
DFC-NIDB II	IBRD	8.0							
DFC-NIDB III	IBRD				10.0				
Education II	IBRD				20.0				
Power - ECN II	IBRD		15.0						
Power - ECN III	IBRD			18.0					
Power - ECN IV	IBRD					20.0			
Power - NDA II	IBRD		11.0						
Power - NDA III	IBRD				8.0				
Lagos-Ilorin Road	IBRD	10.6							
Western Roads	IBRD		13.0						
Roads - North & East	IBRD		25.0						
Transp. Unidentified	IBRD			25.0					
Transp. Unidentified	IBRD				25.0				
Transp. Unidentified	IBRD					20.0			
Unallocated	IBRD						65.0		
	IBRD	18.6	81.0	73.0	68.0	55.0	65.0	144.0	263.1
	IDA							35.5	
	Total	18.6	81.0	73.0	68.0	55.0	65.0	179.5	263.1
IBRD Loans Outstanding		205.9	283.5	349.7	410.4	457.6	514.3		

October 21, 1969

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Yugoslavia - Fourth Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 6, 1970 from the Europe, Middle East and North Africa Department, entitled "Yugoslavia - Fourth Highway Project" (LC/O/70-22).

2. Comments, if any, should be sent to reach Mr. Gregory (ext. 4804) by 5:00 p.m. on Tuesday, March 10.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/70-22

March 6, 1970

LOAN COMMITTEE

Memorandum from Eur ope, Middle East and North Africa Department

YUGOSLAVIA: Fourth Highway Project

1. Attached is a draft report "Yugoslavia - Appraisal of a Fourth Highway Project" concerning a proposed loan of $40 million to the Yugoslav Government to assist in financing the construction of six highway sections in the Republics of Bosnia-Hercegovina, Montenegro, and Serbia, and in the Autonomous Provinces of Kosovo and Vojvodina.

Background

2. The proposed loan would be the Bank's sixteenth operation in Yugoslavia and would bring the amount of Bank lending to $475.7 million. In the current fiscal year two loans have so far been made, one of $18.5 million for industrial projects, and one of $40 million for a telecommunications project. The present project would be the last Bank operation in this fiscal year. The lending program for Yugoslavia for 1971-75 has been revised in connection with the preparation of the Country Program Paper, which was reviewed by Mr. McNamara on February 27. The revised program is attached.

The Economy

3. The state of the economy was summarized in the memorandum regarding the third loan for industrial projects, circulated to the Committee on December 3, 1969 (LC/O/69-106). The report of the economic mission which visited Yugoslavia in October/November was distributed on February 27.

The Project

4. The proposed project is the second tranche of a program of highway construction submitted by the Federal Government for Bank financing in November 1968. This program was examined by the Bank mission which appraised the Third Highway Project (first tranche of the present program) late in 1968. The mission concluded that the road sections in the program were of high economic priority and could form a suitable basis for Bank lending in the highway sector. A loan of $30 million for the Third Highway Project was made in June 1969. The present project consists of the construction of six two-lane sections of four highways

which were included in the project because of their economic priority and advanced stage of preparation. The remaining sections of the program (third tranche), which are now being studied for feasibility, are expected to constitute a proposed Fifth Highway Project scheduled for FY 1971.

5. The six project sections are located in three Republics: Bosnia-Hercegovina, Montenegro, and Serbia, and in the Autonomous Provinces of Kosovo and Vojvodina. Each project section is part of a major highway. The section in Bosnia-Hercegovina, Zenica-Sarajevo, would be the first stage of a planned four-lane expressway linking the Central and Adriatic Highways, both of which were improved with Bank finance (Loan 344-YU of 1963). The section in Montenegro, Bar-Ulcinj, would be an extension of the Adriatic Highway. It would replace an inadequate road and help the development of an attractive tourist area. The Belgrade-Novi Sad section, located mainly in the Autonomous Province of Vojvodina and partly in Serbia, would be part of the international highway London-Istanbul (E-5). The three remaining project sections, located mostly in the Autonomous Province of Kosovo and partly in the Republic of Serbia, would complete the upgrading of the Pec-Pristina-Nis road to higher standards. In total, the project works comprise the construction of 225 km. of new or improved two-lane roads with paved surfaces.

6. The total cost of the project is estimated at $97.5 million, excluding expenditures for right-of-way and project preparation. The proposed investments in the individual road sections yield rates of return ranging from 14% to 30%. All contracts would be awarded on the basis of international competitive bidding. Depending on whether local or foreign contractors would carry out the construction and the extent to which imported equipment would be used, the foreign exchange component would be between 10% and 40%. Since foreign contractors have shown a growing interest in the earlier Bank-financed highway projects and as construction contracts are of a size that should be attractive to them, it is possible that foreign bidders might be awarded about one third of the project works. In that case the foreign exchange component of the project cost would be about 25%.

7. The city authorities of Belgrade and Novi Sad must still make final decisions with respect to the access roads to the Belgrade-Novi Sad expressway. If during negotiations no satisfactory assurances are obtained regarding these access roads and the related work programs and time schedules, the entire expressway would be eliminated from the project, thus reducing the total cost of the project by about $32 million equivalent and the amount of the loan by $13 million to $27 million.

8. The lending arrangements for the proposed loan would be identical to those under the Third Highway Project. The Bank would enter into a Loan Agreement with the Federal Government, which would make the proceeds of the loan available to the Republics and Autonomous Provinces by way of subsidiary loan agreements satisfactory to the Bank.

9. As pointed out in the Appraisal Report (cf. paragraphs 2.03 - 2.14), the decentralization of the highway administration in October 1967 resulted in a number of problems with respect to policy coordination, allocation of resources for maintenance and investment planning. These problems were reviewed during the appraisal and negotiation of the Third Highway Project, and an understanding was reached with the Yugoslav authorities on the need and measures for improvement. The mission appraising the present project noted that reasonable progress had been made in implementing the various measures that had been agreed upon. We will continue to follow the developments in this field closely. Since the roads to be financed under the present project are located in the Republics and Autonomous Provinces which did not benefit from the previous loan, the undertakings to be included in the loan documents, taken together with those for the Third Highway Project, will now cover the whole country and therefore facilitate their country-wide implementation.

10. The attention of the Committee is drawn to the following matters:

11. Local currency financing: The proposed loan of $40 million would represent about 41% of the estimated total cost of the project eligible for Bank financing. It would roughly correspond to the estimated foreign exchange expenditures if all contracts were awarded to foreign contractors using their own equipment. However, this is not likely to be the case and the loan would, therefore, finance a proportion of local costs.

12. All Bank loans for infrastructure projects in Yugoslavia have so far included some local currency financing. I believe it is justified to continue such financing in appropriate cases. As pointed out in the last economic report, investment in infrastructure has high priority. However, the foreign exchange component of infrastructure projects is generally rather low in Yugoslavia, since domestic contractors are becoming increasingly competitive and have often been successful in international competitive bidding. For the Bank to make a meaningful contribution to the financing of infrastructure investment through meeting foreign exchange expenditures only, would therefore imply the processing of a large number of projects. Infrastructure financing can thus be most efficiently provided by including some local currency expenditures.

13. In the case of the present project, a substantial Bank contribution is particularly justified, since most of the road sections included in the project are located in regions which lag considerably behind in economic development. These Republics and Autonomous Provinces have more difficulties in mobilizing the additional resources required for the project than the more developed Republics which benefitted from the Third Highway Project. Under that project, the Bank's participation amounted also to about 40% of total project cost and included local currency financing.

14. Use of surplus funds: The Appraisal Report proposes full disbursement of the loan (para. 3.17). However, I recommend cancellation of any surplus funds, to be consistent with the arrangement under the Third Highway Project. The Project's Department has no objection and the Appraisal Report (para. 3.17) will be changed accordingly.

15. Grace period: The Appraisal Report recommends, on project grounds, a loan for 25 years including a grace period of four years. I propose a lengthening of the grace period to five years on country grounds. Yugoslavia's debt service burden in convertible currency is heavy during the next few years and a longer grace period would contribute to easing this burden during the most difficult period. A grace period of five years was also accorded under the Second and Third Highway Projects, which on project grounds would have had grace periods of respectively three and three and a half years.

16. Timing of Board Presentation: Under the present timetable the project is scheduled to be presented to the Executive Directors in April 1970. However, I believe that we should not proceed with the presentation if a satisfactory solution is not found in the next few weeks for the problems which have arisen in connection with the railway project financed in 1964. The execution of that project (Loan 395-YU of $70 million, made in December 1964), which involves a modernization program of main lines, has been unsatisfactory and completion is not expected until three years after the present Closing Date of March 31, 1970. The delay in the railway project has occurred because the major part of the work started one to three years later than expected, due to delays in engineering, preparation of tender documents and bidding, partly as a result of the devaluation of the dinar in 1965, and because of severe shortages of local funds which were aggravated by cost increases. The Yugoslav authorities requested the Bank late in 1969 to postpone by three years the original Closing Date of December 31, 1969. We informed the Yugoslavs that the Bank could not consider the request unless a specific plan of action, satisfactory to the Bank, had been established to improve the financial situation of the railways, thus ensuring the execution of the modernization program and related works without further delays. The Bank would have to receive firm evidence that the necessary financial resources had been secured. In order to allow the Yugoslavs time to take the necessary action, the Closing Date was postponed to March 31, 1970 as an interim measure. We also informed the Yugoslav authorities that the timing of the presentation of the road project might be affected by delay on their part in submitting a plan to remedy the situation of the railways.

17. We have recently received the plan of action, and while there are still a number of points to be clarified, it is evident that the Yugoslav authorities are taking the action required. A mission is now visiting Yugoslavia to clarify the remaining issues and to ensure that the local resources will be made available. On this basis, I believe we can now invite the Yugoslavs for negotiations on the highway project; however, presentation to the Executive Directors would have to await full agreement on the measures to be taken for the railways.

Recommendation

18. I recommend that the Socialist Federal Republic of Yugoslavia be informed that the Bank is prepared to negotiate a loan for the Fourth Highway Project, along the lines and on such conditions as proposed in Chapter 5 of the Appraisal Report and in this memorandum, in an amount of up to US $40 million and for a term of 25 years including a five-year grace period.

M. P. Benjenk
Director
Europe, Middle East and North Africa
Department

Attachment

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 5, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Karnafuli and Muhuri Irrigation Projects

1. The Committee is requested to consider, without meeting, the attached memorandum of March 5, 1970 from the South Asia Department, entitled "Pakistan - Engineering Services for the Karnafuli and Muhuri Irrigation Projects" (LC/0/70-21).

2. Comments, if any, should be sent to reach Mr. McCulloch (ext. 2113) by 5:00 p.m. on Tuesday, March 10.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LC/0/70-21

March 5, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Engineering Services for the Karnafuli and Muhuri Irrigation Projects

1. Attached for consideration of the Committee is an Appraisal Report, "Engineering Services for the Karnafuli and Muhuri Irrigation Projects" (PS-1), dated February 19, 1970. The report recommends that an IDA credit be made to Pakistan to finance the foreign exchange cost of consulting engineering services, estimated at US $2.5 million. The precise amount would be determined during negotiations with the consultants, and a firm price proposal from the consultants would be a condition of presenting the credit to the Executive Directors for their consideration. The local cost of the engineering services would be about US $1.4 million equivalent and would be financed by the Government of East Pakistan through East Pakistan Water and Power Development Authority (EPWAPDA).

2. There have been twenty-nine IDA credits to Pakistan totalling about US $399 million, net of cancellations. It is expected that other credits, totalling about US $50 million, will be recommended for approval before the end of the current fiscal year, and that a substantial proportion will be used for projects in East Pakistan.1/ The Bank has made thirty loans in Pakistan for an aggregate amount, net of cancellations, of about US $614 million.

3. The last comprehensive Report on the Current Economic Position and Prospects of Pakistan (SA-4a) is dated April 18, 1969. The social and political unrest in Pakistan in 1969 has caused both the Government of Pakistan and external donors to re-examine Pakistan's economic policies and objectives. In the Country Program Paper, dated January 28, 1970, it is noted that, although Pakistan's economic performance in 1969 had been uneven, the economy had grown by 5.8% per annum during the Third Plan (1965/66-1969/70) taken as a whole despite difficult conditions. In industry, under-utilization of capacity and serious price distortions have developed, in part due to government policies designed to cope with reduced foreign currency availability. The Government is now re-examining its industrial policy with the assistance of the recommendations of the Bank's Industrial Policy Mission. In view of Pakistan's good record in dealing with major issues of economic policy, there is reason to believe that appropriate changes in industrial policy will be introduced. In agriculture there has been a significant breakthrough in wheat and rice production in West Pakistan, but much less progress has been made in East Pakistan. A major issue in Pakistan is the increasing disparity in income growth between East and West Pakistan. The Bank/IDA Program assumes that in the next few years, greater priority will be given to the needs of East Pakistan, where the most urgent requirement is to

1/ An amount of US $74 million is presently earmarked for IDA lending to Pakistan in FY 1970; projects somewhat in excess of this amount are expected to be ready for financing before June 30, including $33 million to be used for projects in East Pakistan.

raise agricultural production. One-third of total Bank/IDA Lending Program for FY 1971-1975 is therefore earmarked for agricultural projects in the East.

4. Water development is vital to the predominantly agricultural economy of East Pakistan. Most of the Province lies in a broad flat delta, and during the monsoon season heavy rainfall and floods cause extensive damage and seriously reduce crop yields. During the dry season, there is little rainfall and approximately 60% of the cultivated land is left fallow because of insufficient water. Although the economy of the Province is predominantly agricultural, production is not increasing as fast as population, and imports of foodgrains, especially rice, have been steadily increasing.

5. The Association has made three credits for water development projects in East Pakistan: Credit No. 11-PAK (US $1 million) for the Dacca-Demra Project in 1961, Credit No. 39-PAK (US $5 million) for the Brahmaputra Embankment Project in 1963, and Credit No. 40-PAK for the first Chandpur Project in 1963 (initially US $9 million, subsequently reduced to about $5 million). We expect to negotiate shortly a US $13 million credit to carry out a redesigned Chandpur project. The Association has also made two credits to help finance consultants in East Pakistan: one was Credit No. 136-PAK (US $2 million) for general consultants to East Pakistan Water and Power Development Authority (EPWAPDA); and the other, Credit No. S-8 PAK (US $0.8 million), for the Dacca Southwest Irrigation-Engineering Project. The proposed credit would finance consulting services for the Karnafuli and the Muhuri Irrigation projects and the Dakatia-Muhuri water transfer scheme.

Karnafuli Irrigation Project

6. The Karnafuli Irrigation Project consists of two sub-projects: the Halda sub-project would provide flood prevention and drainage in a gross area of 131,500 acres and irrigation in a net area of 55,000 acres; and the Ichamati sub-project would provide flood prevention and drainage in a gross area of 16,000 acres and irrigation in a net area of 11,800 acres.

7. A feasibility study of the Karnafuli project, completed in May 1968, provides an adequate basis for estimating project costs. The Bank, working on comparable projects in East Pakistan, has assessed the likely benefits from the project and is satisfied that they would provide a satisfactory economic justification. The May 1968 report is, however, incomplete with respect to (a) drainage facilities, (b) improved methods of irrigation distribution, (c) project organization, and (d) the extent to which construction and operating and maintenance costs can be recovered from the farmers.

8. US $1,170,000 is earmarked for the Karnafuli project; of this amount, US $950,000 would be used for the preparation of tender documents and final designs (for the Halda sub-project only) and the balance of US $220,000 would be used for revision of the feasibility study (for both sub-projects). The tender documents would be prepared concurrently with

the feasibility study revision (completion of both expected by May 1971), and the final designs would proceed immediately thereafter. It would thus be possible to start construction in December 1971, which is one to two years earlier than would be possible if tender documents were to be delayed until after the revised study is completed.

Muhuri Irrigation Project

9. The Muhuri Irrigation Project would provide flood prevention and drainage in a gross area of 101,000 acres and irrigation in a net area of 42,000 acres.

10. A feasibility study of the Muhuri project was submitted in January 1967. While the Bank considers that a satisfactory basis for the economic justification of the project exists, a final assessment will depend upon the result of the examination of several unresolved issues. These include, besides the four items mentioned for the Karnafuli project (para. 7), two additional items: (e) revision of the flood prevention scheme and (f) preparing the preliminary study of the Dakatia-Muhuri water transfer scheme (para. 12).

11. An amount of US $1,030,000 is earmarked for the Muhuri project; US $230,000 would be used for revision of the feasibility study and US $800,000 for the preparation of tender documents and final designs. The feasibility study revision would take until about March 1972, which, because of the additional two items mentioned in the previous paragraph, requires a longer period of time than that for Karnafuli. This timing permits a more efficient use of the consultants since they would concentrate on the revisions of the Karnafuli project and the water transfer scheme during the first year, and during the second year on the revisions of the Muhuri project. However, an interim report on Muhuri will be ready in August 1971. If at the time of that report, the outlook for the economic justification of the Muhuri project continues to be favorable as at present, then the consultants would proceed with designs. The risk involved in proceeding with final designs and the preparation of tender documents before completion of the feasibility study revision is reasonable and acceptable.

Dakatia-Muhuri Water Transfer Scheme

12. The Muhuri project is linked by a water transfer scheme to the Comilla-Noakhali project and the Little Feni project. Both of these projects, which would be much larger than the Muhuri project, are still in the preliminary planning stage. This scheme would transfer water for irrigation purposes from the Meghna River to the Muhuri River via the Dakatia River, a "link" canal the Little Feni River and several other segments of minor rivers and channels. This Dakatia-Muhuri water transfer scheme would ultimately serve all three project areas.

13. US $300,000 of the proposed credit would be used for the preliminary study of the Dakatia-Muhuri proposal. This study would consist of carrying out reconnaissances, preparing preliminary designs, and planning the staged development of such a scheme.

14. The tender documents for the first two projects would include only preliminary outline drawings and construction quantities as needed for

construction contracts based on unit prices. The nature of the work involved enables tendering to proceed on this basis, rather than on final design drawings. The consultants would complete the final designs subsequent to tendering and these would be furnished to the successful bidder by the time construction starts.

15. The contract between EPWAPDA and the consultants would be subject to the approval of the Association. The issuance of a letter of intent, wherein it is stipulated that such a contract would be signed within 90 days, would be a condition of effectiveness. During negotiations assurances would also be obtained that EPWAPDA will carry out topographical surveys in a timely manner.

16. There is a small amount of work (costing about US $50,000), involving the analysis of tenders, which could be considered as outside the scope of an engineering credit (see O.M. 5.09 on Financing of Detailed Engineering). However, since only a small amount of work is involved, and because the same consultants would do the work concurrently with the preparation of final designs, it is recommended that it be included in this credit.

17. It is proposed that the IDA credit be for a term of eleven years, including a grace period of three years, on the understanding that it would be refinanced out of the proceeds of any IDA credit, or Bank loan, ultimately made for the construction of the projects.

18. I recommend that we invite the Government to send representatives to Washington to negotiate a credit of approximately US $2.5 million, the final amount of which would be determined during negotiations as indicated in paragraph 1.

Gregory B. Votaw

Deputy Director

Attachment

Population: 126 m (Pakistan)
68 m (East Pakistan)
Per Cap GNP: US$110 (Pakistan)

EAST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Irrigation - Dacca	IDA	1.0															
Irrigation - Dacca Southwest Eng.	IDA								.8								
Irrigation - Dacca Southwest	IDA									30.0							
Irrigation - Chandpur I	IDA		9.0														
Irrigation - Chandpur II	IDA								13.0								
Irrigation - Chandpur North Eng.	IDA										1.0						
Irrigation - Chandpur North	IDA											10.0					
Irrigation - Karnaphuli-Muhuri Eng.	IDA								2.6								
Irrigation - Karnaphuli	IDA										10.0						
Irrigation - Muhuri	IDA											7.0					
Irrigation - Little Feni	IDA												10.0				
Irrigation - Belkuchi	IDA											5.0					
Irrigation - Barisal I Eng.	IDA										2.0						
Irrigation - Barisal I	IDA												20.0				
Irrigation - Pabna	IDA													18.0			
Irrigation - Comilla-Naukhali	IDA													15.0			
Tubewells - ADC I	IDA								17.0								
Tubewells - EPWAPDA I	IDA										8.0						
Tubewells - EPWAPDA II	IDA												25.0				
Flood Control - Brahmaputra	IDA	5.0															
Consultants - EPWAPDA I	IDA							2.0									
Consultants - EPWAPDA II	IDA									2.0							
Consultants - EPWAPDA III	IDA											2.0					
Consultants - EPWAPDA IV	IDA													2.0			
Grain Storage	IDA				19.2												
Tea Machinery & Irrigation	IDA									5.0							
Education I	IDA		4.5														
Education II	IDA				13.0												
EP Education Unidentified	IDA										7.0						
Karnaphuli Paper	IBRD	4.2															
EP Small Industries I	IBRD								3.0								
Highway I	IDA		22.5														
Highways II	IDA										12.5						
Highways III	IDA											13.5					
Inland Water Transport I	IDA	2.0															
Inland Water Transport II	IDA			5.3													
Railways I	IDA		10.0														
Railways II	IDA									8.0							
Water Supply Sewerage - Dacca	IDA		26.0														
Water Supply/Sewerage - Chittagong	IDA		24.0														
Subtotals	IBRD	4.2	0.0	0.0	0.0			0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0
	IDA	8.0	96.0	5.3	32.2			2.0	33.4	45.0	40.5	37.5	55.0	35.0	133.5	158.4	213.0
	TOTAL	12.2	96.0	5.3	32.2			2.0	36.4	45.0	40.5	37.5	55.0	35.0	133.5	161.4	213.0
	No.	4	6	1	2			1	5	4	6	5	3	1	9	21	21
Estimated EP Shares of E&W Loans/Credits																	
Agricultural Credit ADB I	IDA			9.0													
Agricultural Credit ADB II	IDA						2.9										
Agricultural Credit ADB III	IDA							6.0									
Agricultural Credit ADB IV	IDA									7.0							
Agricultural Credit ADB V	IDA											15.0					
Agricultural Credit ADB VI	IDA													15.0			
DFC-PICIC I-IV	IBRD	13.4															
DFC-PICIC V	IBRD		8.1														
DFC-PICIC VI	IBRD				8.1												
DFC-PICIC VII	IBRD						9.5										
DFC-PICIC VIII	IBRD							10.9									
DFC-PICIC IX	IBRD									18.0							
DFC-PICIC X	IBRD											18.0					
DFC-PICIC XI	IBRD													20.0			
IDBP I	IDA								10.0								
IDBP II	IDA										5.0						
IDBP III	IDA																
Industrial Imports	IDA					5.0								10.0			
Commercial Vehicles	IDA				4.0												
Railways I-V	IBRD	23.4															
Telecommunications I	IDA							8.2									
Telecommunications II	IDA								3.0								
Subtotals	IBRD	36.8	8.1	0.0	8.1	0.0	9.5	10.9	0.0	18.0	0.0	18.0		20.0	25.7	46.9	56.0
	IDA	0.0	0.0	9.0	4.0	5.0	2.9	14.2	13.0	7.0	5.0	15.0		25.0	20.9	54.2	52.0
	TOTAL	36.8	8.1	9.0	12.1	5.0	12.4	25.1	13.0	25.0	5.0	33.0		45.0	46.6	101.1	108.0
	No.	9	1	1	2	1	2	3	2	2	1	2		3	7	10	8
GRAND TOTALS	IBRD	41.0	8.1	0.0	8.1	0.0	9.5	10.9	3.0	18.0	0.0	18.0	0.0	20.0	25.7	49.9	56.0
	IDA	8.0	96.0	14.3	36.2	5.0	2.9	16.2	46.4	52.0	45.5	52.5	55.0	60.0	154.4	212.6	265.0
	TOTAL	49.0	104.1	14.3	44.3	5.0	12.4	27.1	49.4	70.0	45.5	70.5	55.0	80.0	180.1	262.5	321.0
	No.	13	7	2	4	1	2	4	7	6	7	7	3	6	16	31	29
IBRD Loans Outstanding																	
- Including undisbursed		32.3	38.2	36.0	42.0	38.4	44.8	52.0	51.6	65.6	61.3	74.2	69.2	83.9			
- Excluding undisbursed		18.4	20.9	23.7	26.9	28.2	32.3	35.9	43.2	48.8	58.9	66.0	67.8	69.3			
IDA Credits Outstanding																	
- Including undisbursed		8.0	104.0	118.3	150.7	135.7	128.8	145.0	191.3	243.3	288.8	341.2	396.0	455.5			
- Excluding undisbursed		0.4	1.2	5.2	15.2	32.0	49.5	65.2	91.4	147.0	211.1	259.8	298.2	351.0			

Pakistan Division
February 2, 1970

Population: 126 m (Pakistan)
58 m (West Pakistan)
Per Cap GNP: US$110 (Pakistan)

WEST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Irrigation - Khairpur	IDA	18.0															
Indus Basin I	IBRD	90.0															
Indus Basin II	IDA			58.5													
Tarbela Dam	IBRD							25.0									
Tubewells - Dipalpur	IDA												15.0				
SCARP V	IDA										5.0						
SCARP VI	IDA											12.0					
Farm Improvement	IBRD	3.3															
Education I	IDA		8.5														
Education - Engineering Colleges	IDA								5.0								
Education Unidentified I	IDA											8.0					
Education Unidentified II	IDA													5.0			
Industrial Estates	IDA	6.5															
Fertilizer Plant I (Dawood)	IBRD							32.0									
Fertilizer Plant II	IBRD									30.0							
Power - KESC I-III	IBRD	30.2															
Power - KESC IV	IBRD					21.5											
Power - WAPDA Transmission	IDA								22.5								
Highways I	IDA		17.0														
Highways II	IBRD							35.0									
Highways - Engineering	IDA					1.0											
Highways III	IDA								10.0								
Highways IV	IDA										20.0						
Highways V	IDA												20.0				
Railways I	IDA		25.0														
Railways II	IBRD					13.5											
Railways III	IBRD							14.5									
Pipelines - SGTC I	IBRD	14.0															
Pipelines - SNGPL I	IBRD		15.0														
Pipelines - SNGPL II	IBRD							8.0									
Pipelines - SNGPL III	IBRD								17.0								
Pipelines - SNGPL IV	IBRD										5.0						
Pipelines - SNGPL V	IBRD												5.0				
Ports - Karachi I	IBRD	14.8															
Ports - Karachi II	IBRD		17.0														
Ports - Karachi Engineering	IDA								1.0								
Ports - Karachi III	IDA									15.0							
Ports - Karachi IV	IDA												20.0				
Water Supply/Sewerage - Lahore I	IDA					1.8											
Water Supply/Sewerage - Lahore II	IDA									5.0							
Subtotals	IBRD	152.3	32.0	0.0		35.0		114.5	17.0	30.0	5.0	0.0	5.0	0.0	67.0	166.5	40.0
	IDA	24.5	50.5	58.5		2.8		0.0	38.5	20.0	25.0	20.0	55.0	5.0	111.8	103.5	125.0
	TOTAL	176.8	82.5	58.5		37.8		114.5	55.5	50.0	30.0	20.0	60.0	5.0	178.8	270.0	165.0
	No.	9	5	1		4		5	5	3	3	2	4	1	10	18	13
Estimated WP Shares of E&W Loans/Credits																	
Agricultural Credit ADB I	IDA			18.0													
Agricultural Credit ADB II	IDA						7.1										
Agricultural Credit ADB III	IDA							24.0									
Agricultural Credit ADB IV	IDA									8.0							
Agricultural Credit ADB V	IDA											15.0					
Agricultural Credit ADB VI	IDA													15.0			
DFC-PICIC I-IV	IBRD	35.8															
DFC-PICIC V	IBRD		21.9														
DFC-PICIC VI	IBRD				21.9												
DFC-PICIC VII	IBRD						25.5										
DFC-PICIC VIII	IBRD							29.1									
DFC-PICIC IX	IBRD									22.0							
DFC-PICIC X	IBRD											22.0					
DFC-PICIC XI	IBRD													20.0			
IDBP I	IDA								10.0								
IDBP II	IDA										5.0						
IDBP III	IDA													10.0			
Industrial Imports	IDA					20.0											
Commercial Vehicles	IDA				21.0												
Railways I-V	IBRD	70.4															
Telecommunications I	IDA							7.8									
Telecommunications II	IDA								12.0								
Subtotals	IBRD	106.2	21.9	0.0	21.9	0.0	25.5	29.1	0.0	22.0	0.0	22.0		20.0	69.3	73.1	64.0
	IDA	0.0	0.0	18.0	21.0	20.0	7.1	31.8	22.0	8.0	5.0	15.0		25.0	66.1	81.8	53.0
	TOTAL	106.2	21.9	18.0	42.9	20.0	32.6	60.9	22.0	30.0	5.0	37.0		45.0	135.4	154.9	117.0
	No.	9	1	1	2	1	2	3	2	2	1	2		3	7	10	8
GRAND TOTALS	IBRD	258.5	53.9	0.0	21.9	35.0	25.5	143.6	17.0	52.0	5.0	22.0	5.0	20.0	136.3	239.6	104.0
	IDA	24.5	50.5	76.5	21.0	22.8	7.1	31.8	60.5	28.0	30.0	35.0	55.0	30.0	177.9	185.3	178.0
	TOTAL	283.0	104.4	76.5	42.9	57.8	32.6	175.4	77.5	80.0	35.0	57.0	60.0	50.0	314.2	424.9	282.0
	No.	18	6	2	2	5	2	8	7	5	4	4	4	4	17	28	21
IBRD Loans Outstanding																	
- Including undisbursed		222.9	268.8	256.8	269.9	292.6	305.1	433.8	433.7	465.7	449.2	445.9	425.9	419.6			
- Excluding undisbursed		95.2	104.3	115.9	127.2	147.0	186.4	226.8	261.7	300.0	344.4	364.7	369.9	362.3			
IDA Credits Outstanding																	
- Including undisbursed		24.5	75.0	151.5	172.5	195.3	202.3	233.4	293.8	321.7	351.6	386.4	440.9	469.5			
- Excluding undisbursed		0.1	0.8	25.9	69.0	119.8	165.9	179.9	200.0	243.1	284.8	321.1	349.6	382.7			

Pakistan Division
February 2, 1970

Population: 126 m
Per Cap GNP: US$110

EAST & WEST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
East & West Loans/Credits																	
Agricultural Credit ADB I	IDA			27.0													
Agricultural Credit ADB II	IDA						10.0										
Agricultural Credit ADB III	IDA							30.0									
Agricultural Credit ADB IV	IDA									15.0							
Agricultural Credit ADB V	IDA											30.0					
Agricultural Credit ADB VI	IDA													30.0			
DFC-PICIC I-IV	IBRD	49.2															
DFC-PICIC V	IBRD		30.0														
DFC-PICIC VI	IBRD				30.0												
DFC-PICIC VII	IBRD						35.0										
DFC-PICIC VIII	IBRD							40.0									
DFC-PICIC IX	IBRD									40.0							
DFC-PICIC X	IBRD											40.0					
DFC-PICIC XI	IBRD													40.0			
IDBP I	IDA								20.0								
IDBP II	IDA										10.0						
IDBP III	IDA													20.0			
Industrial Imports	IDA					25.0											
Commercial Vehicles	IDA				25.0												
Railways I-V	IBRD	93.8															
Telecommunications I	IDA							16.0									
Telecommunications II	IDA								15.0								
Subtotals	IBRD	143.0	30.0	0.0	30.0	0.0	35.0	40.0	0.0	40.0	0.0	40.0		40.0	95.0	120.0	120.0
	IDA	0.0	0.0	27.0	25.0	25.0	10.0	46.0	35.0	15.0	10.0	30.0		50.0	87.0	136.0	105.0
	TOTAL	143.0	30.0	27.0	55.0	25.0	45.0	86.0	35.0	55.0	10.0	70.0		90.0	182.0	256.0	225.0
	No.	[illegible]	1	1	2	1	2	3	2	2	1	2		3	7	10	3
PAKISTAN TOTAL	IBRD	299.5	62.0	0.0	30.0	35.0	35.0	154.5	20.0	70.0	5.0	40.0	5.0	40.0	162.0	289.5	160.0
	IDA	32.5	146.5	90.8	57.2	27.8	10.0	48.0	106.9	80.0	75.5	87.5	110.0	90.0	332.3	397.9	443.0
	TOTAL	332.0	208.5	90.8	87.2	62.8	45.0	202.5	126.9	150.0	80.5	127.5	115.0	130.0	494.3	687.4	603.0
	No.	22	12	3	4	5	2	9	12	9	10	9	7	7	26	49	42
IBRD Loans Outstanding (Pakistan)																	
- Including undisbursed		255.2	306.9	292.9	311.8	331.1	350.0	485.6	485.3	531.3	510.5	520.1	495.1	503.5			
- Excluding undisbursed		113.7	125.1	139.7	154.2	175.4	218.9	262.5	304.9	349.8	403.8	430.7	437.7	431.6			
IDA Credits Outstanding (Pakistan)																	
- Including undisbursed		32.5	179.0	269.8	323.2	331.0	331.1	378.4	485.1	565.0	640.4	727.6	836.9	925.0			
- Excluding undisbursed		0.6	2.0	35.1	84.3	151.8	215.8	245.1	291.4	390.1	495.9	580.9	647.8	733.7			

Pakistan Division
February 2, 1970

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 5, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Cali Water Supply and Sewerage Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 5, 1970 from the South America Department, entitled "Colombia - Proposed Loan for Cali Water Supply and Sewerage Project" (LC/O/70-20).

2. Comments, if any, should be sent to reach Mr. Roessler (ext. 2192) by 1:00 p.m. on Tuesday, March 10.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/70-20

March 5, 1970

LOAN COMMITTEE

Memorandum from South America Department

COLOMBIA: Proposed Loan for Cali Water Supply and Sewerage Project

1. Attached for your approval is the draft Appraisal Report No. PU-30 recommending a Bank Loan of US$18.5 million to the Establecimiento Público Empresas Municipales de Cali (Emcali) to help finance the expansion and improvement of Cali's water supply and sewerage system.

2. Colombia's recent performance and the Bank's current lending program are dealt with in paragraphs 2 and 3 of the Loan Committee Memorandum for the Sixth Highway Loan, to be distributed shortly.

3. The proposed loan would be the second Bank loan for water supply and sewerage in Colombia, the first Bank loan in this sector having been made in June 1968 to the Empresa de Acueducto y Alcantarillado de Bogotá (Loan 536-CO). The Project will help to increase the population served directly by the water supply and sewerage systems of Cali from about 710,000 in 1969 to more than one million in 1973. One of the purposes of the project is to extend the water and sewerage services to four unserved areas of Cali, populated by lowest income groups, in which sanitation is inadequate and health conditions are inferior. The water supply portion of the project includes a new intake and a water treatment plant on the Cauca River, new supply/distribution pipelines and house connections, and improvements to some existing supply lines and house connections. The sewerage portion includes a major sewage interceptor which will reduce pollution of water at the intake of the water treatment plant, and a pumping station, trunk and secondary sewers, and drainage canals for the removal of storm water. With respect to pollution of the Cauca River downstream from Cali, the draft Appraisal Report indicates (in Annex 9, paragraph 33) that sewage treatment is not necessary at present, and would not be needed until 1975 at the earliest, and possibly not until 1985.

4. Low tariffs are the main problem of the water and sewerage sector in Colombia. While rate increases by large steps have been implemented without political difficulty in Bogotá, there is a recent history of disturbances in Cali resulting from substantial rate adjustments. It is therefore proposed that the problem be approached in Cali by small steps spread over a fairly long period, i.e. a rate of return on revalued assets of 4 percent in 1971, to be gradually increased to 8 percent by 1977. The first step in this phased increase of rates is required before loan signing.

5. As indicated in paragraphs 7.03 and 7.13 of the Appraisal Report, a government contribution of Col$150 million is needed for the completion of the financing plan. This problem is currently being discussed between the Bank, the prospective Borrower and the Government, with a view to obtaining a satisfactory commitment from the Government before the start of negotiations and our most recent information suggests that this contribution is likely to be forthcoming. We expect the financing plan for the Project to be completed from domestic sources by tariffs or government funds; but in no event would I recommend the alternative indicated in paragraph 7.13 of completing the financing plan by increasing the amount of the Bank's loan.

6. The Appraisal Report recommends a term of 24 years on project grounds. However, in response to a request by the Colombian Government the Bank has advised the Government of its intention to apply a minimum term of 25 years for the infrastructure projects in the FY 1970 lending program. I therefore recommend that the term be extended to 25 years. The Projects Department does not object to this recommendation.

7. The amount of the loan would represent about 50 percent of the project cost of about US$37 million equivalent. The appraisal mission reviewed the Empresa's investment program through the 1970's, selecting 1973 as the cut off date for defining the proposed Project; but should project costs be less than estimated, it is recommended (in paragraph 5.17 of the draft Appraisal Report) that the Bank should be willing to continue to finance 50 per cent of the cost of related works presently scheduled for the period after 1973, either by advancing the works, or extending the closing date of the proposed loan.

8. Foreign exchange costs are equivalent to only 30 percent of total costs. There are good reasons as explained in our Country Program Paper, for inclusion of this particular project, despite its low foreign exchange costs, in our lending program for Colombia. Whether large scale financing of local currency expenditures can be justified in the future in Colombia, taking into account higher coffee prices on the one hand, and the needs of a larger development program on the other, will be assessed by our economic mission. The nature of the justification for financing local currency expenditures to be included in the President's Report will depend on the outcome of that assessment.

Recommendation

9. I recommend that the Bank commence negotiations of a loan of US$18.5 million to the Establecimiento Público Empresas Municipales de Cali on the terms and conditions set forth in the draft Appraisal Report suitably modified to take into account the recommendation as to the term of the loan.

Gerald Alter
Director

Attachments

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

	1966	1967	1968	1969	Total through FY 1969	1970	1971	1972	1973	1974	1975	Total FY 1970 to 1975
AGRICULTURE	1/16.7	1/9.0		1/17.0	5/52.7							7/74.5
Livestock II						18.3						
Livestock III								15.0				
Livestock IV										15.0		
Land Settlement I							5.0					
Atlantico Irrigation II							1.2					
Cesar Irrigation I								10.0				
Cesar Irrigation II											10.0	
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							2/67.0
Chivor I Hydro						52.0						
Interconnection Hydro									15.0			
TRANSPORTATION				2/35.5	10/198.2							4/89.0
Highways VI						32.0						
Highways VII								27.0				
Highways VIII										20.0		
Railways VI								10.0				
WATER SUPPLY AND SEWERAGE			1/14.0		1/14.0							6/97.5
Medium-sized Cities I (Cali)						18.5						
Medium-sized Cities II (Bucaramanga)						7.0						
Medium-sized Cities III (Palmira)						2.0						
Medium-sized Cities IV								20.0				
Medium-sized Cities V										25.0		
Bogota II									25.0			
DEVELOPMENT FINANCE COMPANIES	1/25.0		1/12.5	1/25.0	3/62.5							4/95.0
DFC IV (public)						5.0						
DFC V (private and public)							30.0					
DFC VI (private and public)									30.0			
DFC VII (private and public)											30.0	
INDUSTRIES AND MINING					1/30.0							
TELECOMMUNICATIONS		1/16.0			1/16.0							1/7.0
Telecommunications II							7.0					
UNALLOCATED								19.0	10.0	20.0	30.0	4/79.0
TOTAL	41.7	25.0	44.5	103.1	39/622.8	141.3	43.2	101.0	90.0	80.0	80.0	31/535.5
(of which IDA)					(1/19.5)							

South America Department
February 24, 1970.

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 5, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Marimbondo Hydroelectric Project

With reference to the draft appraisal report attached to the South America Department's memorandum of March 4, 1970 on this subject (LC/0/70-19), the Committee is requested to note that the table giving the estimated cost of the project (page 11, paragraph 5.09) will be revised to show the estimated local currency and foreign exchange components of the total project cost, rather than the sources of financing.

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)

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

SEP 09 2014

WBG ARCHIVES

March 4, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Marimbondo Hydroelectric Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 4, 1970 from the South America Department, entitled "Brazil - Proposed Bank Loan for Marimbondo Hydroelectric Project" (LC/O/70-19).

2. Comments, if any, should be sent to reach Mr. Dosik (ext. 2770) by 5:00 p.m. on Friday, March 6.

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
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Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

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LC/O/70-19

SEP 09 2014

March 4, 1970

WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the South America Department

BRAZIL: Proposed Bank Loan for Marimbondo Hydroelectric Project

1. Attached is a draft appraisal report[1/] recommending a Bank loan of $106 million to Furnas (Central Eletrica de Furnas S.A.) to finance the international procurement of permanent equipment, and the foreign exchange cost of consulting services, for the Marimbondo Hydroelectric Project. Subsequent to the appraisal mission's return from Brazil, the Bank and the Brazilian authorities agreed that the project should be submitted for joint financing and a meeting for this purpose is to be held in Paris March 11-12. A Bank loan of $80 million is now proposed in the expectation that agreement on joint financing will be reached with the supplying countries and that they will provide some $26 million in loans for the project, as discussed below. The proposed loan would be the 21st Bank loan for electric power on Brazil and the 5th loan to Furnas, which last received a loan of $26 million in October 1968 for the Porto Colombia Hydroelectric Project.

The Lending Program

2. The proposed loan would be the third and final one to be made to Brazil in the current fiscal year. A $25 million industrial credit loan to the Banco do Nordeste was approved by the Executive Directors on January 20 and signed on February 16. Negotiations for a $100 million loan for the Second Highway Construction Project have been completed and the loan is scheduled for consideration by the Executive Directors at the end of March. Attached is a table summarizing the 5-year lending program for 1970-74.

The Economy

3. The Area Memorandum recently submitted to the Loan Committee on the highway project (LC/O/70-4) briefly summarized the findings of the latest economic report (WH195a, December 19, 1969), pointing to the improved prospects for economic growth with internal and external financial stability resulting from the policies the Government has been following in recent years.

1/ The Loan Committee is being asked to consider the project on the basis of the yellow cover draft of the appraisal report so that draft loan documents can be transmitted to the Borrower at the Paris Meetings next week. The Borrower has urgently requested advance copies of the draft loan documents so that these can be reviewed in Brazil in advance of negotiations in accordance with new machinery established for the approval of external loans.

The Sector

4. The electric power sector has made impressive progress in recent years in carrying out the investments necessary to keep pace with the rapidly growing needs of the economy and in improving its operating efficiency and financial performance. In addition, Eletrobras, the Federal Government holding company, has been placing increased emphasis on overall planning and last year completed a comprehensive "Investment and Resources Program" for 1969-73. The salient features of this program are that (1) power consumption may be expected to grow at a rate of more than 12% per year, (2) generating capacity will have to be increased by some 85% at a cost of approximately $3.6 billion, (3) internal generation of funds in the sector will rise rapidly, making it possible to finance some 3/4 of the required investment from domestic resources and, (4) it will be necessary to seek new foreign loan commitments totalling more than $750 million to finance major projects to be initiated during 1970-73. Staff of the Public Utility Projects Department and this department have reviewed the Eletrobras program and feel it reflects a valid assessment of the sector's major investment requirements and a realistic effort to mobilize the domestic resources necessary for sound financing.

5. While we plan to maintain our long association with the electric power sector in Brazil, the relatively advanced state of sector planning and the nature and size of the upcoming projects should make it possible for the power companies to look increasingly to bilateral sources of finance. Because of this, and in view of the heavy demand for Bank funds in other high priority sectors of the Brazilian economy, we plan to lend only about $50 million per year for power during 1971-74. This would be equivalent to less than 10% of the total planned investment expenditure and less than 1/3 of the sector's external financing requirements. However, we hope that by associating Bank financing with bilateral resources through the joint financing mechanism we will be able to assist in financing a larger number of projects than would otherwise be possible and thereby maintain a broad influence in favor of the sector objectives of rational investment planning and sound financing that we have pursued for so long. Following Marimbondo, the next power projects we plan to consider are the Capim Branco and Salto Osorio hydroelectric plants for which loans totalling $50 million are contained in the FY1971 lending program on the assumption that they could be submitted as a "package" for joint financing.

The Project

6. The project consists of the Marimbondo hydroelectric plant with 1400 MW of installed capacity, approximately 1400 km of 500 kv transmission line connecting Marimbondo to Rio de Janeiro, and the installation of two additional 150 MW turbo-generator units at the existing Furnas hydroelectric plant. The total cost of the project is estimated at $278 million. The proposed external financing of $106 million would cover the estimated cost of equipment to be purchased under international competitive bidding together with the foreign cost of engineering consultants and technical and management

improvement services and equipment. External financing is not proposed for civil works or interest during construction. The proposed loan would be made with the same safeguards as previous loans to Furnas which contained, inter alia, provisions for prompt and adequate tariff adjustments, debt limitation and Bank approval of major new investments Furnas may wish to undertake during the construction period.

7. A 30-year repayment term, including a 7½ year grace period, is proposed, rather than the 25-year term applied in the recent electric power loans in Brazil. As previously agreed with the Chairman of the Loan Committee, the longer term is justified on country grounds and by the proposed joint financing with shorter term bilateral loans (12 years from delivery, at best). While, as in previous joint financed projects, the Bank would be prepared to adjust the amortization schedule of the proposed loan to bring the composite amortization schedule for the project as close as possible to what it would have been if the Bank were providing all of the external financing, it will not be possible to fully compensate for the shorter maturities of the bilateral loans. Since the grace periods of the bilateral loans will be equivalent to the delivery periods of the equipment or, say, 3-4 years, while a 7½ year grace period is recommended for the proposed Bank loan, it will not be possible for the Bank to offset the first 4 years or so of repayments due the bilateral lenders. Moreover, it will be necessary during the initial years after repayment of the Bank loan begins to reduce the amortization installments due the Bank to a minimum in order to hold the amortization of the total external financing to the level that would have prevailed with 100% Bank financing. It has, therefore, been agreed by the Chairman of the Loan Committee that the Bank would accept token semi-annual installments of $100,000, the figure established for this purpose in the loans to Colombia for joint financed projects.

8. As in the case of previous loans for electric power in Brazil, domestic suppliers would participate in international competitive bidding with a 15% margin of preference. Under a recent Brazilian regulation the landed cost of imports used for bid comparison purposes would include the cost of taxes aggregating an estimated 3% which were levied recently on all port traffic to raise funds for port improvement and for the merchant marine. Since these taxes may be considered as user charges rather than import duties, their inclusion in the cost of imports can be accepted; the inclusion of a series of special port charges in the cost of imports was also accepted in a recent Argentine power loan. Recent Brazilian regulation also requires that bids be compared at the rate of exchange prevailing on the date of contract award, rather than at the exchange rate prevailing 30 days prior to bid opening as in previous loans. While there is no objection in principle to the new Brazilian requirement, it may create practical difficulties for bidders in view of the prevailing Government policy of making frequent adjustments in the exchange rate and we will want to discuss this further during negotiations.

9. Bank financing would, as in the previous power loans to Brazil, cover the local as well as the foreign component of orders placed in Brazil after international competitive bidding. This is justified in view of the magnitude of the gross capital inflows Brazil requires, the development of the capital equipment supply industry in Brazil, and the special role of the Bank in financing the power sector.

Joint Financing

10. Our joint financing proposals for Marimbondo follow closely the arrangements agreed upon in Paris last December for the Mexican Third Power Program. The Bank and the other lenders would each finance 50% of the orders eligible for joint financing[1/] while the Bank would finance 100% of the orders placed in Brazil (or other countries not providing finance). A financial plan for the project was worked out with Furnas on the basis of recent procurement experience with its other Bank-financed projects which indicates that as much as 50% of the orders for Marimbondo might be placed in Brazil. On this assumption, the Bank would have to provide more than 75% of the total external finance required, as shown below:

Marimbondo - Joint Financing

($ million)

	Total Financing Required	IBRD 100% Brazilian Orders	IBRD 50% Foreign Orders	IBRD Total	Other Lenders
Marimbondo Hydroelectric Plant	32.0	12.4	9.8	22.2	9.8
Marimbondo Transmission System	54.8	29.8	12.5	42.3	12.5
Furnas Plant Units 7 & 8	5.7	2.9	1.4	4.3	1.4
Contingencies	7.8	-	-	5.7	2.1
Engineering & Consulting Services	5.7	-	-	5.7	0
	106.0	45.1	23.7	80.2	25.8

11. It must be recognized that there is a measure of uncertainty about the actual outcome of the joint financing owing to the margin of error involved in estimating the relative proportions of Brazilian and foreign procurement. Since we attempted to make generous allowance for amount of orders likely to be won by Brazilian suppliers, and the cost estimates

1/ Individual orders of less than $200,000 or orders going to countries who do not receive orders totalling at least $1 million would not be eligible for joint financing.

include substantial provisions for contingencies, we believe the proposed $80 million loan adequately covers the maximum likely requirement for Bank finance. Should Brazilian suppliers win fewer orders than estimated, thus reducing the requirement for Bank finance under the joint financing arrangement, a corresponding amount of the loan could be cancelled. For the future, if the experience with Marimbondo confirms that application of the 50-50 formula results in the Bank having to provide three-quarters or more of the total external financing required for electric power projects in Brazil owing to the high level of domestic procurement, we shall probably want to propose a revised cost-sharing scheme which would further limit the burden on the Bank.

Recommendation

12. I recommend that the Bank inform Furnas and the Government of Brazil that it is prepared to negotiate a loan of $80 million for the Marimbondo Hydroelectric Project.

Gerald Alter
Director

Attachment

Brazil - Lending Program 1970-74

	(In US$ million)						
	Total to 1969	Fiscal Years 1970	1971	1972	1973	1974	Total 1970-1974
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

CONFIDENTIAL

LOAN COMMITTEE

March 3, 1970

MEMORANDUM TO THE LOAN COMMITTEE

India - Sixth Industrial Imports Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 3, 1970 from the South Asia Department, entitled "India - Sixth Industrial Imports Project" (LC/0/70-18).

2. Comments, if any, should be sent to reach Mr. Kuriyama (ext. 3910) by 1:00 p.m. on Friday, March 6.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

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LC/O/70-18

March 3, 1970

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA - SIXTH INDUSTRIAL IMPORTS PROJECT

Background

1. Attached is a report "Appraisal of a Sixth Industrial Imports Project" (PI-2) dated February 25, 1970, recommending that the Association make a credit of US$75 million equivalent to India.

2. The Association has made to date five industrial imports credits to India as follows:

Credit No.	Date	Amount (US$ Million)
52-IN	June 9, 1964	90
78-IN	August 11, 1965	100
92-IN	August 19, 1966	150
97-IN	December 23, 1966	65
138-IN	January 22, 1969	125
	Total	530

3. At a meeting on November 4, 1969, the Executive Directors approved the President's proposal, made in his memorandum of October 23, 1969 (IDA/R69-64), to send a mission to India to appraise a proposed Sixth Industrial Imports Credit to India of about US$75 million.

Bank/IDA Lending Program

4. The current Bank/IDA Lending Program to India is attached. In this fiscal year the Association has so far made two credits to India totalling US$90 million (Tenth Railway Project and Kadana Irrigation Project). If the Gujarat Agricultural Credit project (US$35 million) now being negotiated and the proposed Sixth Industrial Imports Credit (US$75 million) are approved, the total would come up to US$200 million.

5. In addition to the above, some of the following projects may well be ready for submission to the Executive Directors this year as proposed credits: the Punjab Agricultural Credit Project (US$25 million), Cauvery

Delta Irrigation Project (US$26 million), Power Transmission II (US$40 million) and Mormugao Port Project (US$10 million). Further lending to ICICI (US$40 million) is also contemplated for FY1970; although this is presently scheduled to be a Bank loan, Mr. McNamara indicated in the discussion of the country program paper that the possibility of making this an IDA credit might be considered.

The Economy

6. Information on recent developments in the Indian economy was included in the economic section of the President's Report and Recommendation on the Kadana Irrigation Project (P-774). Despite the recent improvement in the general performance of the economy, it is clear that India still requires a substantial inflow of aid.

7. The financing of industrial inputs for India is an effective form of aid, since it will permit fuller utilization of extensive plant capacity and supply the economy with essential capital goods and agricultural chemicals. Furthermore, aid of this type is required to complement project aid to India, because of India's limited capacity to absorb aid in the form of capital goods tied to specific projects; India's imports of capital goods amount only to about 1.5 percent of its GNP, and not all of these imports are associated with large investment projects.

The Project

8. The sectors to be included for financing under the proposed Sixth Industrial Imports credit and their estimated total foreign exchange requirements in the Indian fiscal year which begins April 1, 1970 are as follows:

Proposed IDA Sectors	Estimated Total Foreign Exchange Requirements in 1970/71
Commercial Vehicles	US$ 22.0 million
Agricultural Tractors	8.0
Automotive Ancillaries	48.0
Machine Tools, Cutting and Small Tools & Abrasives	18.4
Electric Motors	2.7
Fertilizers and Pesticides	73.9
	US$173.0 million

9. To preserve continuity, and to facilitate follow-up, these sectors were chosen from among a larger number of sectors financed under the last Industrial Imports Credit (No.138-IN). Tractors, fertilizers, pesticides, and electric motors (for irrigation pumping) are essential inputs for Indian agriculture and will complement the Bank Group's assistance in that field. Assistance in the development of the commercial vehicle industry, and the related automotive ancillary industry, is a logical counterpart to the Bank Group's lending for other transport projects in India. The assistance for the machine and cutting tools sector and electric motors sector (for industrial use) will help furnish Indian industry, including the proposed IDA sector industries, with the "machines to make machines" and their motive power.

10. The following are the only significant changes proposed from the terms and conditions for the last Industrial Imports Credit (No.138-IN):

a) No retroactive financing will be allowed; and

b) The financing to the fertilizers and pesticides sector will be limited to US$15 million. This limitation is proposed, in light of the disproportionately large foreign exchange requirements of this sector, to allow the proceeds of the credit to be spread among a broader spectrum of industries and thereby to increase the probability of procurement from a wide range of member countries.

11. The proposed credit of US$75 million would correspond to about 43 percent of the anticipated total foreign exchange requirements for the proposed IDA sectors in 1970/71. The percentages of IDA financing -- with the limit on the fertilizers and pesticides sector referred to in the preceding paragraph -- would be about 20 percent for agricultural chemicals and about 60 percent for the other sectors.

12. The appraisal report:

(i) points out the need for further efforts by the Government and industry to improve industrial efficiency and standards; and

(ii) recommends that, during negotiations, the question should be reviewed of increasing Indian industry's exposure to world market competition and encouraging broader technical collaboration agreements.

Recommendation

13. I agree with the conclusions of the appraisal report and recommend that the Association negotiate with the Government of India a credit of US$75 million equivalent for industrial imports.

Gregory B. Votaw
Deputy Director
South Asia Department

Attachments

Population: 543 m
Per Cap GNP: $76

INDIA - ACTUAL AND PROPOSED LENDING THROUGH FY1975

Attachment 1

($ millions)

		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
								Fiscal Years									
Farm Improvement	IBRD	10.0															
Tarai Seeds	IBRD							13.0									
Irrigation	IBRD	19.5															
Irrigation - Tube Well	IDA	6.0															
Irrigation - Shetrunji	IDA	4.5															
Irrigation - Salandi	IDA	8.0															
Punjab Flood Control	IDA	10.0															
Irrigation - Sone	IDA	15.0															
Irrigation - Purna	IDA	13.0															
Kadana Irrigation	IDA								35.0								
Agricultural Credit - Gujarat	IDA								37.0								
Agricultural Credit - Punjab	IDA									25.0							
Agricultural Credit	IDA									25.0							
Irrigation - Krishna-Godavari	IDA									10.0							
Irrigation - Cauvery Delta	IDA									15.0							
Irrigation - Pochampad	IDA									10.0							
Irrigation - Godavari Barrage	IDA									10.0							
Irrigation - Tawa	IDA									10.0							
Agricultural Aviation	IDA									5.0							
Grain Storage	IDA									10.0							
Fisheries	IDA										7.5						
Agriculture Projects)	IDA										140.0						
Agriculture Projects) (5-8)	IDA											150.0					
Agriculture Projects)	IDA												165.0				
Agriculture Projects)	IDA													165.0			
Telecommunications I	IDA	42.0															
Telecommunications II	IDA			33.0													
Telecommunications III	IBRD							27.5									
"	IDA							27.5									
Telecommunications IV	IDA									40.0							
Telecommunications V	IDA										40.0						
Telecommunications VI	IDA											40.0					
Telecommunications VII	IDA												35.0				
Telecommunications VIII	IDA													35.0			
DFC - ICICI I-V	IBRD	90.0															
DFC - ICICI VI	IBRD			50.0													
DFC - ICICI VII	IBRD						25.0										
DFC - ICICI	IBRD								40.0			40.0		40.0			
New DFC	IBRD									10.0	25.0		25.0				
Education Unidentified I	IDA										20.0						
Education Unidentified II	IDA													20.0			
Indian Iron & Steel I & II	IBRD	51.5															
Indian Iron & Steel III	IBRD					30.0											
Tata Iron & Steel I & II	IBRD	107.5															
Coal Mining I & II	IBRD	54.5															
Public Sector Fertilizer	IDA									25.0							
Fertilizer Plant Unident.	IBRD									25.0							
Industry Unidentified II	IBRD											15.0					
Industrial Imports I	IDA		90.0														
Industrial Imports II	IDA				100.0												
Industrial Imports III & IV	IDA					215.0											
Industrial Imports V	IDA							125.0									
Industrial Imports VI	IDA								75.0								
Power	IBRD	25.0															
Kothagudem Power I	IDA	20.0															
Kothagudem Power II	IBRD			14.0													
Koyna Power I	IBRD	25.0															
Koyna Power II	IDA	17.5															
Trombay Power I & II	IBRD	26.0															
Bokaro-Konar Power	IBRD	18.5															
Durgapur Power Extension	IDA	18.5															
Power Transmission I	IBRD			70.0													
Beas Equipment	IDA				23.0												
Power Transmission	IDA								38.0								
Power Transmission	IDA									60.0				60.0			
Power Unidentified I	IDA											15.0					
Power Unidentified II	IDA												15.0				
Aviation	IBRD	5.6															
Highways I	IDA	60.0															
Highways II	IDA									30.0							
Ports I-III	IBRD	64.0															
Ports IV	IDA	18.0															
Port - Mormugao	IDA									10.0							
Ports - Bombay/Calcutta	IDA									30.0							
Railroads I-VI a/	IBRD	379.0															
Railroads VII	IDA	67.5															
Railroads VIII	IDA			62.0													
Railroads IX	IDA				68.0												
Railways X	IDA								55.0								
Transportation Projects Unident.	IDA										65.0						
Transportation Projects Unident.	IDA											60.0					
Transportation Projects Unident.	IDA												50.0				
Bombay Water Supply	IDA										10.0						
Water Supply Unidentified I	IDA											15.0					
Water Supply Unidentified II	IDA												15.0				
Unallocated	IDA										15.0						
	IBRD	876.1		134.0		30.0	25.0	40.5	40.0	35.0	25.0	55.0	25.0	40.0	189.0	195.5	180.0
	IDA	300.0	90.0	95.0	191.0	215.0		152.5	240.0	315.0	297.5	280.0	280.0	280.0	591.0	1,265.0	1,392.5
	Total	1,176.1	90.0	229.0	191.0	245.0	25.0	193.0	280.0	350.0	322.5	335.0	305.0	320.0	780.0	1,460.0	1,572.5
	No.	44	1	5	3	2	1	3	6	17	14	12	12	5	11	52	57
Note: the IDA lending program is to be adjusted to -										231.0	280.0	280.0	280.0	280.0		1,183.5	1,355.0
IBRD Loans Outstanding																	
including undisbursed		698.8	648.7	742.0	693.7	671.6	650.2	651.9	650.5	628.4	601.5	606.9	584.9	579.9			
excluding undisbursed		543.7	528.8	525.6	530.8	515.5	511.0	498.5	514.2	525.5	536.5	539.9	548.9	539.9			
IDA Credits Outstanding																	
including undisbursed		300.0	390.0	485.0	675.5	889.1	887.4	1037.6	1273.6	1508.6	1787.8	2065.9	2343.1	2618.5			
excluding undisbursed		48.5	133.7	287.9	452.1	662.5	849.3	989.6	1052.6	1242.0	1438.4	1707.1	1977.5	2252.9			

a/ Railroads II comprised four separate lending operations

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-8

March 3, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Iran - Copper Project" held on February 16, 1970, in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/70-8

March 3, 1970

Minutes of Special Loan Meeting to discuss "Iran - Copper Project" held at 4:30 p.m. on February 16, 1970, in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Gaud, Cope, Cargill, Fuchs, von Hoffman, Eschenberg, Lisle and Pearce (Secretary).

2. Issue: The meeting had been called to consider Mr. Cargill's memorandum to the Chairman dated February 10, 1970, which described the background of and proposals for a project to mine, refine and market copper from deposits recently discovered at Sar Cheshmeh in the Kerman Province of south-eastern Iran. The project's estimated total cost, based on mining of 10 million tons of ore per annum, was about \$250 million and its profitability, based on a copper price of \$0.40 per lb (well below the current price of \$0.73 per lb), was expected to be substantial; the sponsors were Mr. Mansour Rezai, leader of an Iranian mining group, and Selection Trust Ltd. The Iranian Government, which strongly supported the project, wished the Bank to use the Industrial and Mining Development Bank of Iran (IMDBI) as the channel for a proposed loan which, based on a tentative financing plan prepared by the sponsors, might exceed \$75 million. The main issue for discussion was the basis, if any, on which the Bank and IFC could consider participation in the project; Mr. Cargill's memorandum, paras. 10-11, recommended four conditions - relating to (a) the raising of project funds primarily from Iranian and foreign sources, (b) the justification for the scale of the initial project, (c) the diversification of the project's capital structure to permit wider participation and thus profit sharing by new investors, and (d) the channel for a possible Bank loan - as a basis for further discussions with the sponsors and Government.

3. Discussion: The meeting was told that hitherto the sponsors had not taken all reasonable measures to maximize outside participation in the financing of the proposed project - a condition which would have to be satisfied before the Bank could consider making a loan. A related problem was the profit sharing provisions of the sponsors' agreement under which exceedingly large dividends would accrue to the Rezai Group, thus inhibiting equity participation by other private foreign and Iranian interests; it would be difficult, if not impossible, for the Bank Group to associate itself with the project on these terms. On the other hand, if the project's equity base were broadened to encourage other Iranian and foreign participations, the amount of the loan currently requested from the Bank could be considerably reduced - e.g. to about \$35 million, which in any event was probably the maximum the Bank could contemplate for a project of this type.

4. It was therefore suggested that, in order to raise the necessary additional Iranian and foreign financing to the maximum extent possible from commercial sources, the sponsors should be asked to prepare a revised plan for distribution of profits. While there should be some preferred treatment of the Rezai Group as the pioneer and initial developer of the property, the remaining profits should be distributed to reflect substantially the risk capital contribution of the participants. The sponsors should also be asked to reconsider the proposed initial scale of the project and the possibility of implementing it in stages which would reduce considerably the amount of initial financing required.

5. Decision: It was decided that the financial participation of the Bank Group in the project would depend on the willingness of the present sponsors to revise the financing plan in accordance with paras. 10-11 of Mr. Cargill's memorandum and para. 4 above and it was agreed that the sponsors should be so advised.

David Pearce
Secretary

Cleared by: Messrs. Knapp/Cope
Fuchs
von Hoffman
Eschenberg

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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LM/M/70-7

March 2, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Pakistan - Chandpur II Irrigation Project" held on February 13, 1970, in Conference Room B.

C.H. Davies
Acting 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)

LM/M/70-7

March 2, 1970

Minutes of Special Loan Meeting to discuss "Pakistan - Chandpur II Irrigation Project" held at 2:30 p.m. on February 13, 1970, in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Cargill, Chadenet, Wapenhans, Haynes, Melmoth, Wiehen, Denning, Kirpich, McCulloch, Suratgar, and Davies (Acting Secretary).

2. The Chairman said that he had called the meeting to clarify a number of points in the Appraisal Report (PA-32) and the covering Area Memorandum (LC/O/70-14).

Irrigation Design

3. The Chairman, noting that the irrigation works in the Chandpur I project had been stopped because of difficulties, and that the irrigation works in Chandpur II were of quite different design, asked whether Projects was satisfied that the new design would provide a solution of the problems previously encountered.

4. Projects representatives said that the Chandpur I irrigation system was of conventional gravity design, using specially constructed elevated irrigation canals. It proved impossible to obtain the large area of land needed for these canals in an area where the holdings were very small, and where each farmer liked to have plots of both high and low ground. The irrigation works had therefore been dropped in 1965 and, because of subsequent doubts that flood protection, which had originally been believed to be separately justifiable, could provide adequate benefits by itself, construction of the protecting embankment had been stopped in 1968. The revised design for Chandpur II would use existing natural drainage channels and a large number (1,500) of low-lift pumps. The maintenance of these pumps presented an organizational problem calling for close supervision. The new design concept would be used in a series of new projects in East Pakistan. IDA had made or was considering engineering credits for three projects which would be appraised before the Chandpur II project reached the critical period when water levels had fallen and farmers had to adopt radically new farming methods.

5. The Chairman said that paragraph 11 of the Area Memorandum made a good case for IDA's financing the low-lift pumps.

6. The Chairman, noting that, according to paragraph 12 of the Area Memorandum, a further study was required to determine the capacity of the farmers to contribute to the capital costs of the project, commented that appraisal reports continued to call for studies to be made. Projects representatives said that these studies would call for much work in future. The existing draft memorandum on the Bank's water charges policy needed further consideration. The burden of appraisal would be considerably eased if such issues were resolved beforehand.

7. Projects representatives stated that water charges needed to be considered in the broader context of sectoral taxation, and were often difficult to assess on a narrow project basis. Mr. Cope agreed that water charges could not be considered apart from taxation, and thus presented a more difficult problem than power rates. To ask for rate covenants might not be appropriate for irrigation projects; what might be obtained instead was a statement of government policy.

Local Currency

8. Noting that a condition of effectiveness of the credit would be the opening by the Government of East Pakistan of two "advance replenishment" accounts in favor of the Project Director (Construction) and the Project Director (Agriculture) respectively which would serve as "surge tanks" which would give warning of a shortage of rupees, the Chairman said that he saw no need to obtain a commitment on this point from the Central Government, since the Government of East Pakistan, having its own budget and funds, could give such a commitment.

9. It was agreed that the argument that Bank/IDA financing of local expenditures was justified on "country economic grounds" (Appraisal Report, paragraph 5.14) was out of place in an Appraisal Report; its proper place was the President's Report. An Appraisal Report might properly urge in support of local currency financing, however, as did that under consideration, that "The Association's share of the total financing would be large enough to bring about the necessary improvements in organization, funding and execution of the project." This "leverage" argument was, of course, equally applicable to the financing of foreign exchange expenditures.

C.H. Davies
Acting Secretary
Loan Committee

Cleared by: Messrs. Knapp
Chadenet
Cargill

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 2, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Nicaragua - Corinto Port Authority (CPA)

1. The Committee is requested to consider, without meeting, the attached memorandum of March 2, 1970 from the Central America and Caribbean Department, entitled "Nicaragua - Proposed Bank Loan for Puerto Corinto Expansion" (LC/O/70-17).

2. Comments, if any, should be sent to reach Mr. Mirza (ext. 3877) by 1:00 p.m. on Thursday, March 5.

3. It is planned then, if the Committee approves, to inform the Government that, subject to an understanding first being reached concerning economic policies, the Bank is prepared to begin negotiations for the proposed loan along the lines proposed in the appraisal report.

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/O/70-17

March 2, 1970

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

NICARAGUA - Proposed Bank Loan for Puerto Corinto Expansion

1. I attach Report No. PTR-39 "Appraisal of Corinto Port Extension Project" dated January 26, 1970, recommending a Bank loan of $5.25 million to the Corinto Port Authority (CPA) to finance the foreign exchange costs of expansion and improvement of the Port of Corinto in Nicaragua.

Background

2. The Bank has made 15 loans to Nicaragua since 1951 totalling $62.35 million and there has also been one IDA credit of $3 million. On December 31, 1969, a total of $17.7 million remained to be disbursed on three loans, two for power and one for education. In the case of a power loan made in October 1966 (Loan 470-NI), initial difficulties in acquiring land and delays in supplying equipment caused project slippages which have resulted in a small undisbursed balance of $0.7 million. The original Closing Date of February 28, 1969 has had to be extended twice, most recently to August 31, 1970. A later power loan (Loan 543-NI) for $15.25 million, made in June 1968, is presently expected to be disbursed on schedule. Considerable delays have, however, been encountered on a $4 million education loan made in April 1968 (Loan 532-NI), and no disbursement has so far been made. This was due initially to Nicaraguan institutional weaknesses and unfamiliarity with Bank projects of this type, but the project is now also being held back by a shortage of funds in the Central Government Budget. Construction, however, is scheduled to commence in June of this year.

3. This would be the second Bank loan for the development of the Port of Corinto. An earlier loan (143-NI) made in 1956 helped finance the construction of two berths and two transit sheds, which were completed in 1961. The appraisal of the project under consideration followed a feasibility study by the consultants Livesey and Henderson of London and Setec of Paris. The Bank financed the foreign exchange cost of the study through a technical assistance grant approved October 1966, and a Bank mission subsequently reviewed and modified the consultants' recommendations jointly with the Corinto Port Authority (CPA).

Economic Situation

4. A green cover economic report has just been completed and is being reviewed by the Economic Committee. Its main conclusion is that,

unless vigorous action is taken to restore and increase public savings, Nicaragua will not be able to carry out the public investment needed to support the export diversification effort, without which the economy is likely to stagnate. The annual rate of growth in per capita GDP, 5 percent in the early 1960's, has been reduced in recent years to one percent. At the same time a serious deterioration has taken place in the balance of payments, net foreign exchange reserves have fallen from $28 million in 1965 to a negative balance of $3 million in 1969, and the country's dependence on medium- and long-term external borrowing has increased to a point at which the debt service ratio is now over 12 percent. In these circumstances Nicaragua's creditworthiness for new external borrowing must depend on the Government's willingness to make a substantial additional fiscal effort and to follow credit, interest rate and exchange rate policies geared to strengthening the balance of payments. As a first step in this direction, the economic report suggests that additional tax measures should be introduced to yield some C$80 million in 1970 and C$90 million in 1971, equivalent to roughly 15 percent of 1969 Central Government revenues or 1.5 percent of GDP. Further measures will be required in subsequent years.

5. The principal findings of the economic mission have already been communicated to the Nicaraguan Government and within the next few weeks we plan to discuss these findings with them, with a view to reaching agreement on the measures required to deal with the fiscal and balance of payments problems. I would not want negotiations to be invited for the proposed loan until an adequate understanding has been reached with the Government on economic policy, especially fiscal policy. The loan itself does not call for any financial contribution from the Government, but Nicaragua's creditworthiness for Bank lending is at issue, and additional public savings are also urgently required to finance various ongoing projects being assisted by external lending agencies, including the Bank's education project.

The Project

6. Corinto is the most important port in Nicaragua, handling about three-quarters of the country's sea-borne dry cargo traffic. The loan under consideration will help finance the construction of facilities and equipment essential to accommodate anticipated traffic growth and promote continued operational efficiency. Channel dredging is included in the project to permit the entry at all times of ships of 9.1 meters (30 feet) draft, which are expected to handle an increasing proportion of Corinto's cargo traffic. The construction period of the project would be 1970-73.

7. The total estimated cost of the project is $8.05 million. The Bank loan would finance the full foreign exchange cost of $5.25 million, but would not include interest during construction. The remaining $2.8 million will be financed by CPA. CPA is a well managed and efficient organization. Financial forecasts indicate that sufficient funds should be generated during 1970-73 to meet local costs, and adequate cash reserves should be built up subsequently to cover a fair share of the next expansion phase.

8. The Appraisal Report raises no policy issues, and I agree with its recommendations. In view of the delay in negotiating the loan because of the economic problems mentioned above, the loan will not be signed until after the need arises for consultants to be appointed (in March), and I recommend that retroactive disbursements be allowed for consultants' services. The amount involved would be small (less than $100,000 up to July 1970) and would be for detailed engineering, including the preparation of bidding documents.

9. Subsequent to the field appraisal of the project, the Standard Fruit Company of the U.S. has undertaken sponsorship of a banana program in the hinterland of Corinto. This is expected to generate considerable additional banana traffic to be handled at Corinto by 1975 and thus strengthens the need for prompt implementation of the project. As a result of this new development, the economic return on the proposed investment is likely to be somewhat higher than the 13 percent mentioned in the Appraisal Report, and this point will be mentioned when the report is put into final form. The port's facilities, after the proposed project is carried out, will be adequate to handle the additional traffic.

Recommendation

10. I recommend that, subject to an understanding first being reached with the Government on economic policies, the Bank be prepared to invite representatives of the Corinto Port Authority and the Government to Washington to negotiate a loan of about $5.25 million for the Corinto Port expansion along the lines proposed in the Appraisal Report. The Chairman of the Loan Committee will be kept informed about the progress of economic policy discussions with the Government, and at the appropriate time his approval will be sought for proceeding with loan negotiations.

E. Peter Wright
Deputy Director

Population: 1.7 m
Per Cap Inc: $330

IVa. NICARAGUA - 5 YEAR LENDING PROGRAM

($ millions)

		Fiscal Year 1969	1970	1971	1972	1973	1974	Total 1964-68	Total 1969-73
Agricultural Credit	IBRD				5.0				
Fisheries	IBRD				3.0				
Education II	IBRD					8.0			
Nicaragua Hydro Power	IBRD			15.0					
Managua Thermal Power	IBRD						10.0		
Corinto Port	IBRD		5.3						
Cabezas Port	IBRD					4.0			
San Juan Port	IBRD						2.0		
Feeder Roads	IBRD				5.0				
Managua Water Supply II	IBRD				5.0				
	IBRD		5.3	15.0	18.0	12.0	12.0	24.3	50.3
	No.		1	1	4	2	2	3	8

P & B 2/16/70

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 26, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Chile - Second Vocational Training Project

Attached for information is a memorandum from the Director of the South America Department to the Chairman of the Committee, dated February 25, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a second vocational training project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp DATE: February 25, 1970

FROM: Gerald Alter

SUBJECT: CHILE - Loan for Second Vocational Training Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed Loan equivalent to US$1.5 million to the Republic of Chile for the Second Vocational Training Project, together with copies of the draft Loan, Guarantee, and Project Agreements. We plan to distribute these documents to the Executive Directors for their consideration at a meeting on March 17, 1970.

2. On December 17, 1969, the Appraisal Report (PE-12) was sent to the Loan Committee for consideration without meeting. The Committee agreed to invite negotiations for a Bank loan equivalent to US$1.5 million for the proposed project on a term of 25 years including a grace period of five years. Negotiations were substantially completed on January 29, 1970 along the lines indicated to the Loan Committee.

3. We also propose to distribute to the Executive Directors as an attachment to the President's Report a memorandum on "Recent Economic Developments in Chile". It is based on the preliminary conclusions of the Economic Mission which visited Chile during the last two months of 1969 and which is preparing a new economic report. The last full economic report was submitted to the Board about 18 months ago. A copy of this memorandum is being sent to the Chairman of the Economic Committee.

4. For the oral presentation to the Board meeting we propose that Mr. Shibusawa make a brief statement on the Bank's approach and assistance for improvements of Chile's educational system, including its vocational training facilities.

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

Attachments

cc: Mr. McNamara
Loan Committee (no attachments)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 26, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Chile - Third Education Project

Attached for information is a memorandum from the Director of the South America Department to the Chairman of the Committee, dated February 26, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a third education project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp DATE: February 26, 1970

FROM: Gerald Alter

SUBJECT: CHILE - Loan for a Third Education Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan equivalent to US$7.0 million to the Republic of Chile for a Third Education Project, together with copies of the draft Loan Agreement and Supplemental Letters. A copy of the revised appraisal report will be sent to you in the next few days. We plan to distribute these documents (except the draft Supplemental Letters) to the Executive Directors for their consideration at a meeting on March 17, 1970.

2. In May 1969 I recommended to the Loan Committee (LC/O/69-65) and the Committee agreed, to invite the Chilean Government to negotiate a loan of US$12.5 million for this project. In my memorandum of January 21, 1970, I explained the circumstances under which this project had to be revised and the Bank loan reduced to US$7.4 million. During renegotiations (completed on February 9, 1970) the construction of a new primary teacher training college at Santiago was excluded from the project because the Chilean Government proposed to start work on this institution immediately without adhering to Bank procedure for international competitive bidding. Exclusion of this item from the project has reduced the loan amount to US$7.0 million. Except for this reduction in the loan amount, the renegotiations were completed along the lines indicated to the Loan Committee.

3. The draft President's report omits the discussion of implementation problems of previous loans and the memorandum on "Recent Economic Developments in Chile" since they are contained in the President's report on the Second Vocational Training Project, which is to be presented to the Executive Directors at the same Board meeting.

4. For the oral presentation to the Board Meeting we propose that Mr. Shibusawa make a brief statement on the Bank's approach and assistance for improvements of Chile's educational system.

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

Attachments

cc: Messrs. Robert S. McNamara
S. R. Cope
Loan Committee (without attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 19, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Panama - Instituto de Recursos Hidraulicos y Electrificacion

Attached for information is a memorandum from the Deputy Director of the Central America and Caribbean Department to the Chairman of the Committee, dated February 19, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a second power project.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

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)

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

February 19, 1970

FROM: E Peter Wright

SUBJECT: PANAMA - Proposed Loan to the Instituto de Recursos Hidraulicos y Electrificacion.

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan of $42.0 million to Instituto de Recursos Hidraulicos y Electrificacion (IRHE) for its second power project. Also attached are the draft Loan Agreement, Guarantee Agreement and supplemental letters. We hope to be able to distribute the President's Report, the Loan Agreement and Guarantee Agreement to the Executive Directors for consideration on March 10.

2. A Special Loan Meeting, held on January 9, 1970, considered the Appraisal Report (PU-28) and the covering memorandum from the Central America and Caribbean Department dated January 27, 1970 (LC/O/70-7). The Chairman's decision was recorded in the Minutes dated February 9, 1970 (LM/M/70-6). During negotiations, the issues outlined in paragraph 5 of the Minutes were discussed with the Panamanian delegation. The Government representatives agreed to the enactment of legislation to bring IRHE within the jurisdiction of the Regulatory Commission, to remove IRHE's Director General from this Commission and to establish standards for the regulation of telephones, but indicated that it would take about four months to have this legislation drafted and approved. It was, therefore, decided, in agreement with Mr. Cope, that the passage of the relevant legislation should be made a condition of effectiveness of the proposed loan and not a condition of Board presentation. The Government has made it clear that it does not intend to regulate gas rates.

3. During negotiations it was established that the appropriate legal format for ensuring that the Electricity Legislation would not be applied retroactively to profits made by Cia Panamena de Fuerza y Luz (CPFL) since 1958 would be an amendment of the relevant provisions in the legislation. This too has, therefore, been made a condition of effectiveness.

4. Other changes made in the draft loan documents during negotiations were: (a) elimination of the proposed restriction on IRHE incurring expenditures in excess of $100,000 on fixed assets outside the present program (Mr. Cope agreed that this was unnecessary); and (b) extension of the grace period from 5½ to 6 years to provide adequate time for the release of retention payments.

5. During negotiations IRHE proposed to increase the size of the Bayano generating units from 50 MW to 75 MW. We agreed to this on the basis of calculations made by the Public Utilities Projects Department, which indicated that the change would result in a slightly

higher internal rate of return for the project. The cost of the additional capacity will be covered by reducing the provision for contingencies and by restricting the scope of the future hydro studies to be financed under the Bank loan (the UNDP is now expected to finance most of these studies).

6. Apart from the changes described in paragraph 2 - 5 above, no other changes of substance will be made in the green cover appraisal report, a copy of which is attached for information.

7. Since the Government would need about four months to take the necessary legal action to meet the conditions of effectiveness and also because the procedures in Panama are such that the legal opinions required to make the loan effective could not be given until about 3 to 4 months from the date of signing, the effective date would be 120 days from the date of signing of the proposed loan.

8. Last December, the Economic Committee approved without meeting a draft report on Panama's economic position and prospects which recommended that Panama be considered creditworthy for substantial amounts of additional borrowing. The report was not put in final immediately because we decided to wait for the approval of the 1970 budget and information about the Government's proposals for a new tax package to be introduced in April. The required information was provided by the Government during negotiations and the report, duly modified, will be circulated to Executive Directors next week. A Country Program Paper on Panama was reviewed by the President on January 20.

9. This memorandum and the documents mentioned herein have been cleared with the relevant Departments.

10. I would appreciate your giving your comments on this paper to Mr. Humayun Mirza, Extn. 3877, as soon as possible.

Attachments

cc: Mr. McNamara
Loan Committee (no attachments)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 18, 1970

MEMORANDUM TO THE LOAN COMMITTEE

China - Taiwan Power Company

1. The Committee is requested to consider, without meeting, the attached memorandum of February 18, 1970 from the East Asia and Pacific Department, entitled "China - Proposed $44.5 million Loan to the Taiwan Power Company" (LC/0/70-16).

2. Comments, if any, should be sent to reach Mr. Kraske (ext. 2780) by 1:00 p.m. on Tuesday, February 24.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/70-16

February 18, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

China - Proposed $44.5 million Loan to the Taiwan Power Company

1. Attached is an appraisal report (PU-29, dated February 11, 1970). It recommends a Bank loan of $44.5 million to the Taiwan Power Company (Taipower) for the financing of the foreign exchange costs, including interest during construction, of a project which forms part of its continuing investment program for enlarging China's electricity system.

2. An economic mission visited the Republic of China in February/ March 1968. Its report, which was circulated to the Economic Committee in August 1968, concluded that the country's economy had continued to grow vigorously and the growth of GNP in real terms had substantially exceeded the plan target of 7% during 1967. These encouraging trends have continued since then and it is expected that an economic mission which is scheduled to visit Taiwan next month will confirm our belief that the prospects for economic growth remain extremely promising for the future. The debt service ratio of the Republic of China is estimated to reach a level of 7.2% in 1972. The country's ability to service additional debt is not in question and it is considered suitable for Bank financing.

3. The Republic of China has experienced an extraordinarily rapid rate of economic growth, especially in its industrial sector, during recent years. GNP rose, on an average, by 11% per annum during the past five years while industrial output grew by about 16% each year during the sixties. Industry contributes a sizeable 28% to net national product and accounts for nearly two-thirds of the country's exports. Industrial expansion has resulted in a fast growing need for infrastructure facilities, particularly power. The Bank's current five-year lending program (copy attached) is aimed largely at helping the Government to rectify past deficiencies in public expenditure on infrastructure.

4. Public investment in power has increased rapidly in the last decade but has lagged behind the frequently under-estimated demand. Taipower, almost wholly owned by the Government, operates a country wide system which has been expanding rapidly - the value of facilities in operation and under construction totalled $810 million at the end of 1969, or double that six years previously. Even so, forecasts indicate that further massive investments in generation and transmission facilities will have to be undertaken to meet future demand. Taipower has thus formulated an expansion program which over the next four years (1970-73)

envisages: (i) a total expenditure of about $675 million equivalent; (ii) an increase of about 85% in its generating capacity (from 2,200 MW to 4,100 MW); and (iii) expansion and improvement of its transmission and distribution systems.

5. Taipower received a $50 million Bank loan in December 1968 to help finance the Tachien project. This consists of the construction of a hydroelectric station with a capacity of 234 MW on the Tachia River in central Taiwan and associated transmission facilities. The civil works are underway and contracts for major equipment are in the process of being awarded. Disbursements to date have totalled $2.9 million and progress is considered satisfactory.

6. The proposed project forms part of Taipower's expansion program for the next four years. It consists of (i) the installation of a fourth thermal unit of 375 MW capacity at the existing Talin plant; (ii) the addition of two generators of 90 MW each at the Lower Tachien hydroelectric station and (iii) the provision of associated 345 KV transmission facilities. The total project cost is expected to be $71.2 million. The proposed Bank loan would cover the foreign exchange expenditure which forms about 63% of the entire cost.

7. The implementation of the 1970-73 construction program will place a severe strain on Taipower's finances. Of the total capital expenditures of $675 million equivalent during this period, internal cash generation, sales of equity and customer's contributions will meet about $250 million (37%), assuming that the Government will continue its present policy of reinvesting dividends in the company. Assurance that the Government will continue to reinvest dividends in Taipower will be sought during negotiations. The remaining $425 million needed to finance the expansion program will have to be raised through borrowings. The prospects of obtaining this amount are good. Roughly $80 million are expected to be provided from the proposed loan and disbursements from the proceeds of the $50 million loan (574 CHA) which the Bank made in December 1968 for the Tachien Power project. Other foreign loans and supplier's credits, the latter mostly of ten years duration with interest at 6%, are expected to provide about $155 million. Approximately $19 million will be made available to Taipower from counterpart funds administered by the Council for International Economic Cooperation and Development (CIECD). Arrangements have been made with domestic banks to borrow about $80 million equivalent and the Government will defer customs duties amounting to $42 million or so on imported items. Finally, a remaining gap of $47 million (roughly 7% of the 1970-73 estimated expenditure on construction) will have to be met from domestic sources. There appear to be several ways of doing this - among other things by issuing Government bonds the proceeds of which would be handed over to Taipower or by borrowing further from the banking system. A decision as to the way in which this shortfall is to be met is expected to be made soon and discussed during negotiations; failing this, it is intended to make an acceptable decision on this matter on the part of the Government a condition of effectiveness for the proposed loan.

8. Taipower's forecast financial position is satisfactory despite the substantial borrowings contemplated. The level of Taipower's future debt is of less cause for concern than its structure. The company has in recent years been compelled, as a consequence of the curtailment of the U.S. aid program in China, to borrow medium- and short-term. One illustration of this trend is that supplier's credits have increased almost fourfold in the last two years. It is important for Taipower to restrict borrowings of less than fifteen years to a minimum. Thus while Taipower may be able to obtain further supplier financing for the equipment included in the proposed project, Bank assistance for the project would be essential to maintain a sound financial structure. In addition, full international competitive bidding is expected to result in savings to the company. A twenty-year term with a 4½ year grace period is recommended for the proposed loan and would more nearly correspond to the expected life of the assets. The proposed Bank loan would include interest during construction to further assist the company to improve its financial structure.

9. Taipower's system is operated efficiently and the company is well organized. It is capable of carrying out the expansion program with the help of suitable consulting firms. Taipower's financial management is being strengthened by consultants financed from the proceeds of the Bank's previous loan 574 CHA. Consultants are also to be provided under the proposed project to advise on systems planning and other technical matters. The project for which Bank financing has been requested is well conceived and should yield a satisfactory rate of return of about 17%.

10. I agree with the conclusions and recommendations of the appraisal report and propose, subject to the Loan Committee's agreement, to invite Taipower and the Government to send representatives to Washington to negotiate a loan of $44.5 million for a term of twenty years including a 4½ year grace period.

Gordon M. Street
Assistant to the Director

Attachments

Population: 13.1 m
Per Cap GNP: $250

CHINA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Telecommunications II	IBRD				20.0				
DFC - CDC IV	IBRD	15.0							
DFC - CDC V	IBRD			15.0					
DFC - CDC VI	IBRD					15.0			
Voc. & Tech. Education I	IBRD	12.0							
Voc. & Tech. Education II	IBRD				10.0				
Voc. & Tech. Education III	IBRD						10.0		
Fishery Education	IBRD		4.0						
Talin Thermal Power	IBRD	45.0							
Thermal Power	IBRD			50.0					
Thermal Power	IBRD					50.0			
Railways IV	IBRD		30.0						
Railways V	IBRD				40.0				
Railways VI	IBRD						40.0		
Highways I	IBRD				20.0				
Highways II	IBRD					20.0			
Oil Port	IBRD		10.0						
Port Development	IBRD						15.0		
Airport - Tao Yuan	IBRD		7.0						
Taipei Sewerage	IBRD		15.0						
Taipei Water	IBRD			12.0					
	IBRD	72.0	66.0	77.0	90.0	85.0	65.0	106.7	386.2
	No.	3	5	3	4	3	3	7	17

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/70-2

February 16, 1970

Minutes of Loan Committee Meeting held at 11:00 a.m. on Friday, February 6, 1970 in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. K.D. Hartwich
Mr. P.M. Mathew
Mr. F.R. Poore
Mr. H.N. Scott
Mr. A. Stevenson
Mr. G.K. Wiese
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. D.A. Dunn
Mr. C.E. Eugenio
Mr. P.C.H. Goffin
Mr. A.F. Kirk
Mr. K.S. Krishnaswamy
Mr. C.G. Melmoth
Mr. S. Takahashi
Mr. M.J. Walden

B. India - Gujarat Agricultural Credit Project

1. The Committee considered a memorandum dated February 3, 1970, from the South Asia Department entitled "India - Gujarat Agricultural Credit Project" (LC/O/70-10) and the accompanying draft appraisal report (PA-34 dated January 30, 1970) which recommended negotiation of a \$36 million IDA credit to help finance a three year investment program in minor irrigation works (including drilling rigs and spares) and farm mechanization (tractors, tractor implements and spares) in the State of Gujarat in west-central India. The project's estimated total cost was \$67 million, including \$8.6 million direct foreign exchange cost,

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Committee:

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

Copies for Information:

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

and the proposed IDA credit, equivalent to about 54 per cent of total project costs, would finance the entire foreign exchange cost and $27.4 million (or about 47 per cent) of total local expenditure costs. It was noted that the amount of the proposed credit had been computed on the basis of an IDA contribution representing 100 per cent of the project's foreign exchange cost and about 50 per cent of eligible local expenditures.

2. The Chairman drew attention to the proposed arrangements for the procurement of 2,200 tractors for the project: international bulk procurement based on farmers' choice through tractor dealerships. He wondered how individual farmers could be expected to choose their specific make of tractors when the price he would eventually have to pay would vary according to the total quantity of that make ordered by all the participating farmers. The Agriculture Projects Department replied that, while it was difficult to say that the proposed system would not present some problems of administration, it was hoped that it would serve to achieve the desired aim of taking into account individual preferences, encouraging lower prices, strengthening local dealerships, and ensuring adequate after-sales service.

3. The Committee noted that the Agricultural Refinance Corporation (ARC) would supervise and refinance at 6% per annum, plus an annual 1% service fee, the project lending operations of the Gujarat State Cooperative Land Development Bank (LDB); the LDB would in turn lend to individual borrowers at 9.5% per annum, plus a one-for-all evăluation fee of 0.5% of the total cost of projects for tubewells, lift irrigation, and farm mechanization. The Agriculture Projects Department stated that the 9.5% rate to ultimate borrowers was reasonable and reflected the prevailing cost of capital in the market.

4. The Chairman, noting that it was proposed that the proceeds of the IDA credit be made available by the Government to ARC for 25 years, including a four year grace period, at 4.75% interest per annum, suggested that the ARC should receive these funds on IDA terms. This arrangement would avoid the problem of a flow of "counterpart" funds from the ARC to the Government and the issue of their use or control. The South Asia and Agriculture Projects Departments, agreeing with the Chairman's proposal, noted that the ARC, through which IDA expected to finance other agricultural credit projects in the future, was a pivotal institution which it was important to strengthen; it was therefore an appropriate recipient of the proceeds on IDA terms.

5. The Committee approved the South Asia Department's recommendation that the Government of India be invited to negotiate the proposed \$36 million credit on the conditions set forth in the appraisal report.

C. Adjournment

6. The meeting adjourned at 11:50 a.m.

Secretary's Department
February 16, 1970

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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February 16, 1970

MEMORANDUM TO THE LOAN COMMITTEE

China - China Development Corporation (CDC)

1. The Committee is requested to consider, without meeting, the attached memorandum of February 16, 1970 from the East Asia and Pacific Department, entitled "China - Proposed $18 million Loan for the China Development Corporation (CDC)" (LC/0/70-15).

2. Comments, if any, should be sent to reach Mr. Kalim (ext. 2426) by 5:00 p.m. on Thursday, February 19.

3. It is planned then, if the Committee approves, to inform representatives of the Government and the China Development Corporation 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
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/0/70-15

February 16, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

China - Proposed $18 million Loan for the China Development Corporation (CDC)

1. Attached is an appraisal report (DB-63, dated February 11, 1970) which recommends a Bank loan of up to $18 million to the China Development Corporation (CDC). The proposed loan would meet the estimated foreign currency requirements of CDC for its forecast lending operations during the two years beginning early 1970.

2. An economic mission visited the Republic of China in February/ March 1968. Its report, which was circulated to the Economic Committee in August 1968, concluded that the country's economy had continued to grow vigorously and the growth of GNP in real terms had substantially exceeded the plan target of 7% during 1967. These encouraging trends have continued since then and it is expected that an economic mission which is scheduled to visit Taiwan next month will confirm our belief that the prospects for economic growth remain extremely promising for the future. The debt service ratio of the Republic of China is estimated to reach a level of 7.2% in 1972. The country's ability to service additional debt is not in question and it is considered suitable for Bank financing.

3. The economy of the Republic of China has progressed remarkably in recent years. A 10% average annual growth rate of GNP (in real terms) was sustained through the 1960's primarily because the industrial sector expanded rapidly. Its contribution to net national product rose from 25% in 1961 to 29% in 1968 and industrial products accounted for over 66% of total exports in 1968. Industrial development has been concentrated largely in the private sector which is responsible for about 80% of total manufacturing output.

4. The Bank's lending program for China emphasizes financing of large, import-intensive, high priority infrastructure projects rather than direct financing of industrial development. However, this program will help the Government to install the facilities required to keep pace with the rapidly increasing demand for power, transport, telecommunications and education generated by the directly productive sectors of the economy and therefore will indirectly assist further industrial development. In addition, the Bank plans to assist, as in the past, the dynamic industrial development through lending to CDC.

5. CDC was established in 1959 as a private development finance company to assist in the formation, modernization and expansion of private

industrial undertakings. Its objectives also included the mobilization of local sources of capital and the development of the capital market. It had until December 31, 1969 approved loans for 415 projects amounting to NT$3 billion ($75 million) and had on that date a loan portfolio of NT$1,477 million; its equity portfolio stood at NT$212 million ($5.2 million approximately) at the end of 1969. It has provided, during the past few years, approximately 46% of total outstanding loans by financial institutions to the private sector for capital investment. Another indicator of CDC's help to Taiwan's industry is the fact that in 1968 CDC's clients exported goods worth about $151 million, i.e. nearly 18% of the country's total exports.

6. The proposed loan, the fourth Bank Group loan or credit to CDC, would replenish its depleted foreign exchange resources. The proceeds of a $5.0 million IDA credit were re-lent to it by the Government in 1962; subsequently, two Bank loans - each of $15 million were made directly to CDC in 1964 and 1967. The first is fully committed and disbursed; only about $1.9 million of the second remained uncommitted as of December 31, 1969 and CDC had approved loan proposals to utilize this amount.

7. CDC is managed competently. The standards of its appraisal work are satisfactory; its follow-up procedures are capable of improvement but present no real cause for concern. Its loan portfolio is sound - the few potential bad debts are amply covered by reserves. CDC expects its operations to increase steadily during the next two years. It forecasts that its operations will amount to NT$513 million ($12.8 million equivalent) in calendar 1970 and NT$557 million ($13.9 million) in calendar 1971 as against NT$475 million in 1969. It expects that in these years, $8.6 million and $9.5 million respectively (a total of $18.1 million), will be required in foreign currency. These projections are regarded as reasonably conservative and their attainment should be well within CDC's capability.

8. The Bank is presently CDC's only prospective source of foreign currency. The appraisal mission believes that CDC will need $18 million of foreign exchange during 1970-71 and accordingly recommends a loan in this amount.

9. CDC should have enough local currency resources to support its lending operations during the next two years by drawing down cash balances and temporary investments. CDC's net current assets which stood at NT$166 million ($4.1 million) on January 1, 1970 are expected to decline to about NT$60 million ($1.5 million) by 1973/74. We believe that CDC should continue to give serious thought to augmenting its local currency resources. It could do so by increasing its share capital or by obtaining permission to issue tax exempt bonds. It is proposed that this topic be discussed during negotiations and CDC be asked to advise the Bank by the end of 1970 how it intends to deal with the emerging shortage of local currency.

10. CDC has made a substantial contribution towards fixed capital formation in industry in China. However, it has not had the same impact in the development of the capital market in Taiwan, largely because companies, due to the absence of incentives, are unwilling to go public. CDC's loans have been made mainly to established industrialists and CDC has not focussed on the need to broaden the entrepreneurial base in Taiwan. During negotiations, the Bank will suggest to CDC that it should adopt a more positive approach to the initiation of new projects and the provision of assistance to new industrialists.

11. Since 1967 stock dividends received by companies in China have to be treated as income. Such stock dividends are valued at par and when added to CDC's income have caused some distortion of its stated profits and also resulted in an artificial expansion of its equity portfolio. It is intended during negotiations to reach agreement that the Government will grant CDC a special exemption from the operation of this regulation; alternatively it would be agreed that CDC create a special provision in its accounts equivalent to stock dividend receipts to offset the distortion of the equity portfolio. This step would correct the profit picture and ensure that the value of the equity portfolio is not overstated.

12. In view of CDC's competent handling of loan appraisals the free limit within which it will not be required to obtain prior subproject approval from the Bank should be raised from the present $500,000 to $750,000 with an aggregate amount of one-third of the loan for projects below the free limit. A second point, which it is intended to suggest to CDC during negotiations, is that it should amend its existing policy so that it can make permanent working capital loans, since it is felt that there is a real need for such finance among CDC's potential clients.

13. I propose, with the Loan Committee's concurrence, to invite the Government and CDC to send representatives to Washington to negotiate a loan of $18 million on the terms and conditions set forth in paragraphs 7.07 and 7.08 of the attached appraisal report.

Douglas J. Fontein
Deputy Director

Attachments

Population: 13.1 m
Per Cap GNP: $250

CHINA - 5 YEAR LENDING PROGRAM

($ millions)

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Telecommunications II	IBRD				20.0				
DFC - CDC IV	IBRD	15.0							
DFC - CDC V	IBRD			15.0					
DFC - CDC VI	IBRD					15.0			
Voc. & Tech. Education I	IBRD	12.0							
Voc. & Tech. Education II	IBRD				10.0				
Voc. & Tech. Education III	IBRD						10.0		
Fishery Education	IBRD		4.0						
Talin Thermal Power	IBRD	45.0							
Thermal Power	IBRD			50.0					
Thermal Power	IBRD					50.0			
Railways IV	IBRD		30.0						
Railways V	IBRD				40.0				
Railways VI	IBRD						40.0		
Highways I	IBRD				20.0				
Highways II	IBRD					20.0			
Oil Port	IBRD		10.0						
Port Development	IBRD						15.0		
Airport - Tao Yuan	IBRD		7.0						
Taipei Sewerage	IBRD		15.0						
Taipei Water	IBRD			12.0					
	IBRD	72.0	66.0	77.0	90.0	85.0	65.0	106.7	386.2
	No.	3	5	3	4	3	3	7	17

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 11, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Chandpur II Irrigation Project

1. The Committee is requested to consider, without meeting, the attached memorandum of February 11, 1970 from the South Asia Department, entitled "Pakistan - Proposed Development Credit for the Chandpur Irrigation and Flood Control Project" (LC/O/70-14).

2. Comments, if any, should be sent to reach Mr. McCulloch (ext. 2708) by 1:00 p.m. on Monday, February 16.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/70-14

February 11, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Proposed Development Credit for the Chandpur Irrigation and Flood Control Project

1. Attached for consideration of the Committee is an Appraisal Report entitled "East Pakistan - Chandpur II Irrigation Project" (No. PA-32), dated January 21, 1970. The Report recommends that an IDA Credit of US $13 million equivalent be made to Pakistan to help finance the Chandpur Irrigation and Flood Control Project. The cost of the project is estimated at US $22.7 million equivalent, of which US $5.1 million equivalent is estimated to be the foreign exchange component. The Credit would finance 57% of total project costs. For projects in Pakistan which have a low foreign exchange component, I believe country economic grounds justify credits of about 60% of the total project costs. The amount of this credit was determined by rounding downwards the amount equivalent to 60% of total project costs.

2. There have been twenty-eight IDA credits to Pakistan totalling about US $379 million equivalent, net of cancellations. A credit of US $20 million equivalent for the Industrial Development Bank of Pakistan Project was approved by the Executive Directors on February 10. It is expected that other credits, totalling about US $40 million equivalent,1/ will be recommended for approval before the end of the current fiscal year, of which a substantial proportion will be used for projects in East Pakistan. The Bank has made thirty loans in Pakistan for an aggregate amount, net of cancellations, of about US $614 million equivalent.

3. The last comprehensive Report on the Current Economic Position and Prospects of Pakistan (SA-4a) is dated April 18, 1969. The social and political unrest in Pakistan in 1969 has caused both the Government of Pakistan and external donors to re-examine Pakistan's economic policies and objectives. In the Pakistan Country Program Paper, dated January 28, 1970, it is noted that, although Pakistan's economic performance in 1969 had been uneven, the economy grew by 5.8% per annum during the Third Plan (1965/66-1969/70) despite difficult conditions. In industry, under-utilization of capacity and serious price distortions have developed, in part due to government policies designed to cope with reduced foreign currency availability. The Government is now re-examining its industrial policy with the assistance of the recommendations of the Bank's Industrial Policy Mission. In view of Pakistan's good record in dealing with major issues of economic policy, there is reason to believe that appropriate changes in industrial policy will be introduced. In agriculture there has been a significant breakthrough in wheat and rice production in West Pakistan, but much less

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

progress has been made in East Pakistan. A major issue in Pakistan is the increasing disparity in income growth between East and West Pakistan. The Bank/IDA Program assumes that in the next few years, greater priority will be given to the needs of East Pakistan, where the most urgent requirement is to raise agricultural production. One-third of total Bank/IDA Lending Program for FY 1971-1975 is therefore earmarked for agricultural projects in East Pakistan.

4. The Association has made three credits for water development projects in East Pakistan: Credit No. 11-PAK (US $1 million equivalent) for the Dacca-Demra Project in 1961, Credit No. 39-PAK (US $5 million equivalent) for the Brahmaputra Embankment Project in 1963, and Credit No. 40-PAK (initially US $9 million) for the first Chandpur Project in 1963. The Association has also made two credits to help finance consultants: one was Credit No. 136-PAK, for general consultants to East Pakistan Water and Power Development Authority (EPWAPDA) and the other, Credit No. S-8 PAK, for the engineering services of the Dacca Southwest Irrigation-Engineering Project.

5. Various difficulties were encountered in implementing the first Chandpur Project. It was originally designed to provide for irrigation and flood protection for a gross area of 135,000 acres. Construction progressed very slowly. In 1965, the Association decided to cancel the amount of the Credit pertaining to irrigation (US $3.75 million equivalent), despite the objections of the Government of East Pakistan, in order to reduce the project to a size which the Association considered the executing agency, EPWAPDA, could handle successfully; and additionally because there were doubts about the design of the irrigation features, primarily on account of the difficulty of acquiring land for the elevated irrigation canals. Construction of the embankments proceeded until June 1967, by which time the Association had come to doubt whether any significant benefits would accrue without irrigation. One of the first tasks of the special group, established in September 1967 by the Bank Group to assist East Pakistan in its agriculture and water planning, was to re-evaluate the Chandpur Project. In the light of the group's report, a recommendation was made to the Executive Directors, which was approved in June 1968, that the undisbursed balance (about US $0.66 million equivalent) of the Credit be applied towards the cost of redesigning the project on a substantially modified basis, including irrigation. The consultants selected for this work produced a Feasibility Report in September 1969, and are expected to complete designs and documents by March of this year.

6. The second Chandpur Project is designed to provide irrigation by using natural drainage channels and low-lift pumps. The difficulty of acquiring land will be alleviated: not only is much less land required (2,640 acres instead of 6,000 acres), but most of the sites are of relatively lower elevations and hence less valuable. Almost 1,440 acres have already been acquired. For the 1970 construction season, an additional 500 acres will be needed and the acquisition of this land is a condition of effectiveness. Assurances will be obtained during negotiations that the balance (700 acres) will be acquired by October 1970 and that adequate and prompt compensation will be paid to the landowners affected.

7. During the rainy season, periodic flood levels in the polder will be reduced from present average levels of about 12 feet above sea level to about 10 feet above sea level. This will mean that about two-thirds of the cultivable land within the polder will be free from flooding, the other one-third still being subject to flooding at varying depths. During the rest of the year, the water level will be kept at about 7 feet above sea level, which will be sufficient for the purposes of irrigation. The water will be raised from the channels by low-lift pumps, each of which is expected to serve an area of about 50 acres. With assured water supplies, improved varieties and inputs can be used and the cropping intensity increased from 170% to 240%.

8. The success of the Chandpur Project requires that agricultural inputs (e.g., low-lift pumps, fertilizer, and improved seed varieties) and agricultural improvements (extension work, pump groups, and agricultural credit) become available as the phased construction of the project works (embankments, regulators, and irrigation works) progresses. This in turn will require a complex project organization and management involving several East Pakistan organizations (EPWAPDA, Agricultural Development Corporation, Agriculture Department and the Thana Irrigation Program). Special arrangements for organization and management have been developed for this project and have been discussed extensively with the Government of Pakistan. These arrangements, described in Part VI of the Appraisal Report, center on a Project Area Committee and a Central Review Committee which are to be reconstituted with membership and terms of reference satisfactory to the Association.

9. The Project is expected to yield substantial benefits in agricultural output, with farm production increasing by as much as three times above that obtainable without the project. The economic rate of return would be approximately 22% for the presently proposed project. If previous expenditures of Rs. 51.0 million on the project are included in the calculations, the rate of return for the combined investments would be about 15%. However, the rate of return is particularly sensitive to timing. The 22% rate of return would decline to 18% if the construction of major facilities were to require 5 rather than 3 years; it would decline to 16% if the time required to install 1,500 low-lift pumps takes 6 years rather than 3 years.

10. While the direct foreign exchange cost of the project is only 23% of the total cost, it is proposed that the Credit finance 60% of the project cost (net of duties and taxes). A high proportion of local currency financing is considered justified on country economic grounds. Although the Government has performed reasonably well in taking action to raise additional revenue, the shortage of local currency has developed into a major constraint on the level of public development expenditures. This situation has arisen in part because of rapid increases in outlays on debt service and defense, but it has been greatly aggravated by the sharp rise in salaries and welfare oriented outlays following the disturbances in late 1968 and early 1969. On the exchange side, freely usable exchange resources have been squeezed by rising debt service payments and a roughly constant level of gross inflows, largely in the form of project assistance. Furthermore, water control projects in East Pakistan, like the Chandpur Project, have a very high priority. If the Bank Group is to make a significant contribution in this vital sector, where the foreign exchange content usually is low, it will have to be prepared to finance a substantial amount of local costs.

11. Low-lift pumps have to date been supplied to East Pakistan primarily under supplier's credits or bilateral loans, though a small number has been financed by the first two IDA credits to the Agricultural Development Bank. Existing lines of credit are sufficient to finance low-lift pumps at least through 1972, and there are indications that further bilateral credits would be available. The question therefore arises whether the proposed Credit should include approximately US $1.4 million equivalent to finance the procurement of 1,500 low-lift pumps. Two factors bear on this issue. First, in administering the low-lift pumps program, the East Pakistan agencies concerned have adopted a standardized specification for a province-wide program calling for the supply of portable 2 cusec pumps, able to raise water 30-40 feet. Provision has been made in the Project for engineering investigations to determine whether a more economic pump/engine combination should be adopted for the Chandpur Project and other polder projects, where the pumping head will not exceed 9-10 feet. These investigations would take into account the desirability of using standard units as far as practicable. Secondly, inclusion of provision for financing the pumps in the project would probably enable the Association to influence more directly the program for the installation of pumps in the project area and give greater assurance that the full benefits from the construction of the project works would be achieved as expeditiously as possible. Pakistan has difficulty utilizing some of the bilateral aid available and as a general rule, the Bank Group should not finance imports which can be financed bilaterally on appropriate terms. But in view of the unfortunate history of the first Chandpur Project, I have accepted the argument that including provision for the pumps in the Credit would provide greater assurance that the right pump/engine combination would be on hand at the right time.

12. Many of the farmers are living at subsistence level and much of the additional production would be consumed, so that their capacity to meet charges arising from the project is very limited. Low-lift pump costs will be recovered under existing procedures by a "rental charge". The cost of operation and maintenance of major works will be recovered by a "betterment levy" on farm land. Full operation and maintenance costs of pumps and project works will be recoverable annually by the seventh year after completion of the project. It is believed that the Government may begin recovering part of capital costs after ten years. A further study to determine the farmers' capacity to make such payments will be required and assurances will be obtained during negotiations that these studies will be undertaken.

13. To reduce the risk of delays, which might have a disproportionate effect on progress owing to the shortness of the construction season, we have already agreed that tenders should be called for contracts for the construction of the regulators and for the electrical and mechanical works up to a maximum of US $700,000 equivalent. The Executive Directors have already been informed of this in the Monthly Operational Summary.

14. Contracts for the regulators, low-lift pumps, and machinery and equipment for irrigation would be awarded after international competitive bidding and subject to the Association's approval. The dredging of the South Dakatia River and construction of the power line would be carried out by EPWAPDA. The remaining contracts for embankments and closures (US $1.4 million

equivalent including contingencies), sluices (US $0.2 million equivalent), buildings (US $3.3 million equivalent), excavation of khals and channels (US $0.2 equivalent) would be awarded after local bidding following EPWAPDA's and the East Pakistan Building and Communication Department's standard procedures (subject to the possibility that EPWAPDA itself might perform some of the work). None of these contracts is expected to be of sufficient interest to foreign firms to attract international bidding, as the work is generally labor intensive and dependent on knowledge of local conditions. International competitive bidding for the civil works contracts for the regulators has already been completed and no foreign bids have been received.

15. The foreign exchange costs of the project include an amount of US $1.4 million equivalent for low-lift pumps and engines. Local manufacturers would be allowed to submit bids and would be granted a preference of 15% or the prevailing custom duty, whichever is lower. Although the shadow exchange rate used in project analysis in determining the economic rate of return is Rs. 9.52, bids would be compared on the basis of the official exchange rate (Rs. 4.76 = US $1.00). On this basis, local bidders probably will not secure the pump or engine contracts.

16. The Appraisal Report requires as a condition of effectiveness that the Government of East Pakistan (GOEP) open two special accounts with advanced replenishment, one for use for the Project Director (Construction) and the other by the Project Director (Agriculture). I understand that GOEP has indicated its willingness to do so for this and a forthcoming tubewell project, but it is uncertain whether the Central Government will be able to give a commitment. The Agriculture Projects Department feels that these accounts are essential for the timely execution of the project, especially since there have been difficulties in the past due to shortfalls in the funds actually allocated to projects even though adequate budget provisions had been made. I do not intend to persist in this requirement if the Government makes difficulties about it, because the provision of adequate rupee funds for projects is a general problem. Satisfactory performance will be one of the requirements for continuing the Bank/IDA program in Pakistan.

17. Subject to my observations in paras. 11 and 16, I agree with the recommendation that the Government be invited to negotiate a Credit of US $13 million equivalent, subject generally to the conditions proposed in the Appraisal Report.

I. P. M. Cargill
Director

Attachment

Population: 126 m (Pakistan)
68 m (East Pakistan)
Per Cap GNP: US$110 (Pakistan)

EAST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Irrigation - Dacca	IDA	1.0															
Irrigation - Dacca Southwest Eng.	IDA								.8								
Irrigation - Dacca Southwest	IDA									30.0							
Irrigation - Chandpur I	IDA		9.0														
Irrigation - Chandpur II	IDA								13.0								
Irrigation - Chandpur North Eng.	IDA										1.0						
Irrigation - Chandpur North	IDA											10.0					
Irrigation - Karnaphuli-Muhuri Eng.	IDA								2.6								
Irrigation - Karnaphuli	IDA										10.0						
Irrigation - Muhuri	IDA											7.0					
Irrigation - Little Feni	IDA												10.0				
Irrigation - Belkuchi	IDA											5.0					
Irrigation - Barisal I Eng.	IDA										2.0						
Irrigation - Barisal I	IDA												20.0				
Irrigation - Pabna	IDA													18.0			
Irrigation - Comilla-Naukhali	IDA													15.0			
Tubewells - ADC I	IDA								17.0								
Tubewells - EPWAPDA I	IDA										8.0						
Tubewells - EPWAPDA II	IDA												25.0				
Flood Control - Brahmaputra	IDA	5.0															
Consultants - EPWAPDA I	IDA							2.0									
Consultants - EPWAPDA II	IDA									2.0							
Consultants - EPWAPDA III	IDA											2.0					
Consultants - EPWAPDA IV	IDA													2.0			
Grain Storage	IDA				19.2												
Tea Machinery & Irrigation	IDA									5.0							
Education I	IDA		4.5														
Education II	IDA				13.0												
EP Education Unidentified	IDA										7.0						
Karnaphuli Paper	IBRD	4.2															
EP Small Industries I	IBRD								3.0								
Highways I	IDA		22.5														
Highways II	IDA										12.5						
Highways III	IDA											13.5					
Inland Water Transport I	IDA	2.0															
Inland Water Transport II	IDA			5.3													
Railways I	IDA		10.0														
Railways II	IDA									8.0							
Water Supply/Sewerage - Dacca	IDA		26.0														
Water Supply/Sewerage - Chittagong	IDA		24.0														
Subtotals	IBRD	4.2	0.0	0.0	0.0			0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0
	IDA	8.0	96.0	5.3	32.2			2.0	33.4	45.0	40.5	37.5	55.0	35.0	133.5	158.4	213.0
	TOTAL	12.2	96.0	5.3	32.2			2.0	36.4	45.0	40.5	37.5	55.0	35.0	133.5	161.4	213.0
	No.	4	6	1	2			1	5	4	6	5	3	3	9	21	21
Estimated EP Shares of E& W Loans/Credits																	
Agricultural Credit ADB I	IDA			9.0													
Agricultural Credit ADB II	IDA						2.9										
Agricultural Credit ADB III	IDA							6.0									
Agricultural Credit ADB IV	IDA									7.0							
Agricultural Credit ADB V	IDA											15.0					
Agricultural Credit ADB VI	IDA													15.0			
DFC-PICIC I-IV	IBRD	13.4															
DFC-PICIC V	IBRD		8.1														
DFC-PICIC VI	IBRD				8.1												
DFC-PICIC VII	IBRD						9.5										
DFC-PICIC VIII	IBRD							10.9									
DFC-PICIC IX	IBRD									18.0							
DFC-PICIC X	IBRD											18.0					
DFC-PICIC XI	IBRD													20.0			
IDBP I	IDA								10.0								
IDBP II	IDA										5.0						
IDBP III	IDA																
Industrial Imports	IDA					5.0								10.0			
Commercial Vehicles	IDA				4.0												
Railways I-V	IBRD	23.4															
Telecommunications I	IDA							8.2									
Telecommunications II	IDA								3.0								
Subtotals	IBRD	36.8	8.1	0.0	8.1	0.0	9.5	10.9	0.0	18.0	0.0	18.0		20.0	25.7	46.9	56.0
	IDA	0.0	0.0	9.0	4.0	5.0	2.9	14.2	13.0	7.0	5.0	15.0		25.0	20.9	54.2	52.0
	TOTAL	36.8	8.1	9.0	12.1	5.0	12.4	25.1	13.0	25.0	5.0	33.0		45.0	46.6	101.1	108.0
	No.	9	1	1	2	1	2	3	2	2	1	2		3	7	10	8
GRAND TOTALS	IBRD	41.0	8.1	0.0	8.1	0.0	9.5	10.9	3.0	18.0	0.0	18.0	0.0	20.0	25.7	49.9	56.0
	IDA	8.0	96.0	14.3	36.2	5.0	2.9	16.2	46.4	52.0	45.5	52.5	55.0	60.0	154.4	212.6	265.0
	TOTAL	49.0	104.1	14.3	44.3	5.0	12.4	27.1	49.4	70.0	45.5	70.5	55.0	80.0	180.1	262.5	321.0
	No.	13	7	2	4	1	2	4	7	6	7	7	3	6	16	31	29
IBRD Loans Outstanding																	
- Including undisbursed		32.3	38.2	36.0	42.0	38.4	44.8	52.0	51.6	65.6	61.3	74.2	69.2	83.9			
- Excluding undisbursed		18.4	20.9	23.7	26.9	28.2	32.3	35.9	43.2	49.8	58.9	66.0	67.8	69.3			
IDA Credits Outstanding																	
- Including undisbursed		8.0	104.0	118.3	150.7	135.7	128.8	145.0	191.3	243.3	288.8	341.2	396.0	455.5			
- Excluding undisbursed		0.4	1.2	5.2	15.2	32.0	49.5	65.2	91.4	147.0	211.1	259.8	298.2	351.0			

Pakistan Division
February 2, 1970

Population: 126 m (Pakistan)
58 m (West Pakistan)
Per Cap GNP: US$110 (Pakistan)

WEST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Irrigation - Khairpur	IDA	18.0															
Indus Basin I	IBRD	90.0															
Indus Basin II	IDA			58.5													
Tarbela Dam	IBRD							25.0									
Tubewells - Dipalpur	IDA												15.0				
SCARP V	IDA										5.0						
SCARP VI	IDA											12.0					
Farm Improvement	IBRD	3.3															
Education I	IDA		8.5														
Education - Engineering Colleges	IDA								5.0								
Education Unidentified I	IDA											8.0					
Education Unidentified II	IDA													5.0			
Industrial Estates	IDA	6.5															
Fertilizer Plant I (Dawood)	IBRD							32.0									
Fertilizer Plant II	IBRD									30.0							
Power - KESC I-III	IBRD	30.2															
Power - KESC IV	IBRD					21.5											
Power - WAPDA Transmission	IDA								22.5								
Highways I	IDA		17.0														
Highways II	IBRD							35.0									
Highways - Engineering	IDA					1.0											
Highways III	IDA								10.0								
Highways IV	IDA										20.0						
Highways V	IDA												20.0				
Railways I	IDA		25.0														
Railways II	IBRD					13.5											
Railways III	IBRD							14.5									
Pipelines - SGTC I	IBRD	14.0															
Pipelines - SNGPL I	IBRD		15.0														
Pipelines - SNGPL II	IBRD							8.0									
Pipelines - SNGPL III	IBRD								17.0								
Pipelines - SNGPL IV	IBRD										5.0						
Pipelines - SNGPL V	IBRD												5.0				
Ports - Karachi I	IBRD	14.8															
Ports - Karachi II	IBRD		17.0														
Ports - Karachi Engineering	IDA								1.0								
Ports - Karachi III	IDA									15.0							
Ports - Karachi IV	IDA												20.0				
Water Supply/Sewerage - Lahore I	IDA					1.8											
Water Supply/Sewerage - Lahore II	IDA									5.0							
Subtotals	IBRD	152.3	32.0	0.0		35.0		114.5	17.0	30.0	5.0	0.0	5.0	0.0	67.0	166.5	40.0
	IDA	24.5	50.5	58.5		2.8		0.0	38.5	20.0	25.0	20.0	55.0	5.0	111.8	103.5	125.0
	TOTAL	176.8	82.5	58.5		37.8		114.5	55.5	50.0	30.0	20.0	60.0	5.0	178.8	270.0	165.0
	No.	9	5	1		4		5	5	3	3	2	4	1	10	18	13
Estimated WP Shares of S&W Loans/Credits																	
Agricultural Credit ADB I	IDA			18.0													
Agricultural Credit ADB II	IDA						7.1										
Agricultural Credit ADB III	IDA							24.0									
Agricultural Credit ADB IV	IDA									8.0							
Agricultural Credit ADB V	IDA											15.0					
Agricultural Credit ADB VI	IDA													15.0			
DFC-PICIC I-IV	IBRD	35.8															
DFC-PICIC V	IBRD		21.9														
DFC-PICIC VI	IBRD				21.9												
DFC-PICIC VII	IBRD						25.5										
DFC-PICIC VIII	IBRD							29.1									
DFC-PICIC IX	IBRD									22.0							
DFC-PICIC X	IBRD											22.0					
DFC-PICIC XI	IBRD													20.0			
IDBP I	IDA								10.0								
IDBP II	IDA										5.0						
IDBP III	IDA													10.0			
Industrial Imports	IDA					20.0											
Commercial Vehicles	IDA				21.0												
Railways I-V	IBRD	70.4															
Telecommunications I	IDA							7.8									
Telecommunications II	IDA								12.0								
Subtotals	IBRD	106.2	21.9	0.0	21.9	0.0	25.5	29.1	0.0	22.0	0.0	22.0		20.0	69.3	73.1	64.0
	IDA	0.0	0.0	18.0	21.0	20.0	7.1	31.8	22.0	8.0	5.0	15.0		25.0	66.1	81.8	53.0
	TOTAL	106.2	21.9	18.0	42.9	20.0	32.6	60.9	22.0	30.0	5.0	37.0		45.0	135.4	154.9	117.0
	No.	9	1	1	2	1	2	3	2	2	1	2		3	7	10	8
GRAND TOTALS	IBRD	258.5	53.9	0.0	21.9	35.0	25.5	143.6	17.0	52.0	5.0	22.0	5.0	20.0	136.3	235.6	104.0
	IDA	24.5	50.5	76.5	21.0	22.8	7.1	31.8	60.5	28.0	30.0	35.0	55.0	30.0	177.9	185.3	178.0
	TOTAL	283.0	104.4	76.5	42.9	57.8	32.6	175.4	77.5	80.0	35.0	57.0	60.0	50.0	314.2	424.9	282.0
	No.	18	6	2	2	5	2	8	7	5	4	4	4	4	17	28	21
IBRD Loans Outstanding																	
- Including undisbursed		222.9	268.8	256.8	269.9	292.6	305.1	433.8	433.7	465.7	449.2	445.9	425.9	419.6			
- Excluding undisbursed		95.2	104.3	115.9	127.2	147.0	186.4	226.8	261.7	300.0	344.4	364.7	369.9	362.3			
IDA Credits Outstanding																	
- Including undisbursed		24.5	75.0	151.5	172.5	195.3	202.3	233.4	293.8	321.7	351.6	386.4	440.9	469.5			
- Excluding undisbursed		0.1	0.8	25.9	69.0	119.8	165.9	179.9	200.0	243.1	284.8	321.1	349.6	382.7			

Pakistan Division
February 2, 1970

Population: 126 m
Per Cap GNP: US$110

EAST & WEST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY1975

($ Millions)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
East & West Loans/Credits																	
Agricultural Credit ADB I	IDA			27.0													
Agricultural Credit ADB II	IDA						10.0										
Agricultural Credit ADB III	IDA							30.0									
Agricultural Credit ADB IV	IDA									15.0							
Agricultural Credit ADB V	IDA											30.0					
Agricultural Credit ADB VI	IDA													30.0			
DFC-PICIC I-IV	IBRD	49.2															
DFC-PICIC V	IBRD		30.0														
DFC-PICIC VI	IBRD				30.0												
DFC-PICIC VII	IBRD						35.0										
DFC-PICIC VIII	IBRD							40.0									
DFC-PICIC IX	IBRD									40.0							
DFC-PICIC X	IBRD											40.0					
DFC-PICIC XI	IBRD													40.0			
IDBP I	IDA								20.0								
IDBP II	IDA										10.0						
IDBP III	IDA													20.0			
Industrial Imports	IDA					25.0											
Commercial Vehicles	IDA				25.0												
Railways I-V	IBRD	93.8															
Telecommunications I	IDA							16.0									
Telecommunications II	IDA								15.0								
Subtotals	IBRD	143.0	30.0	0.0	30.0	0.0	35.0	40.0	0.0	40.0	0.0	40.0		40.0	95.0	120.0	120.0
	IDA	0.0	0.0	27.0	25.0	25.0	10.0	46.0	35.0	15.0	10.0	30.0		50.0	87.0	136.0	105.0
	TOTAL	143.0	30.0	27.0	55.0	25.0	45.0	86.0	35.0	55.0	10.0	70.0		90.0	182.0	256.0	225.0
	No.	9	1	1	2	1	2	3	2	2	1	2		3	7	10	3
PAKISTAN TOTAL	IBRD	299.5	62.0	0.0	30.0	35.0	35.0	154.5	20.0	70.0	5.0	40.0	5.0	40.0	162.0	289.5	160.0
	IDA	32.5	146.5	90.8	57.2	27.8	10.0	48.0	106.9	80.0	75.5	87.5	110.0	90.0	332.3	397.9	443.0
	TOTAL	332.0	208.5	90.8	87.2	62.8	45.0	202.5	126.9	150.0	80.5	127.5	115.0	130.0	494.3	687.4	603.0
	No.	22	12	3	4	5	2	9	12	9	10	9	7	7	26	49	42
IBRD Loans Outstanding (Pakistan)																	
- Including undisbursed		255.2	306.9	292.9	311.8	331.1	350.0	485.6	485.3	531.3	510.5	520.1	495.1	503.5			
- Excluding undisbursed		113.7	125.1	139.7	154.2	175.4	218.9	262.5	304.9	349.8	403.8	430.7	437.7	431.6			
IDA Credits Outstanding (Pakistan)																	
- Including undisbursed		32.5	179.0	269.8	323.2	331.0	331.1	378.4	485.1	565.0	640.4	727.6	836.9	925.0			
- Excluding undisbursed		0.6	2.0	35.1	84.3	151.8	215.8	245.1	291.4	390.1	495.9	580.9	647.8	733.7			

Pakistan Division
February 2, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

February 11, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Israel - Third Bank Loan to Industrial Development Bank of Israel

1. The Committee is requested to consider, without meeting, the attached memorandum of February 11, 1970 from the Europe, Middle East and North Africa Department, entitled "Israel - Proposed Third Bank Loan to Industrial Development Bank of Israel" (LC/O/70-12).

2. Comments, if any, should be sent to reach Mr. Springuel (ext. 4801) by 1:00 p.m. on Monday, February 16.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/70-12

February 11, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Israel - Proposed Third Bank Loan

to Industrial Development Bank of Israel

1. Attached is the Appraisal Report No. DB-62 dated January 27, 1970. It recommends a third Bank loan of up to \$25 million to the Industrial Development Bank of Israel (IDBI).

The Bank's lending policy towards Israel

2. The Bank has made five loans to Israel totalling \$109.5 million. The last two were made to IDBI, \$20 million in September 1965, and \$15 million in September 1967. In 1967, the Bank decided to discontinue lending to Israel on the grounds that her needs for external resources were decreasing following the implementation of the Government's deflationary policies and that Israel had sufficient other sources she could tap. In 1967 however, the Government switched to a policy of rapid growth and in 1968 the GNP grew by 14 percent, creating a large import surplus which has since continued.

3. On the basis of the findings of the latest economic mission which visited the country in late 1968, the Economic Committee concluded in March 1969 that the Bank should be prepared to resume lending to Israel but that the Bank representatives should indicate to the Government that continuation of Bank lending would depend on the adequacy of the country's economic performance. Specific economic policy issues to be dealt with were:

(i) maintaining internal financial stability;

(ii) improving competitiveness and growth of exports;

(iii) pursuing the import liberalization program;

(iv) adequacy of the public investment effort.

4. An updating memorandum is under preparation and its preliminary conclusion is that the performance on these issues is relatively satisfactory. Price increases in 1969 have been limited to 3.5 percent. Exports have increased by about 13 percent in 1969. The recently concluded agreement with the European Economic Community will foster Israeli exports. The import liberalization program was further implemented. On the other hand the public investment effort in 1969 was not really adequate but budgetary and other measures now taken seem to indicate that the 1970 performance will be better. We will discuss these questions with the Government representatives during negotiations and make clear that further Bank lending to Israel will be conditioned on satisfactory economic performance.

5. The proposed project is one of two operations scheduled for the current fiscal year. The second is an agricultural credit project of $25 million which was appraised in November 1969 and will come before the Loan Committee in March. The lending program is being revised and will be distributed later.

The Borrower

6. IDBI was established in 1957 to assist private industrial development in Israel. It is well organized and expertly managed with a loan portfolio of about $250 million and earningsof about 15 percent of share capital. IDBI is an institution of national importance providing nearly 25 percent of total annual gross industrial investment, mostly in the form of loans. Its financial record is satisfactory; the amount overdue is small and reserves are 8 percent of the total portfolio.

7. The two previous Bank loans have been fully committed. Like the second loan, the third would be limited to direct foreign exchange expenditure. IDBI's project loan commitments for the next two years are $136 million, of which $66 million would be foreign exchange. Of this, identified sources are expected to provide $22 million, leaving a net need of $44 million. The proposed Bank loan of up to $25 million would provide somewhat more than half of this and at the same time not remove the stimulus to seek alternate sources of capital.

Interest Rates

8. Subsidized interest rates have long been utilized in Israel as part of a system of incentives designed to promote a number of economic and social objectives. A study of the full economic effects of the system remains to be made and is now getting organized. The Bank of Israel wishes to increase interest rates to reinforce its tight money policy. The IMF, without taking an official position, would apparently favor an increase. During the recent appraisal of the agricultural credit project, the mission obtained a commitment that, when borrowing Bank funds, the farmers would pay at least 2 percent more thant the current Bank rate.

9. At the request of the Government, IDBI charges special rates of interest, as low as 6.5 percent, in so-called development areas, the Government reimbursing to IDBI the difference to its normal rate of 9 percent. The system was already applicable under the second Bank loan, and has not been questioned during the appraisal for the present one. During negotiations, we will explore whether the present interest rate structure does not foster uneconomic use of resources. We will also examine with IDBI the methods which would be used to establish the true economic justification of sub-projects financed with Bank funds, eliminating as far as practicable the distortions which could be introduced by lower interest rates and other incentives.

Conditions of the Loan

10. Under the second loan to IDBI, the "free limit" was set at £I 1.5 million ($428,571). To encourage better appraisal standards for government guaranteed sub-projects, these were excluded from "free limit" consideration. In view of the high quality of IDBI's staff, loan appraisals and follow-up work, it is proposed to raise the "free limit" to $750,000. Because the Government now applies more stringent standards in issuing its guarantee, the "free limit" could be extended to all sub-projects. As under previous loans, withdrawals from the loan account without the Bank's prior approval would not exceed, in total, 50 percent of the loan.

11. Under the second loan, commitments were delayed because IDBI appraisal reports were badly translated and did not adequately reflect the quality of the actual appraisal work. These questions were discussed by our appraisal mission. During negotiations we will ask for confirmation that IDBI will provide better translation services and, if necessary, supplement the information contained in its appraisal reports.

12. We will require that IDBI will not finance, out of the loan, sub-projects situated in occupied territories or sub-projects whose main purpose is the producetion of defense items. The form of such an undertaking will have to be worked out during negotiations.

13. The Bank did not impose any debt to equity ratio in its first two loans because AID had imposed such a ratio (2:1) and because the actual ratio is low (0.92:1 in 1968). However IDBI's obligations to AID will lapse in 1972 and it would be prudent to introduce a 3:1 ratio in the new Loan Agreement.

Recommendations

14. IDBI is an excellent institution which deserves continued financial support from the Bank. I propose a $25 million loan, to be made at the usual terms and conditions applicable to Bank loans to development finance companies. I propose that the Bank enter into negotiations along the lines of the recommendations in paragraph 90 of the attached Appraisal Report.

M.P. Benjenk
Director
Europe, Middle East and North Africa
Department

Attachment

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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February 11, 1970

MEMORANDUM TO THE LOAN COMMITTEE

The Gambia - Port Project

1. The Committee is requested to consider, without meeting, the attached memorandum of February 11, 1970 from the Western Africa Department, entitled "The Gambia - Proposed Port Project" (LC/0/70-13).

2. Comments, if any, should be sent to reach Mr. Adams (ext. 4736) by 1:00 p.m. on Monday, February 16.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

CONFIDENTIAL

LC/0/70-13

February 11, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

THE GAMBIA: Proposed Port Project

I. BACKGROUND

1. In early 1968, studies were carried out by the National Ports Council, London, at the request of the Gambian Government to the British Ministry of Overseas Development (ODM) with a view to improving organization and planning future development in the Port of Bathurst. Subsequently, ODM commissioned consultants (Maunsel and Partners, in association with Cooper Bros. and Co., London) to prepare a feasibility study and preliminary design for development of the Port of Bathurst.

2. The proposed credit of US $2.0 million would be the first Bank Group operation in The Gambia.

II. THE ECONOMY

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

4. Growth prospects in The Gambia are limited mainly by a severe resource constraint which affects the economy in virtually every sector. Prospects depend essentially on the government's success in achieving expansion and diversification of agricultural output and in eliminating the current budget deficit. Both objectives are related since increased agriculture production is expected to enlarge the tax base and thus lead to increased government revenues. Simultaneously the government hopes to reduce growth of current expenditures to a rate that would allow gradual elimination of the budget deficit over the next 5-8 years. The main economic sector outside agriculture with a significant though limited development potential is tourism.

5. In the foreseeable future The Gambia will remain heavily dependent on foreign aid. By 1974/75, annual capital aid requirements are estimated to reach about £ 1.3 million of which £ 800-900,000 are likely to be provided by the UK on very concessionary terms. The resource gap, which will amount to about £ 450-500,000 a year and for the financing of which the country can probably not rely on additional bilateral aid sources, should be bridged by other donors of concessionary aid. Such financing is required to keep debt service obligations at a low level and to safeguard the existing satisfactory balance of payments situation despite a substantial increase in foreign indebtedness. It is not proposed that IDA lending be conditioned on the fulfillment of any general policy conditions as the overall performance of The Gambia is judged satisfactory. Lending to The Gambia will, however, to a great extent depend on the ability to develop schemes to the point where they are ready for financing.

6. The attached Five-Year Lending Program for The Gambia discussed during an October 1969 country program meeting is, for the early years, limited to the project under review and a rice development project. Other projects help diversify agriculture and provide medium and long term credit to various sectors of the economy might be envisaged at a later stage, depending on the state of readiness of these schemes.

III. THE PROJECT

7. An appraisal report on the project (PTR - 40) is attached. It concludes that the US $2.3 million project is economically justified and technically sound and that it constitutes a suitable basis for a US $2.0 million credit, provided assurances are obtained from the government on the matters listed in paragraph 7.01.

8. The project consists of:

(I) a new deep-water berth of 400 ft. length and 30 ft. depth for general cargo ships and petroleum tankers;

(II) two transit sheds of 250 x 100 and 290 x 100 ft. at the new Admiralty Wharf;

(III) rehabilitation of Government Wharf and construction of a mooring dolphin;

(IV) a new jetty for shallow-draft vessels, in place of the existing "BOAC" jetty;

(V) reclamation by dredging of additional areas for shore facilities;

(VI) the necessary roads, with parking, sorting and storage areas;

(VII) offices and other amenities;

(VIII) procurement of a small, suction-cutter dredger, cargo-handling equipment, marine survey equipment, and navigation aids; and

(IX) provision of engineering consulting services, a port operations advisor, a port accounting advisor and personnel training.

9. IDA would finance the foreign cost of the program estimated to be about 87 percent and corresponding to approximately US $2.0 million equivalent.

10. The Ministry of Works and Communications will be responsible for execution of the project. Contracts for construction and equipment supply will be awarded on the basis of international competitive bidding.

11. Improvement and extension of the Port of Bathurst has high priority. The port handles about 80 percent of the country's foreign trade and this ratio is expected to increase in the future. The value of Gambian foreign trade is almost equivalent to total GDP. The main benefits of the project will be the elimination of costly port congestion and the reduction of cargo handling costs.

12. Operational and organizational reforms will be introduced in the framework of the project. The project calls for the creation of a Port Authority by mid-1972. It is proposed that the Port Authority assume a debt to the government equivalent to the total IDA credit, but on terms and conditions equivalent to those which would apply to a Bank Loan.

IV. RECOMMENDATION

13. I recommend that the Association invite the Government of The Gambia to negotiate a credit of US $2.0 million for the proposed port project, in accord with conditions presented in paragraph 7.01 of the appraisal report.

Roger Chaufournier
Director

Attachments

Population: 0.3 m
Per Cap Inc: $89

IVa. GAMBIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Rice Development	IDA			1.0					
Agriculture Unidentified	IDA						2.0		
DFC	IDA					1.0			
Bathurst Port Rehabilitation	IDA	2.0							
	IDA	2.0		1.0		1.0	2.0		3.0
	No.	1		1		1	1		2

P & B 1/14/70

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-6

February 9, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Panama - Second Power Expansion Project" held on January 29, 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
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/70-6

February 9, 1970

Minutes of Special Loan Meeting to discuss "Panama - Second Power Expansion Project" held at 3:00 p.m. on January 29, 1970 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Broches, Cancio, Chadenet, Gutierrez, Mirza, Onslow, Rocha, Sheehan, Sear, Wright, Weiner and Pearce (Secretary).

2. Issues: The meeting had been called to consider a memorandum dated January 27, 1970 from the Central America and Caribbean Department (LC/0/70-7) and the accompanying draft appraisal report (PU-28 dated January 16, 1970), which recommended negotiations of a proposed $42 million loan to the Instituto de Recursos Hidraulicos y Electrificacion (IRHE), guaranteed by the Government of Panama, for a second power expansion project. The main issues for discussion were: (a) the constitutionality of the present de facto Government of Panama, (b) regulation and tariffs in the Panamanian power sector, and (c) IRHE's financial position.

3. Discussion-Issue(a): The General Counsel said that the constitutionality issue affected an existing or proposed Bank loan to the country concerned at two levels: (i) whether or not the government concerned was legally able to enter into a loan or guarantee agreement representing a valid and binding financial obligation to the Bank which would be honored by any future successor government, and (ii) whether particular covenants affecting the implementation of the project (e.g. institutional reforms, regulatory laws and decrees), for which parliamentary authorization or ratification would normally be necessary, could be considered effective and binding on a successor government. As far as the first question was concerned, the present military regime, which had now been in power for over a year, was clearly the de facto government of Panama and had been recognized as such by the United States and a number of other countries. Under the general principles of international law, there was little doubt that a loan or guarantee agreement authorized and ratified by a Cabinet decree of the provisional government, would be a valid and binding obligation of Panama which would have to be honored by any successor government. The second question, however, was less clear and therefore of more concern to the Bank, since certain 'emergency' decrees or regulations issued by a provisional government often expired automatically upon the return of constitutional (i.e. representative) government. In view of the various regulatory changes envisaged in the proposed second power expansion project, the loan documents would provide that if, after the election of a National Assembly,

further parliamentary authorization was necessary to enable the Panamanian Government to perform its obligations under its agreements with the Bank, it would be an event of default if such authorization was not obtained.

4. Discussion-Issues (b) and (c): The meeting considered paragraphs 8 and 11 of the area memorandum and paragraphs 5.01-14 and 7.01(a)(iv) and 7.02(i)(a)-(d) of the appraisal report concerning the nature and timing of various conditions to be fulfilled by the Panamanian authorities before presentation of the proposed loan to the Executive Directors. The Area Department, drawing attention to the priority which the Panamanians attached to this project and the effective relations established by the Bank with the provisional Government, favored relaxation of some of the assurances proposed in the appraisal report as conditions for loan presentation; the Public Utilities Projects Department, on the other hand, argued that the provisional status of the Government justified insistence on fulfillment of these conditions before loan approval.

5. Following considerable discussion, the Chairman decided that, during the forthcoming negotiations of the proposed loan, the Bank should:

(a) seek, as its starting point, enactment of legislation to bring IRHE within the jurisdiction of the Regulatory Commission - and the related step of removing IRHE's Director General from this Commission - as a condition of loan presentation. If, as the Area Department had indicated, the Government found it difficult to enact such legislation before loan presentation and proposed instead a reasonable timetable, the Bank could reconsider its position on this point later; (Area memo., para. 9)

(b) seek clarification of the Government's policy concerning the regulation of gas rates but, since these were a minor part of IRHE's operations, not insist on such regulation; (Area memo., para. 11)

(c) obtain the Government's assurance - the appropriate legal format to be agreed during negotiations - that the Regulatory Law (Decree No. 6) would not be applied retroactively to the profits made by CPFL (IREH's main customer) since 1958; (Area memo., para. 11)

(d) require that future changes to Decree Law 235 and Law 31 affecting rates specifically be subject to prior Bank approval; (Area memo., para. 11)

(e) on the financial side, since the Area and Public Utilities Projects Departments had reached an understanding on the various issues, arrange for an exchange of letters with the borrower on this point during negotiations of the proposed loan.

6. Conclusion: It was decided that negotiations for the proposed loan should proceed on the basis of the recommendation contained in the area memorandum and appraisal report as modified by paragraph 5 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp/Cope
Gutierrez/Mirza
Weiner/Sheehan
Cancio

cc: Loan Committee
Participants