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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/A/71-7

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May 18, 1971

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Monday, May 24, 1971 at 4:00 p.m. in the Board Room.

AGENDA

Liberia - Rubber Project

The Committee will consider the attached memorandum from Mr. Chaufournier to the Chairman dated May 11, 1971 and the draft appraisal report prepared by the Agriculture Projects Department, entitled "Liberia - Rubber Rehabilitation Project."

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: May 11, 1971

FROM: Roger Chaufournier

SUBJECT: LIBERIA RUBBER PROJECT

1. The Liberia Rubber Project was appraised by a mission which visited Liberia in June/July 1970. Since then, there have been lengthy and involved discussions between Agriculture Projects Department and us on a number of aspects of the project, notably its economic and financial viability and its organization. The issues have now been adequately defined. The purpose of this memorandum is to obtain your concurrence to proceed on the basis outlined below.

Background

2. One of the few hopeful signs in the Liberian economy outside the iron and rubber concessions has been the growth of Liberian-owned rubber industry. In 1950, production was a mere 3 million pounds. Since then, it has been growing steadily until in 1969 it was producing 41 million pounds, worth $9 million, representing about 30 percent of Liberia's rubber exports and employing about 25,000 people. However, faced with declining prices, low yields, and high processing costs, the future of the industry is in danger. In the absence of credit and extension services and more equitable processing costs, it can be expected that many Liberian-owned farms will go out of business. At the same time, while there is general agreement that agriculture remains one of Liberia's highest priorities for development, no alternative agriculture projects have been prepared. You will recall that an oil palm project, which we helped develop, was later judged unsuitable because of its low economic return. It was for this reason, and with the concurrence of the Agriculture Projects Department that we undertook to develop a rubber project, since it appeared to be the area of greatest promise in agriculture.

3. In April 1969, the Government of Liberia applied for an IDA credit to finance part of the costs of rehabilitating Liberian-owned rubber farms. In January/February 1970, the Bank commissioned the Commonwealth Development Corporation (CDC) to prepare a project. CDC submitted its report in April 1970, proposing assistance to Liberian farmers to open up 25,000 acres of mature rubber and a long term replanting program for Liberian-owned rubber farms. The Appraisal Mission which visited Liberia in June/July 1970 found that areas of mature but untapped rubber suitable for opening up could not be identified. To avoid delay, the Government asked that the project be restricted to replanting.

4. The Appraisal Report (yellow cover) dated January 21, 1971, is attached. The project as appraised provides for the establishment of an autonomous Rubber Development Agency (RDA) to provide credit and extension services for the replanting of 24,000 acres of rubber from 1971 to 1976 (to be followed, if successful, by a further 56,000 acres in two phases from 1977 to 1982). Project costs from 1971 through 1976 are estimated at \$5.8 million; the report considered an IDA credit of \$4 million would be required. Farmers and Government were to provide the finance required from 1977 to 1985. The whole of RDA management and supervision expenses (about 36 percent of total project costs) were included in the project as capital costs. Loans to farmers were to be disbursed over 9 years and repaid over the next 8 years with interest at 7½ percent for the whole of the life of the loan. Labor was costed fully at 70 cents/day, this being the estimated legal minimum wage in 1972. A rubber price of 16 cents/lb C.I.F. New York was used. On this basis, the internal economic return of the project was calculated at 6.3 percent. Using the Economics Department's present long term price projection of 16.5 cents/lb C.I.F. New York, the rate of return would be calculated at 7.1 percent. The Appraisal Report recommended that IDA not proceed with the project, primarily on the ground of this low economic return, but also because of expected difficulties in implementation.

5. A further question, which is not discussed in the Appraisal Report but which the Agriculture Projects Department raised at a later stage, is whether, under the project as appraised, the financial returns to participating farmers would be sufficiently attractive to maintain their interest in the project. If they were not, then the already low economic return would be reduced even further. After considerable discussion of these various questions and regrettable delays, we are now in a position to present the issues.

Issues

Shadow pricing of labor and employment effect of the project

6. For the reasons set out in the attached Annex, we consider that, for the purposes of the economic analysis, project labor should not be costed at more than 50 cents/day. The Appraisal Report adopted 70 cents/day, this being the estimated legal minimum wage in 1972. However, as indicated in the Appraisal Report (para 3.06), most Liberian-owned farms now pay less than the legal minimum wage. Accordingly, the legal minimum wage does not represent the opportunity cost of project labor. At a meeting with Mr. Baum on March 4, 1971, it was agreed that a shadow price of 50 cents/day was appropriate. As in most cases of shadow pricing, there are difficult questions of judgment, but I consider the estimate of 50 cents/day to be fairly conservative. Without an improvement in productivity, the probability is that a large proportion of the estates will go out of business. Given the absence of other employment opportunities, labor will have no choice but to return to subsistence agriculture, thus justifying

a much lower pricing of labor over the period of the project. Pricing labor at 25 cents/day, for example, would provide a rate of return of about 12 percent.

Economic rate of return

7. When labor is costed at 50 cents/day, the internal economic return of the project, using a rubber price of 16.5 cents/lb, is 9.5 percent. The rate of return is depressed by the long gestation period before rubber trees come into production, modest yields, low forecast of rubber prices from 1975 onwards, and high overhead costs of the RDA. The modest yields and high overhead costs of the RDA in turn reflect the failure of the Government to provide any extension services in the past. While the rates of return for this rubber project are marginal by conventional standards, it is submitted that, in the absence of alternative agriculture projects, we should accept a lower rate of return than we would in the case of countries more fortunately placed.

Financial arrangements

8. The economic return is very sensitive to variations in, and the timing of, yields. The level of yields and the time at which farmers first tap their trees is directly related to the financial returns that farmers could expect to obtain from their replanted rubber. If returns are too low, maintenance and tapping standards would be poor; thus yields would be lower than the projected 1,200 lbs/acre. There is a danger that if replanting is financed by loans bearing 7½ percent interest as in the project as appraised the financial returns to farmers would be inadequate to sustain an average yield of 1,200 lbs/acre and the already marginal economic return would be further reduced.

9. As far as we are aware, other rubber producing countries which operate replanting programs, such as Malaysia and Ceylon, provide grants for replanting and finance these through a cess on production. Liberia has not adopted the cess system, and thus has no industry-generated funds in reserve to provide for replanting. Such a cess will eventually be necessary for the financial well-being of the industry; but it is difficult to introduce a cess (a) if Government cannot demonstrate its ability to provide financial assistance for replanting; and (b) at a time when producer prices are tending to fall. Therefore, the Government will, in addition to its own contribution to a replanting program, require outside financial assistance to initiate the program and to sustain it for sufficient time to demonstrate to producers that they will benefit from any cess imposed.

10. We agree with Agriculture Projects Department that the financial arrangements of the project as appraised are less than satisfactory. We believe, however, that there are two possible solutions which deserve further consideration.

(a) grants and loans financed by a cess

One proposal that is being considered would involve, first, the imposition of a cess of 1/8 cent/lb as from 1972 on all rubber produced in Liberia whether by concessionaires or by Liberians; secondly, the imposition of a cess on all Liberian-produced rubber, increasing from 1/8 cent/lb as from 1972 to 7/8 cent/lb by 1975. These two cesses would meet in part the costs of grants and loans to be made to replanting farmers and in part the costs of RDA; thirdly, on the ground that the processing costs presently charged to Liberian producers are unreasonably high, the replanting cess would be borne wholly by the concessionaire processors; and fourthly, replanting and initial operating costs would be financed by grants amounting to about $150 per acre during the years 1 to 6 of establishment and loan totalling $55 per acre in years 7 and 8 at an interest rate of 9 percent. Project costs over the six-year period 1972 through 1977 would be about $6 million and, after allowing for revenues generated by the cess, direct contributions by farmers and government contribution of about $500,000, an IDA credit of about $2.5 million would be appropriate.

(b) interest holiday on sub-loans

The other proposal is that replanting be financed by loans as in the project as appraised. However, an interest holiday would be granted in the period when the trees are coming into maturity (i.e. for the first 9 years) and interest would be charged on the declining balance during the next 8 years at 7½ percent until the loan is repaid. A small cess would be levied to help finance the costs of the RDA. Project costs over a 5-year period, 1972 through 1976, would be about $4.5 million, requiring an IDA credit of about $3 million. The financial returns to farmers under the two alternatives should be sufficient to ensure full production.

11. Neither of these proposals is without difficulties. The first proposal depends on the Government's ability to persuade the concessionaires to absorb the cost of the replanting cess. This could be difficult in the absence of a thorough audit of the concessionaires' processing costs to substantiate our opinion that the processing costs presently charged to Liberian producers are excessively high. The concessionaires may argue that if we really believe that their processing costs are unreasonable, we should finance the establishment of Liberian-owned processing facilities. On the other hand, the second scheme involves the problem of collecting debt service from farmers over long repayment periods (17 years). Both proposals involve a degree of subsidization to participating farmers, although I believe this to be justified by the importance of the project to the Liberian economy.

Market prospects of rubber

12. The rate of return of the project is extremely sensitive to changes in the price of rubber. For instance, an increase of 1 cent/lb increases the economic return by 1.3 percentage points. As noted above, Economics Department now projects a long-term price of 16.5 cents/lb C.I.F. New York, as compared to the price of 16 cents/lb C.I.F. New York used in the Appraisal Report. While I am not in a position to challenge the price projection, it is still, I think, on the conservative side. Thus, Michelin in the Ivory Coast is prepared to guarantee purchases at a floor price of 17 cents/lb and Firestone in Liberia has indicated that it regards our price projection as over-pessimistic. Liberia, whose economy depends on rubber, cannot afford to abandon its rubber industry because of uncertainties concerning the future price. While diversification would be desirable, there is little prospect of any alternative agriculture project in Liberia for some years. The choice in Liberia is not between expansion of rubber and diversification, but between preservation and abandonment of the Liberian-owned rubber industry.

Difficulties of operating in Liberia

13. We have been concerned by the poor record of public administration in Liberia and the level of corruption in Government which could cause the project to run into severe organizational and administrative problems. I believe, however, that with suitable managers of skill and experience to run the RDA, and with close supervision, there is a reasonable chance of success. After all, one of the reasons for the high cost of the project and the correspondingly modest return is the scope of the institutional arrangements which are proposed to ensure that the project will be satisfactorily guided and supervised. Moreover, in recent years, there are signs of improving Government performance. In this regard, it is significant to compare the generally satisfactory performance under the Port and Power Projects in 1969 and 1970 (617-LBR and 684-LBR) with the difficulties we experienced under the Road Project in 1964 (368-LBR). It should also be kept in mind that while the risks may be greater than in some other countries, the potential impact of a successful project is likely to be very much greater by virtue of its demonstration effect.

Project management

14. One of the difficulties pointed out in the Appraisal Report concerned the recruitment of management personnel for the RDA. Since then, however, the Overseas Development Administration (ODA) in the United Kingdom has indicated that it would in principle be sympathetic to helping provide management for the Rubber Development Agency.

Conclusion

15. The basic issue for decision now is whether we should proceed with a small pilot rubber project in Liberia in view of its marginal economic return and the risks which would attend such a project. I strongly recommend that we do, on the grounds that:

(a) there are no alternative agriculture projects in Liberia;

(b) this particular project is vital to the future of the Liberian-owned rubber industry;

(c) the project represents the best first step towards rationalizing Liberia's non-enclave agriculture;

(d) there are two proposals for resolving the financial difficulties of the project as appraised;

(e) a successful agriculture project would have considerable impact in Liberia;

(f) it is possible that we will be able to obtain assistance from ODA in providing management.

16. If you concur with my recommendation, I would propose to work out the details of a somewhat scaled-down project with the Agriculture Projects Department. Given the delays which have already occurred on the part of the Bank and the importance of the project to Liberia's economic development, we should resolve these questions as soon as possible. We would then discuss with the Government the main issues - essentially the financial arrangements discussed in para 10 above. On obtaining the Government's agreement, I would then submit a proposal to the Loan Committee and request authorization to issue an invitation to negotiate.

cc: Messrs. Baum
Baldwin

Evans
Wapenhans
McIvor
Rowe

Hans Adler

Lerdau

Macone
Reutlinger

A N N E X

LIBERIA : RUBBER PROJECT : SHADOW PRICING OF LABOR

1. As indicated in the Appraisal Report (para 3.06), most project farms pay their workers less than the legal minimum wage and obtain generally adequate, albeit transient and low quality, labor. The workers come from a somewhat larger pool of under-employed part-time rice farmers/rubber workers. It is expected that most project labor will have to come from this pool. There is no suggestion that laborers are to be recruited or attracted from the large farms or the concessions, which already pay the legal minimum wage together with fringe benefits, and indeed the proposed project wage would probably be too low to achieve this, even taking into account the attractions of tribal life. The project proposes to take the existing labor force, and by means of a large investment in credit and extension services, make it more productive. Annual rubber production will increase from 2,100 pounds per tapper to 7,200 pounds per tapper. The total number of workers employed on farms within the project would not increase significantly above present levels of employment. In keeping with the anticipated higher productivity, it is proposed under the project to pay the workers the legal minimum wage. Their present wage is estimated, on average, to be 50 cents. While the financial cost of employing them is the actual wage paid, the economic cost is the value of production lost to the economy by virtue of their being employed under the project. In other words, one looks at the value of alternative employment open to the workers.

2. The alternatives for employment are:

(a) employment on project farms (without the project)

Most rubber farms relying on hired labor are likely to go out of business. This was a finding of the appraisal report. It is confirmed by the introduction of a guaranteed minimum price scheme operated by the concessionaires in 1967-1968 when the C.I.F. New York price had dropped to 19-20 cents/lb. It is corroborated by consideration of the rubber farm budgets, which show, on the basis of average yields estimated by the appraisal mission, that the typical rubber farm employing hired labor is running at a loss and is depending more and more on the guaranteed minimum price scheme to stay in business. Without increased yields, these farms will not be able to pay higher wages, even if the legal minimum wage increases in the coming years. Moreover, as the rubber price decreases towards 16.5 cents/lb by 1975, workers are likely to receive lower wages. At best rubber workers can expect to continue to receive present wages. It is more likely, however, that wages will decline or the farms will go out of business, removing this form of employment altogether.

(b) employment on the rubber concessions

The concessions, which employ about 20,000 persons, complain of seasonal labor shortages, but there are no permanent shortages in the sense of substantial numbers of trees being permanently neglected through lack of labor. The concessions are not expanding their total acreage, and although there will be some opportunities for employment, they will not be able to employ anywhere near the 25,000 workers on Liberian-owned rubber farms whose employment prospects are in danger if the rubber program does not proceed. Similar considerations apply to employment on large efficient Liberian-owned farms.

(c) employment in industry, mining or forestry

The possibilities in industry and mining are bleak, with about ten applicants for every position and communities of unemployed persons camped outside worksites, waiting for vacancies to develop. Although forestry is expanding rapidly, most of the development is situated in the southeast part of the country. As the appraisal report notes, the mobility of the labor force is limited and employment for the forestry concesions will not provide a real alternative to rubber tapping.

(d) employment in subsistence farming

Subsistence agriculture will be an alternative. Sufficient data is available to establish that annual income attributable to the male worker in subsistence farming is about $80, or 22 cents/day on an annual basis. Many subsistence farmers also do some rubber tapping. However, these workers do not work a full year and the equivalent of their annual income is probably less than 50 cents/day. In any event, without the project, the rubber farms are likely to go out of business, thus leaving only subsistence agriculture.

3. There is not thought to be any overall shortage of labor in Liberia. The rapid expansion in production of Liberian-owned rubber farms shows that these farms have been able to get labor. Owing to the transitory quality of the work force, the pool of labor is thought to be somewhat larger than the number of workers employed at any one time. The extensive underemployment in subsistence agriculture is apparent, even on the most cursory survey. As noted above, the supply of labor is approximately equal to the needs of the concessionaires despite seasonal labor shortages. It is clear that the rubber concessionaires would not be able to absorb the unemployment which would result if Liberian-owned rubber farms went out of business.

4. Project labor should normally be costed in the light of what it can earn in alternative employment. Since project labor has no prospect of earning the legal minimum wage, it follows that it should be costed at less than this 70 cents figure. An estimate of 50 cents/day is a generous estimate of what project labor could earn in alternative employment, in view of the fact that the present wages of project workers are thought to average 50 cents/day and are likely to decrease as the rubber price falls. Without the project, a majority of project rubber farms are likely to go out of business, leaving the alternative of subsistence farming at well below 50 cents/day.

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 18, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Liberia - Second Power Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated May 18, 1971 from the Western Africa Department entitled "Liberia - Proposed Second Power Project" (LC/O/71-80).

2. Comments, if any, should be sent to reach Mr. Denning (ext. 4788) by 1:00 p.m. on Friday, May 21.

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

David Pearce
Secretary
Loan Committee

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Committee:

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

CONFIDENTIAL

LC/0/71-80

May 18, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

LIBERIA: Proposed Second Power Project

Introduction

1. The attached report entitled "Appraisal of the Second Power Project" (dated May 11, 1971) recommends a loan of US$4.7 million to the Public Utilities Authority (PUA) for a period of 19 years (including a 4-year grace period) to finance the offshore cost of the proposed project.

2. In June 1970, the Bank made a loan to PUA for the expansion of its generating facilities (Loan No. 684-LBR). One of the items financed by that loan was a consultants' study of PUA's power transmission and distribution requirements. The study was completed in January 1971 and forms the basis for the part of the loan concerning transmission and distribution. An appraisal mission visited Liberia in February 1971.

3. The 5-year lending program (1972-1976) is attached. The proposed loan of $4.7 million is larger than the amount originally included in the lending program ($3 million). The increase is due to the inclusion in the project of further generating facilities, for reasons given in paragraph 7. The proposed loan would be the fourth in Liberia. The road project under the first loan for $4.25 million (Loan No. 368-LBR) has been completed and the loan fully disbursed. A second loan for $3.6 million was made in June 1969 (Loan No. 617-LBR) for the Monrovia Port Project. Progress has been generally satisfactory though there has been some delay in implementing changes in rates and port organization. The loan of $7.4 million in June 1970 to PUA for the First Power Project covered the first phase of PUA's power generation program. This project is proceeding satisfactorily, after some delay in implementation. All tender documents have been issued and the last bids are expected this month. The gas turbine units have been delayed about one year, because of the late issuance of tender documents. The Mount Coffee works are four months behind schedule owing to delay in negotiating the consultants' contract.

4. Other projects currently being prepared include a rubber project, an education project and a road project. The CPP review in March 1971 had concluded that, in view of past performance, Bank Group participation should be limited to $9.5 million through FY 1973. Readjustments

to the FY 1972-73 lending program will have to be considered when decisions are taken as to the amount and timing of credits for the rubber and education projects. We shall keep the situation under review in the light of project preparation and the future performance of the Government in its economic policies.

The Project

5. The proposed project, together with the project financed by Loan No. 684-LBR, would enable PUA to meet demand to the end of 1974. It would consist of procurement, installation and commissioning of the fourth hydro-generating unit at Mount Coffee (for which the civil works were included in the project financed under the earlier loan); and the improvement and expansion of the transmission and distribution system in the Monrovia area. The total cost of the project is estimated to be $6.4 million, of which the proposed Bank loan would finance the offshore costs of $4.7 million, or 73 percent of project cost.

6. PUA's power transmission and distribution network is unsatisfactory. It is overloaded, requires excessive maintenance, and gives rise to high losses and frequent failures. The proposed project would remedy these shortcomings, increase supply reliability, place greater emphasis on system planning and establish a sound base for future growth. Power demand grew at an annual rate of 22 percent during 1964-1970 and growth during the next seven years is estimated at 13 percent per annum. This rate is lower largely because no firm new mining loads to be served by PUA are known after 1974. The improved reliability of service will be of particular importance to PUA since this will provide industrial consumers an added inducement to purchase power from PUA rather than install their own plant. Captive plant in service presently accounts for about 70 percent of the total installed capacity in Liberia.

7. The fourth hydro-generating unit at Mount Coffee is now scheduled to be commissioned in mid-1974. This is a year earlier than was envisaged at the time of the Loan Agreement signed in June 1970. The schedule has been advanced because energy sales are now expected to develop more rapidly, following the signing of a sales contract with the Bong Mining Company, and because of an increase in the cost of fuel for the gas turbine units at Bushrod. Although providing no additional firm capacity, the fourth hydro-generating unit would replace thermally generated energy and thus save fuel costs during nine months of each year. The project financed by Loan No. 684-LBR included the civil works for the third and fourth hydro units at Mount Coffee, and procurement and installation of the third unit. Although the fourth unit was not included in that project, the tender documents for the third unit included the fourth unit as an option. Bidding for the two units, which was carried out on an international basis, has been completed and no further bidding should be necessary for the procurement of the fourth unit to be financed by the proposed loan. For the remainder of the Project, specifications and tender documents would be issued in September 1971 and the first contracts awarded in January 1972. Actual construction will start in 1972.

8. The internal financial rate of return of PUA's 1971-1974 development program, of which the proposed project forms a part is about 21 percent.

9. The capital requirements of PUA's power division for 1971-1974 are about $30 million, of which $20 million or two-thirds is expected to be financed by borrowings and the remaining one-third, or about $10 million, from internal sources. Taking into consideration the proposed Bank loan and loan No. 684-LBR, and a loan in 1970 from the African Development Bank, this program would require future borrowings of about $7 million to be arranged in 1973 mainly for the second phase of the transmission and distribution program. At present, we envisage Bank financing of about $3 million towards this phase of the expansion.

10. The borrower, the Public Utilities Authority, controlled by a 10-member Board of Directors appointed by the President of Liberia, is a statutory corporation established in 1962 and charged with responsibility for the generation and distribution of public power. The Authority was subsequently made responsible also for running the water and sewerage departments previously part of the Public Works Department. In 1970, PUA generated 292 Gigawatt hours, about 39 percent of the total power consumed in the country, the remaining 61 percent being generated by captive plants, mainly of the iron ore companies. PUA generates and distributes electricity in six secondary centers which are regional administrative headquarters of counties or districts. These account for about 5 percent of PUA's total generation. PUA conducts these operations as agent of, and with funds provided by the Government. Separate accounts are kept for these operations.

11. Since 1963, PUA has had a contract with an American firm, Sanderson and Porter, for technical assistance and advice in management. After some difficulties arising from the excessive involvement of the management team in day-to-day operations to the neglect of forward planning, a reorganization is being implemented. Qualified Liberians are being given responsibility for management and the team is to act in an advisory capacity. A Liberian Assistant Manager has already been appointed and the appointment of a Liberian Manager should be possible by the target date of November 1972 agreed under Loan No. 684-LBR. Thereafter, it should be possible to begin phasing out expatriate assistance.

12. PUA's present financial position is weak, with high debt/equity ratios (77:23), low debt service coverage (1.1 times) and a low return on net assets in operation (5.6 percent). An increase in power tariffs to produce 16 percent more gross operating revenues was required to complete the financing plan of the power division. PUA has advised the Bank that an increase has been made. The extent of the increase should be confirmed during negotiations. With the required increase, PUA's power financing plan is satisfactory. The rates of

return on average net fixed assets in operation are expected to improve from 5.6 percent in 1970 to 9.9 percent in 1976 for PUA as a whole and from 6.6 percent to 12.4 percent for power operations alone. Debt service coverage after 1971 is expected to be 1.5 times or better. The debt/equity ratio is expected to improve to 67:33 by 1976.

13. A number of covenants relating to PUA's performance were included in the Loan Agreement in Loan No. 684-LBR. These covenants deal with the appointment of consultants; increases in the scope of non-power activities; employment of management consultants; the reorganization of management; audit and insurance arrangements; the payment of dividends during the loan disbursement period; the utilization of power resources for non-power activities; the rate of return on assets; the limitation on debt; the continuation of the Government's policy to finance secondary power centers; and an undertaking by the Government to make good deficits for water and sewer operations. It is proposed to repeat these covenants in the agreement for the proposed project.

The Economy

14. Liberia has a dual economy, with a prosperous enclave sector (iron ore, rubber and forestry), and a large under-developed economy, consisting primarily of subsistence agriculture. At present, the enclave sector contributes about 38 percent of GDP at factor cost, and 90 percent of gross merchandise exports. Per capita GDP is about \$260, but with large factor payments - some \$80 million in 1969 - GNP per capita amounts to \$210. This is relatively high by African standards, but it obscures a highly inequitable distribution of income. About 70 percent of the population is engaged in subsistence agriculture with per capita incomes of less than \$50.

15. In the past two years, the economy has grown at an average annual rate of about 4 percent in real terms. Most of this growth originated in the enclave sectors, particularly iron ore and logging. Outside these sectors, growth and development continued at a slow pace, due to the lack of defined programs and shortage of projects. The Government is concerned about this slow development and is in the process of defining its development objectives and priorities, a step which will be followed by the formulation of a development program.

16. The fiscal and balance-of-payments position improved considerably in the past two years, due to the rapid growth in the enclave sector and to a number of tax measures. The budget surplus on current account amounted to about 25 percent of current revenues, compared to about 14 percent in 1966-68. However, debt service payments continued to exert a heavy burden on the budget, though much less so on the balance-of-payments. Debt service payments were estimated at 26 percent of current revenues in 1970 and 14 percent of "net" export proceeds (net of factor payments abroad). By 1976, debt service payments will continue to be high, representing about 24 percent of projected budgetary revenues and 11 percent of the prospective "net" export proceeds.

17. The economic report on Liberia (Report No. AW-25a), dated April 1, 1971, concluded that recent improvements in the domestic and external financing position have strengthened Liberia's creditworthiness. Continued caution is, however, required in incurring conventional debt. The present project provides its own revenue and is therefore suitable for financing on conventional terms, given the relatively strong balance-of-payments situation.

Recommendation

18. I concur with the recommendations of the Appraisal Report and recommend that the Government of Liberia and the Public Utilities Authority of Liberia be invited to negotiate a loan of up to $4.7 million for the proposed second power project.

Bruce M. Cheek
Deputy Director

Attachment.

LIBERIA - ACTUAL & PROPOSED LENDING THROUGH 1976

Population 1.5 m
Per Capita GNP $210

		Fiscal Years 1971	1972	1973	1974	1975	1976	Total 1964-1968	Total 1969-1973	Total 1972-1976
Rubber	IDA		2.5							
Agriculture - Unidentified	IDA					3.0				
Agriculture - Unidentified	IDA						3.0			
Education I	IDA		3.0							
Education II	IBRD					4.0				
Power II	IBRD	4.7								
Power III	IBRD				3.0					
Roads Engineering	IBRD			2.5						
Roads II	IBRD				4.0					
Roads II	IDA				3.0					
Operations Program	IBRD	4.7	-	2.5	7.0	4.0			18.2	13.5
	IDA		5.5		3.0	3.0	3.0		5.5	14.5
	Total	4.7	5.5	2.5	10.0	7.0	3.0		23.7	28.0
	No.	1	2	1	2	2	1		6	8
Lending Program	IBRD							4.3	16.0	10.0
	IDA								4.5	10.0
	Total							4.3	20.5	20.0
	No.							1	5	6

Western Africa Department
May 17, 1971

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 18, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Turkey - Fourth Cukurova Power Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated May 18, 1971 from the Europe, Middle East and North Africa Department, entitled "Turkey - Proposed $7 million loan for Fourth Cukurova Power Project" (LC/O/71-79).

2. Comments, if any, should be sent to reach Mr. Nijhof (ext. 4809) by 1:00 p.m. on Thursday, May 20.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/71-79

May 18, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Turkey - Proposed $7 million loan for Fourth Cukurova Power Project

1. Attached for consideration of the Loan Committee is the draft yellow cover Appraisal Report, dated April 29, 1971, on a proposed $7 million loan to the Government of Turkey for onlending to Cukurova Elektrik A.S. (CEAS). This would be the fourth Bank/IDA operation with Cukurova. Other Bank and IDA operations contemplated for the near future are enumerated in the memorandum to the Loan Committee on the Education Project (LC/O/7-3a, dated March 19, 1971) and reference is made to the same document with regard to the economic position and prospects of Turkey. The Five-Year Operations Program through 1976 is attached.

2. The operations program shows four other operations in Turkey scheduled for Board action in the current fiscal year. One of them, the proposed $13.5 million loan for an education project will be presented to the Executive Directors on May 20. In addition, negotiations have already taken place for the $24 million loan to the Turkish Electricity Authority (TEK) and for the $10 million and $15 million credit for the fruit and vegetable export project, but for both projects certain issues have not yet been finally resolved with the Government. Finally, negotiations for the $23 million loan envisaged for the IGSAS urea project are expected to start next week but in view of the complexity of the issues at stake, especially marketing, are likely to be protracted.

Project Issues

3. Concession. The recently reviewed CPP for Turkey recommends continued support for CEAS as the major private power company in Turkey. Founded at the Bank's suggestion in 1953, it was meant to act as the principal private mobilizer of savings in the Turkish power sector, and as a yardstick against which the efficiency of the state-owned power enterprises could be tested. However, the continuation of the private status of CEAS might be questioned by the new Turkish Government, judging from its program which was announced after appraisal of the proposed project and provides that "major electricity producing concerns that remain outside TEK will be attached to this organization". We do not know whether the conditions would be such as to entail a complete change in CEAS' structure

and financial autonomy or would merely mean closer cooperation with TEK (which owns already 30 percent of CEAS). In this respect three alternatives could be envisaged:

i) CEAS continues to exist as a private enterprise: in this case the Bank could help stimulate its growth, especially by requiring that it be associated with the power generation element of the Ceyhan-Aslantas multi-purpose project (for which Bank financing is contemplated in FY 72) should power generation in this project prove economically desirable; we would seek, during negotiations, agreement on the principles to be included in a modified concession which would modernize the tariff and earnings guidelines as well as the basis on which the concession would be ended; this is the approach recommended in the Appraisal Report.

ii) The Government decides that TEK should absorb CEAS in the near future: while the Bank could live with such a decision, it would need to be concerned with the execution of the CEAS projects previously financed by the Bank/IDA, with satisfactory arrangements regarding the outstanding loans and credits and with the timing and conditions of compensation for CEAS' private shareholders; it is likely that some time would be required to solve these issues. Agreement on the basic principles of such a takeover would have to be reached during negotiations for the proposed loan.

iii) An intermediate position would be for CEAS to continue operation under the existing concession, without participating in Ceyhan-Aslantas, until it is nationalized in keeping with the concession which provides for takeover by the Government after 1990. In this case, we would seek a modification of CEAS' tariff guidelines to assure its future financial stability within the structure of the present concession.

4. I recommend, and Public Utilities Projects Department concurs, that we should seek clarification of the Government's intentions regarding CEAS when inviting for negotiations and that negotiations should not be started until such clarification has been received. We would be prepared to proceed on the basis of alternatives (ii) or (iii) should alternative (i) not be feasible. If the Government has decided upon alternative (ii), it is likely that the agreement on the principles of the takeover would require substantial time to be worked out.

5. Lending Arrangements. As was the case for the Third Cukurova Power Project, the Bank will lend to the Government for relending to CEAS under a Subsidiary Loan Agreement, with a Project Agreement between the Bank and CEAS, there being uncertainty whether the Government could guarantee a direct loan to CEAS. Also under the circumstances outlined in para 3 above continuation of lending for CEAS through the Government seems indicated.

6. Debt Rescheduling. Work on Kadincik I Power Project (Credit 59-TU) was originally substantially delayed because of a contractor dispute about cost overruns arising from bad rock formations. The problems have been resolved and the Project is expected to be in commercial operation by September of this year. In order to correlate amortization payments due to the Government under the Subsidiary Loan Agreement for Credit 59-TU with the completion of the Project, we informed CEAS last August 1970 that the Association could agree to a rescheduling of such payments should CEAS and the Government decide to do so. At the same time we informed CEAS that deferment of interest payments to the Government would not be acceptable to the Association. We understand that the Government and CEAS have not yet made any definite arrangements with regard to rescheduling. The same approach, we feel, is appropriate with regard to the DSI debt. I am therefore of the opinion, and Public Utilities Projects Department concurs, that provided satisfactory rescheduling arrangements are made (for instance before the proposed loan becomes effective) CEAS can be considered creditworthy for the additional lending recommended in the present paper. (see para 6.11 and 6.12 of the Appraisal Report.)

7. Proposed Development Bank. For some time now the State Planning Organization and local businessmen have been considering the establishment of a development finance company in the Cukurova area. While both this Department and the DFC Department believe there is room for a second DFC (in addition to TSKB) in Turkey, we do not yet know the new Government's position on such a local, or at best regional, development bank. We are aware, however, of the responsibility and weight that CEAS and its management carry in the Cukurova area, and the ill effects for both, were CEAS to refrain from any dealings with such new DFC; in fact it may be doubtful whether it could be established without support from CEAS. Nevertheless, I confur with Public Utilities Projects Department that, while we would not object to CEAS' shareholders investing up to TL 10 million in the proposed bank, CEAS should agree not to use this bank as its bank of deposit and insurer without the prior consent of the Bank. (see paragraph 6.13 of the Appraisal Report.)

Recommendation

8. I recommend that the Bank invite the Turkish Government and Cukurova Elektrik A.S. to send representatives to negotiate a loan of $7 million along the lines recommended in the Appraisal Report and in this memorandum.

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

Attachment

Population: 35.7 million
Per Cap. Inc: $237

Attachment 1

TURKEY - Five Year Operations Program through 1976
($ millions)

		Fiscal Years						Total	Total	Total
		1971	1972	1973	1974	1975	1976	1964-68	1969-73	1972-76
Livestock I - Dairy	IDA	4.5								
" II -	IDA		15.0							
" III - Dairy	IDA			10.0						
" IV -	IDA					20.0				
Fruit-Vegetables I	IBRD	10.0								
" I	IDA	15.0								
" II	IDA			15.0						
" III	IDA					20.0				
Irrigation Rehabilitation I	IDA		10.0							
" II Unidentified	IDA				15.0					
" III	IDA						25.0			
Irrig. Ceyhan-Aslantas	IBRD		55.0							
Agriculture Credit I - Unidentified	IBRD			15.0						
Agriculture Credit II- Unidentified	IBRD					20.0				
Agriculture Unident. I	IDA				25.0					
" " II	IDA						30.0			
DFCs - TSKB VIII	IBRD	40.0								
" IX	IBRD			40.0						
" X	IBRD					40.0				
- Second Co. I	IBRD				15.0					
" " II	IBRD						15.0			
Education I-Vocational	IBRD	12.0								
" II-Agricult.	IBRD			10.0						
IGSAS Fertilizer	IBRD	23.0								
Eregli Steel	IBRD		65.0							
Paper Mill - Forestry	IBRD			20.0						
Industry & Mining - Unidentified I	IBRD				40.0					
Industry & Mining - Unidentified II	IBRD						25.0			
Power - TEK I	IBRD	24.0								
" II Unident.	IBRD			35.0						
" III "	IBRD					35.0				
- Cukurova III - Supplementary	IBRD	6.5								
Urbanization I (incl. water & power)	IDA		15.0							
" II (incl. sewerage)	IDA			15.0						
" III	IDA					15.0				
Tourism I	IBRD		5.0							
" Unident. II	IBRD				15.0					
" " III	IBRD						20.0			
Railways I	IBRD		35.0							
" Unident. II	IBRD				40.0					
" " III	IBRD						35.0			
Program Loan	IBRD			40.0						
Operations program	IBRD	115.5	160.0	160.0	110.0	95.0	95.0	10.0	509.0	620.0
	IDA	19.5	40.0	40.0	40.0	55.0	55.0	54.0	111.5	230.0
	Total	135.0	200.0	200.0	150.0	150.0	150.0	64.0	620.5	850.0
		7	7	9	6	6	6	3	27	34

EMENA DEPARTMENT
March 30, 1971

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 11, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Spain - Third Railway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated May 11, 1971 from the Europe, Middle East and North Africa Department, entitled "Spain - Third Railway Project" (LC/O/71-78).

2. Comments, if any, should be sent to reach Mr. Upper (ext. 4721) by 1:00 p.m. on Friday, May 14.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/71-78

May 11, 1971

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department
SPAIN -- Third Railway Project

1. Attached for consideration by the Loan Committee is the yellow cover Appraisal Report and updating Memorandum from the Transportation Projects Department on a loan of US$90 million to Red Nacional de los Ferrocarriles Españoles (RENFE). The proposed loan would be the third for the Spanish railways. The two previous loans, Loan 387-SP and Loan 507-SP, amounted to US$65 million and US$50 million and were signed in July 1964 and August 1967, respectively. These loans were made to help finance the years 1964-1965 and 1967-1968 of RENFE's Ten-Year Modernization Plan (1964-1973). An important part of these two operations were measures designed to help RENFE improve its operations under Plans of Action agreed during the respective negotiations. The first loan is fully disbursed; the closing date of the second is July 31, 1971, but a postponement by one year has been requested by RENFE to allow completion of disbursements (about US$14 million) on rolling stock for orders which have already been placed.

2. The Bank has made four other loans to Spain totalling US$110 million. They were for highways, ports, livestock development and education. A loan for an Agricultural Research Project is scheduled to be presented to the Board on May 18, 1971.

3. The proposed railway loan is in line with the Bank's other activities in Spain, which aim at introducing and supporting much needed structural and policy reforms in priority sectors. The attached 1972-1976 lending program envisages projects in agriculture, education and industry. An economic report dated April 7, 1971 (EMA-34) has just been reviewed by the Economic Committee and will be circulated to the Executive Directors before the proposed loan would be presented to them. It confirms the high priority of investments in the transport sector and the creditworthiness of Spain.

The Project and the Loan

4. The Project would consist of the first three years of RENFE's 1971-1975 Investment Plan. Its major components include: the complete renewal of 2,639 km of track and the reballasting of 579 km; the electrification of two lines, Valencia-Tarragona -- 246 km, and Madrid-Guadalajara -- 45 km; the purchase of about US$38.3 million equivalent of rolling stock; and an investment of about US$31 million for signalling equipment and US$30 million for telecommunication equipment.

5. The total cost of the Project has been estimated at US$519 million equivalent. The foreign exchange component is about US$104 to 137 million, depending on the outcome of international bidding, of which about US$18 million would be provided by the remainder of the second Bank loan to RENFE (507-SP) and US$90 million by the proposed loan. The total Bank contribution would thus meet about 20 percent of the Project's financial requirements with the rest being provided by RENFE's own funds up to 18 percent and by the Spanish Government up to 62 percent.

Financial Situation and Prospects

6. While over the past years the physical achievements in RENFE's operations have been satisfactory and have in some respects even exceeded the targets set in the Plans of Action agreed upon with the Bank, financial performance has been of continuing concern. This is therefore the key aspect to which attention has been given during project appraisal and during a special mission that visited Spain at the end of April.

7. This subject is discussed in detail in the appraisal report and updating memorandum. To some extent, RENFE's failure to meet the financial targets is due to the fact that projections had been based on unrealized traffic forecasts and that rail tariffs were not increased in line with rising costs. In fact, RENFE's unit costs of labor and materials have risen faster than general price inflation while tariff increases have lagged behind inflation, increasing by only 17 percent during 1965-1970, when general prices rose by 34 percent. The result has been that the benefits of the considerable gains in productivity made by RENFE during these years have been distributed almost entirely to its workers and customers.

8. Until April 1971, RENFE's lack of freedom to determine its tariffs did not allow the implementation of adequate pricing strategies. The Government has recently approved a decree which should eliminate most of RENFE's past decision making constraints and give it virtually complete autonomy to adjust its prices to cover rising costs. The decree, which was a pre-condition for negotiations, was officially published on April 28, 1971. This change in the Government position regarding RENFE is an important move showing a clearly expressed intention to operate RENFE on a commercial basis, to emphasize realistic market pricing and to make RENFE a financially self-supporting public entity.

9. The first consequences of this action are already tangible. RENFE intends now to increase rates and fares in August 1971 by an average of about 8 percent (7 percent passengers, 8.9 percent freight) which after adjustments for individual shippers is expected to yield net increases in revenues of about 7.4 percent. The situation will be reviewed further in early 1972 after a reassessment of competition and economic trends has been made. These measures represent an improvement over the previous 1971 Plan of Action, which included a rate increase ceiling of 5 percent, and they may be the best that can presently be expected due to market constraints. Together with a

9 percent increase made in August 1970, these rate adjustments would keep pace with general inflation but not yet cover fully the 32 percent wage rate increase awarded by RENFE for the 1971-1972 period. Because this increase brings RENFE's wages in line with those in comparable industries, there should be less pressure for extraordinary wage awards in the future. An operating ratio of 100 is forecast for 1974, but depends heavily on increased receipts from the Canon de Coincidencia, a tax on competing road transporters which is earmarked for RENFE but not related to RENFE's plant or operational efficiency. Excluding the Canon de Coincidencia from RENFE's revenues, this equilibrium would be reached in 1975, the financial target to be agreed during negotiations. RENFE's proposed financial targets are acceptable from an economic point of view because accounting costs overstate the real economic costs of providing railway services.

Transport Policies

10. Apart from the financial questions which now appear capable of solution, the most difficult issues during negotiations are likely to be related to transport policies. These include (a) the strengthening of the organization for studying and defining transport coordination and policy, particularly with regard to investment planning, and (b) the review of the draft transport policy measures that have recently been prepared by the Government. The agency presently in charge of transport studies, the Superior Council for Land Transport, which was established in 1964 in connection with the first Bank loan to RENFE, should be strengthened or replaced by a more efficient body. The newly proposed transport policy measures are reported to include restrictions on entry into the trucking industry aimed at suppressing distortions between transport modes. These measures might result, however, in an uneconomic protection of the railways. Should the adoption of such exceptional measures be proposed, the Bank would have to review them in detail and be satisfied that they are based on objective studies and factual information.

Local Cost Financing

11. Spanish firms have won approximately 60 percent of the contracts awarded under international competitive bidding under previous Bank loans to RENFE and disbursements have been made in full against these contracts which, nevertheless, included a sizeable foreign exchange component. The local currency component of the proposed loan, if this pattern were repeated, would be less than 16 percent. The foreign exchange cost of the total project under these circumstances would be about US$123 million against the Bank's contribution of US$108 million (including the balance of the previous loan). Certain items included in the project are not suitable for Bank financing at this time, either because they are already on order or consist of small local contracts which individually have a limited foreign exchange component and, therefore, are not included in the List of Goods. We recommend that the previous policy be continued of disbursing fully against items included in the List of Goods, regardless of the extent to which Spanish suppliers are successful. This has the merit of exposing these firms to the

discipline of international competitive bidding, and permits a loan large enough to finance a reasonable share of total project costs and to support the important structural and policy reforms needed in the railway and transport sectors.

Procurement

12. All goods financed by the proposed loan would be acquired through international competitive bidding. In bid evaluation, Spanish manufacturers would be granted a margin of preference of 15 percent or the applicable customs duties, whichever is lower. Foreign bids would also be increased by the amount of the "Impuesto de Compensación de Gravámenes Interiores" (ICGI or "Tarifa Fiscal"). The ICGI imposes on imported goods the indirect taxes which are levied on the same goods when manufactured in Spain, a practice which is common in industrialized countries and is allowed under the General Agreement on Tariffs and Trade (GATT). For railway imports, it amounts to 11-16 percent of CIF prices plus customs duties generally applying to non-exempt importers. A similar procedure has been followed in the two previous loans to RENFE, in the Highway Loan 360-SP and in the Ports Loan 429-SP.

Matters for Negotiations

13. Satisfactory agreement should be reached or assurances obtained from the Government of Spain and/or from RENFE on the issues listed in paragraph 7.02 of the attached draft Appraisal Report as amended by paragraphs 3, 6, 7, and 9 of the updating Memorandum. These issues are, to a large extent, already agreed upon in principle, but should be confirmed during negotiations, particularly:

(a) a satisfactory tariff increase to be carried out in August 1971 and another reviewed and carried out in 1972;

(b) the financial targets to be attained during 1971-1976 supported by a statement of recognition by the Government and RENFE that the realization of these targets depends upon future wage and rate increases remaining in line with those of RENFE's competitors, except to the extent that productivity targets are exceeded;

(c) the confirmation of approval by the Government of the Investment Plan and assurances that no important changes will be made except as may be agreed with the Bank;

(d) the improvement of the existing transport coordination agency to undertake comprehensive planning and coordination in the transport sector; and

(e) agreement with the Government regarding transport regulatory policies.

Recommendation

14. I recommend that the Bank invite representatives of the Government of Spain and of RENFE to negotiate a loan to RENFE, the amount of the loan to be US$90 million for a term of 20 years, including a four-year period of grace. The loan is to be made along the lines of the conditions set forth in the attached Appraisal Report and Memorandum.

Dieter Hartwich
Deputy Director

Attachments

Population: 33.3 million

GNP Per Cap: $804

SPAIN - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY 1976

Attachment 1

($ million)

		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969	1970	1971	1972	1973	1974	1975	1976	Total 1964-68	Total 1969-73	Total 1972-76
Livestock I	IBRD								25.0									
Livestock II	IBRD											30.0						
Livestock III	IBRD														30.0			
Agricultural Research	IBRD									13.0								
Education I	IBRD								12.0									
Education II	IBRD										50.0							
Education III	IBRD													35.0				
Highways I	IBRD		33.0															
RENFE I	IBRD			65.0														
RENFE II	IBRD						50.0											
RENFE III	IBRD									85.0								
Ports I	IBRD				40.0													
Ports II	IBRD										40.0							
Industrial Credit Unidentified	IBRD											50.0						
Industry Unidentified I	IBRD												50.0					
Industry Unidentified II	IBRD													50.0				
Industry Unidentified III	IBRD														50.0			
Operations Program	IBRD									98.0	90.0	80.0	50.0	85.0	80.0		305.0	385.0
	No.										2	2	1	2	2		8	9
Lending Program			33.0	65.0	40.0		50.0		37.0	98.0	70.0	80.0	70.0	60.0	60.0	188.0	285.0	340.0
	No.		1	1	1		1		2	2	2	2	2	2	2	4	8	10

Europe, Middle East and North Africa Department
May 10, 1971

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/71-24

May 7, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Turkey - IGSAS Fertilizer Project" held at 10:30 a.m. on Wednesday, April 28, 1971 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/71-24

May 7, 1971

Minutes of Special Loan Meeting to consider "Turkey - IGSAS Fertilizer Project" held at 10:30 a.m. on Wednesday, April 28, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Fuchs, Gabriel, Hartwich, Stevenson, Bart, El Darwish, Finzi, Price, Speller and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Europe, Middle East and North Africa Department's memorandum of April 26, 1971 to the Loan Committee (LC/O/71-65), which recommended a $23 million loan to help finance the $32 million foreign exchange component of a $57 million project for the manufacture and distribution of ammonia and urea fertilizer. The main issues for discussion were: (a) marketing and distribution arrangements, and (b) the method used for calculating the internal economic return.

3. Discussion: The meeting noted that:

(a) Since urea fertilizer was not yet extensively used in Turkey, the project's success would depend mainly on the company's (IGSAS) marketing and distribution arrangements. The sponsors planned to create a new independent marketing company to sell the urea produced by IGSAS - the first local producer - and firm marketing plans, crucial to pre-project sales of imported urea with which existing distributors of fertilizer would be associated, would be agreed during negotiations and implemented as a condition of loan effectiveness.

(b) While IGSAS planned to sell urea at $60 and ammonia at $45 per ton, its financial rate of return would still be satisfactory if urea were gradually reduced to $50 per ton (the lowest projected c.i.f. price for imports into Turkey in the 1970s) after the first four years of operation. In this event, the Bank would want to be assured that the benefits of price reductions accrued to farmers and not to an inefficient distribution system that presently required government subsidies. This latter issue would be discussed during negotiations.

(c) Turkish fertilizer prices were fixed by the Government at a uniform level for the whole country and included distribution costs calculated on the basis of average transport distances of 400 km for domestic and 150 km for imported fertilizers. Farmers located near the proposed

IGSAS plant would therefore subsidize indirectly those located further away. The social justification and economic cost of this pricing policy was tolerable but should be explicitly recognized.

(d) In this connection, it would be desirable to limit the extent of the government's subsidy to the distribution system as a spur to increased efficiency.

4. The Chairman approved the Europe, Middle East and North Africa Department's recommendation that negotiators be invited for the proposed loan. It was agreed that the new method by which the internal economic return had been calculated in the appraisal report would be considered later.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Fuchs
Hartwich/Bart

cc: Loan Committee
Participants

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 6, 1971

MEMORANDUM TO THE LOAN COMMITTEE

India - Pochampad Irrigation Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated May 6, 1971 from the South Asia Department, entitled "India - Pochampad Irrigation Project" (LC/0/71-77).

2. Comments, if any, should be sent to reach Mr. Cunningham (ext. 2428) by 4:00 p.m. on Monday, May 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, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

Copies for Information:

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

CONFIDENTIAL

LC/0/71-77

May 6, 1971

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA - POCHAMPAD IRRIGATION PROJECT

1. I attach a draft appraisal report "India - Appraisal of Pochampad Irrigation Project" recommending that the Association make a credit to India of US $41 million equivalent for this project. Also attached is a copy of the gross operating program with the latest revisions.

2. The proposed project in the State of Andhra Pradesh in southern India is the first phase of a major irrigation scheme for about 400,000 ha along the right bank of the Godavari River. The first phase would irrigate 100,000 ha and includes construction of a large earth and masonry dam, canals, drainage, roads and the levelling of farm land. It would also include agriculture demonstration and training centers. The first phase is already under construction.

Background, including Bank/IDA Lending Program

3. This would be the Bank Group's eleventh lending operation to agriculture (excluding agricultural credit projects) and the fifth operation concerned with surface irrigation. Discussions took place in India in 1969 with the Government of India (GOI) on Bank Group assistance to agriculture. Various irrigation projects were proposed by the Government for consideration including Kadana which was approved in January 1970 (Credit 176-IN), this project, and the Tawa Irrigation Project which is being prepared for presentation at the end of August.

4. India's allocation from IDA for the current fiscal year is US $245 million, of which US $183.4 million has been approved for four credits (Agro-Aviation, US $6 million; Andhra Pradesh Agricultural Credit, US $24.4 million; Fourth Tlecommunications, US $78 million; and Second Power Transmission, US $75 million). Negotiations on a wheat storage project (US $5.0 million) were suspended because GOI could not agree to international competitive bidding for construction of the silos; this project was to be financed jointly with Sweden, which has recently made a suggestion for breaking the impasse over financing silo construction. Negotiations have been largely completed on Cochin II Fertilizer Expansion (US $20 million), Tamil Nadu Agri-

cultural Credit (US $35 million), and Haryana Agricultural Credit (US $25 million). If all of these projects should be ready for commitment before the end of June, one or two could be deferred to FY 72 to keep within the IDA allocation. Field appraisals have also been completed on four projects scheduled for presentation in FY 72.

5. A new economic report has been prepared by the Resident Mission in New Delhi assisted by members of the India Division and consultants, and will be distributed to the Executive Directors and Consortium Members next week. The report describes India's continuing recovery from the drought/recession era of the mid-1960's, albeit possibly at a slightly slower pace in 1970/71 than in 1969/70. The shortfall of about 14 percent in actual, as compared with planned, foreign aid disbursements which occurred during the last two years may have played a part in the reduction of economic growth in 1970/71. Net aid disbursements fell by 35 percent in that year and regardless of the level of new commitments in 1971/72 a further decline in net aid is likely because of the mounting debt service and the drawdown of the non-project aid pipeline that has already occurred. Therefore, despite the generally favorable progress of the last two years, India will require substantially more aid on concessionary terms than the amount (about US $740 million) committed in 1970/71 in order to carry out its Fourth Five-Year Plan which ends in March 1974 and have a reasonable level of undisbursed commitments at the start of the Fifth Plan. The report recommends that well over half of new aid be in the form of fast disbursing program aid, including debt relief, and that this be supplemented by local currency financing as a further means of providing free foreign exchange.

The Project

6. The Pochampad Irrigation scheme is situated in the State of Andhra Pradesh in the south of India. Work on the scheme started in 1964, and ultimately about 400,000 ha along the right bank of the Godavari River will be irrigated. The proposed project is the first phase of this scheme and provides for the irrigation of 100,000 ha. The total cost of this phase is estimated to be Rs. 948 million (US $127 million) of which Rs. 262 million, or 28 percent of the project cost, had been spent by March 1971. Rs. 129 million would be required for on-farm developments and therefore would be provided by farmers and credit institutions. Of the balance of Rs. 557 million, Rs. 64 million (US $8.5 million) would comprise foreign exchange costs. The proposed credit of US $41 million would cover 100 percent of the foreign exchange costs and about 50 percent of the remaining local currency expenditures or Rs. 243 million (US $32.5 million).

7. The parts of the project which still have to be carried out, and towards which the proceeds of the credit would be allocated, include completion of the dam, completion of the remaining 65 km of the Godavari South main canal, the lining of the first phase construction

of the main canal (112 km), construction of the distribution system to serve the 83,000 ha not so far covered, construction of field drainage, and the improvement and extension of both village and farm roads.

8. The principal benefit of the project would be the intensification of agriculture in an area which hitherto has been dependent upon uncertain rainfall. This would have two effects upon present cropping patterns. First, although the kharif (summer) cropping intensity would remain much the same, irrigation would permit about half the acreage to be put under rice instead of pulses and maize. Secondly, rabi (winter) cropping intensity would more than double and nearly half of the acreage would be given over to maize. Overall intensity would increase from 110 percent to 155 percent. In addition, the availability of assured irrigation supplies would enable high-yielding varieties of rice and maize to be introduced and would also justify the application of fertilizer. As a result yields from rice and maize are expected to increase three times or more, while the yield from groundnuts should double. Thus, there would be a substantial increase in production, especially of foodgrains, and the foreign exchange saving is estimated at about US $18 million per annum, once the project has been completed. Excluding past expenditures, and allocating the entire cost of project works to the 100,000 ha to be irrigated in this first phase, the economic rate of return for the project is estimated at 14 percent; the return would obviously be higher if costs were spread over the full 400,000 ha of the scheme which is expected to be developed by the early 1980's (para 7.04 of the appraisal report).

9. The full recovery of project costs will require some increase in existing taxes and levies. The presently authorized measures would, if properly collected, cover about 70 percent of the total of operation and maintenance expenses and the capital cost of the overall scheme attributable to the project. An increase in taxes to achieve the full recovery of costs should be well within the repayment capacity of farmers.

10. Procurement of imported equipment, machinery, and spares would amount to US $3.9 million of which US $2.4 million would be purchased on the basis of international competitive bidding; US $1.5 million would be used for the purchase of spares for equipment already in use. Under international competitive bidding, local manufacturers would receive a preference of 15 percent; actual customs duties presently range from 15 to 27½ percent for these types of equipment. Minor items of equipment (US $1.8 million) would be purchased locally under normal Government procedures. The balance of US $35.3 million would be allocated for civil works. Of this balance, US $31.3 million would be disbursed on civil works contracts awarded under local competitive bidding while an amount limited to US $4 million would be available to finance force account work carried out under small contracts to meet special requirements.

Issues

11. Although the assurances (para 8.02 of the appraisal report) to be sought during negotiations are many, they are similar to those we obtained in the case of the Kadana Irrigation Project. Such assurances are essential if the Association is to assist in the effective and more timely implementation of irrigation projects.

12. One of the main issues put to India in early 1970, after the first appraisal mission, concerned the allocation of funds in the Fourth Plan period which we felt had to be increased from Rs. 290 million to Rs. 450 million if the project was to be completed in an efficient and timely manner. An undertaking to make available adequate funds was given to me in November 1970. Since then, Projects Department, after discussions with the authorities in India, has again revised the estimate to add anotner Rs. 20-30 million to the project cost; an undertaking from GOI and Government of Andhra Pradesh (GAP) to meet this additional amount will be sought during negotiations.

13. Apart from this issue, I understand that the remaining assurances have been fully discussed by the appraisal missions with GAP and the Central Water and Power Commission of GOI and that general agreement has already been reached. In view of the extended period over which discussions have taken place between the Association and the GOI and as the assurances are similar in principle to those obtained for the Kadana Irrigation Project, I do not expect any serious difficulties. However, I am not sure to what extent the Department of Economic Affairs of the Ministry of Finance of GOI has been involved hitherto in the more detailed discussions on the project and so some modifications may be proposed. I shall consider these as they arise and keep the Committee informed.

14. The possibility of requiring international competitive bidding for civil works contracts was considered at Special Loan Committee Meetings on February 23 and February 26, 1971. Mr. McNamara agreed subsequently that local competitive bidding would be acceptable for this project because discussions with India on this issue were so far advanced; the Executive Directors were informed of our intention to make an exception in this case by Mr. Baum's statement on March 2.

15. There is one additional condition of effectiveness which requires that a Project Administrator shall have been appointed with suitable powers and responsibilities (para 8.03).

Recommendation

16. I recommend that the Borrower and the Beneficiary be invited to negotiate the credit of US $41 million on the basis of the recommendations set out in paragraphs 8.02 and 8.03 of the draft appraisal report.

Gregory B. Votaw
Deputy Director
South Asia Department

Attachments

Population: 547 m (1971 Census - preliminary)
GNP (1970/71) Per Capita: $90

IVa. INDIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agric. Credit - Punjab	IDA	27.5							
Agric. Credit - Gujarat	IDA	35.0							
Agric. Credit - Haryana	IDA		24.0						
Agric. Credit - Tamil Nadu	IDA		35.0						
Agric. Credit - Andhra-Pradesh	IDA		24.4						
Agric. Credit - Mysore	IDA			25.0					
Agric. Credit - Maharashtra	IDA			25.0					
Agric. Credit - Unidentified	IDA			25.0					
Irrigation - Kadana	IDA	35.0							
Irrigation - Pochampad	IDA		41.0						
Irrigation - Tawa	IDA			46.0					
Irrigation - Jayakwadi	IDA			20.0					
Irrigation - Pamba	IDA			15.0					
Agricultural Aviation	IDA		6.0						
Bihar Marketing	IDA			10.0					
Agric. Unident. (7 projects)	IDA				150.0				
Agric. Unident. (7 projects)	IDA					165.0			
Agric. Unident. (7 projects)	IDA						165.0		
Grain Storage	IDA			5.0					
Telecommunications IV	IDA		78.0						
Telecommunications V	IDA				40.0				
Telecommunications VI	IDA					40.0			
Telecommunications VII	IDA						35.0		
DFC - ICICI VIII	IBRD	40.0							
DFC - ICICI IX	IBRD			40.0					
DFC - ICICI X	IBRD						40.0		
Education - Agric. University	IDA			20.0					
Education Unidentified	IDA						20.0		
Fertilizer - Nangal (Public)	IDA			20.0					
Fertilizer - Cochin (Public)	IDA		20.0						
Fertilizer - Gorakhpur Expansion	IDA			5.0					
Iron Ore - Marcona	IDA				40.0				
Industry - Tata Fertilizer	IBRD				25.0				
Industrial Imports VI	IDA	75.0							

(Contd.)

IVa. - INDIA - 5 YEAR LENDING PROGRAM

(Contd.)		1970	1971	1972	1973	1974	1975	1964-68	1969-73
		($ millions)							
Family Planning	IDA			12.0					
Power Transmission II	IDA		75.0						
Power Transmission III	IDA			60.0					
Power Unidentified I	IDA				15.0				
Power Unidentified II	IDA					15.0			
Power Unidentified III	IDA						60.0		
Highways II	IDA			30.0					
Railways X	IDA	55.0							
Railways XI	IDA			50.0					
Shipping	IDA			80.0					
Transportation Projects Unident.	IDA				60.0				
Transportation Projects Unident.	IDA					50.0			
Water Supply - Bombay	IDA			27.5					
Water Supply Unidentified I	IDA				15.0				
Water Supply Unidentified II	IDA					15.0			
Unallocated I	IDA			24.5					
Unallocated II	IDA				180.0				
Unallocated III	IDA					35.0			
Unallocated IV	IDA						40.0		
	IBRD	40.0		40.0	25.0		40.0	189.0	145.5
	IDA	227.5	304.4	500.0	500.0	320.0	320.0	591.0	1682.4
	Total	267.5	304.4	540.0	525.0	320.0	360.0	780.0	1827.9
	No.	6	8	19	8	6	6	13	44

5/5/71

	1970	1971	1972	1973	1974	1975
Note: the IDA lending program is to be adjusted to --		245.0	350.0	350.0	350.0	350.0

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/A/71-6/1

May 5, 1971

NOTICE OF MEETING

As previously announced, a Meeting of the Loan Committee will be held on Friday, May 7, 1971 at 4:00 p.m. in Room C1006.

AGENDA

Thailand - Kasetsart University Project

The Committee will consider: (a) the attached memorandum from the East Asia and Pacific Department entitled "Thailand - Kasetsart University Project" (LC/0/71-76), and (b) the attached memorandum from Mr. Ballantine to the Chairman dated May 4, 1971.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/71-76

May 5, 1971

LOAN COMMITTEE

Memorandum from the East Asia and Pacific Department

Thailand: Kasetsart University Project

1. The appraisal Report on the Kasetsart (Agricultural) University Project recommending a loan of $13.5 million to the Government of Thailand is in the final stages of consideration before being printed in green cover. Before proceeding further I would appreciate the guidance of the Committee on the question of the timing of the proposed loan. The issues involved, in the recent experience of this department, appear to apply to education projects in general.

The Project

2. Of the three universities in Thailand with agricultural faculties Kasetsart University is the largest and most important. The proposed loan of $13.5 million for the expansion and improvement of the University would be made to the Government. The loan would help finance the simultaneous expansion of the University's present campus at Bangken, a suburb of Bangkok, and a new rural campus at Kamphangsaen about 80 km from Bangkok. The project concentrates on improving the University's agricultural and related faculties and is designed to help meet Thailand's expected requirements for qualified graduates. Under the project the University's enrollment capacity will be increased from 3960 places to 5470 places and all courses involving practical work will be transferred to the new campus at Kamphangsaen. Over the long run the University's graduates would help strengthen the Government's agricultural extension services and agricultural education, training and research programs, all prerequisites to helping farmers adjust to the changing prospects for Thai agriculture.

3. The total cost of the project is estimated at $27 million of which the Bank's loan would finance the estimated foreign exchange costs. The project includes site development, buildings, equipment, furniture, a fellowship program and technical assistance to help carry out the project, to strengthen the University's administrative capacity, to help develop the University's curriculum, and to undertake two studies. One study would help the Government determine future agricultural education, training and extension service requirements and would guide the University in planning its own curriculum and instructional programs to help meet these requirements; the

other would be a study to examine Thailand's expected needs for trained veterinarians and make recommendations on the appropriate veterinary training facilities for this purpose.

4. A project unit would be set up in the University under the Rector to administer all aspects of project implementation. The unit would be assisted by a coordinator responsible for day-to-day operations, an administrator to help prepare equipment and furniture lists, and a project architect.

Timing of the Proposed Loan

5. The arrangements for carrying out this project are in many ways typical of education projects financed by the Bank and IDA and the issues raised in this memorandum concern our present procedures for appraisal, loan commitment and disbursement for education projects in general.

6. As a general rule there are the following three stages in the preparation of an education project: a) determination of the courses and the facilities required; b) detailed design of buildings, including campus planning for university projects, and preparation of equipment and furniture lists; and c) award of contracts. Under our present procedures step (a) is part of appraisal; the loan is made after completion of stage (a). This results in a considerable lag between commitment of the loan and significant disbursement and in a heavy load of project administration during stage (b) which in other types of projects would be regarded as part of project preparation and appraisal. If the formal appraisal and loan negotiations could be postponed until stage (b) had been reached, it would achieve the advantages of cutting down delays between commitment and significant disbursement and the project might be more sharply defined in physical terms. This would of course require that we were in agreement with the authorities on the composition of (a) and the work to be carried out under (b).

7. In the case of Kasetsart University we followed our normal procedures. After project identification and preparation missions in 1969 the project was appraised in October 1970 when additional preparation work had been completed. Even so, the project was further modified during appraisal. However, the mission was able to reach agreement in principle with Kasetsart University on the facilities and courses to be provided under the project. Also at the time of appraisal it was possible, as is usual with education projects, to determine with reasonable accuracy the total project costs and foreign exchange component because, once the functions of a building have been established, the cost parameters guiding the design architects' work can be laid down. These cost parameters reflect standards of construction acceptable to the Bank and are worked out in agreement with the borrower.

8. To proceed with the project the University must now employ campus planners to lay out the new campus at Kamphangsaen and plan the appropriate adjustments to the existing campus, and architects to design the principal buildings and draw up specifications for bids for site development and construction work. This process is likely to take 18 months or possibly longer. As a condition of the proposed loan we would require that these preliminary activities be carried out under arrangements satisfactory to the Bank. The foreign exchange costs of these activities plus the initial costs of technical assistance for the project unit and the start of the fellowship program are estimated at $500,000. Commitment charges accruing on the proposed loan would total about $152,000 during the same period. The Government may, as a consequence, suggest that the proposed loan be postponed until significant disbursements are expected and seek the Bank's agreement to include $500,000 in the proposed loan to finance these costs retroactively.

9. To postpone the proposed loan by, say, 15-18 months would present the Education Projects Department with a number of problems. First it contends that it would be imprudent to allow the University to proceed with the preliminary activities without any formal agreement with the Bank as to the procedures to be followed as this could lead to the University's entering into arrangements or developing designs which were unsatisfactory to the Bank and could further delay implementation. This is a question of leverage. I believe we have greater influence in project development by making clear that we will not lend unless we are satisfied with these preliminary steps or, alternatively, by stating that we will consider retroactive financing of project development only if done along lines agreed with us. Secondly the Education Projects Department contends that 18 months from now the appraisal report would be out of date and some re-appraisal would be necessary. In view of other appraisal commitments in the near future, Education Projects Department will find it difficult to spare manpower to duplicate the existing appraisal work. The Education Projects Department is concerned that if over the next few years loans for education projects are postponed until architectural designs are well underway and consequently a re-appraisal is necessary, it could seriously impair the Department's ability to meet its commitments to the Bank's and IDA's lending program. Against this it can be said that the re-appraisal which would be required would not seem to involve any more work in substance than that required of a supervision mission which under present procedures would have to take place in any event at about the same time to review progress of the project.

10. A further consideration is that present legislation fixes the maximum interest rate at which the Government can borrow from the Bank at 7% and new legislation raising the level is unlikely to become effective before October 1, 1971, the date present legislation expires and the start of the Third National Development Plan. I would in any event recommend postponing negotiations until I was satisfied that the necessary legislation was before Parliament.

11. In the circumstances of the proposed loan three alternative courses might be considered on which I would appreciate the guidance of the Committee:

a) We explain to the Government and the University our wish to present the proposed loan to the Executive Directors as soon as legislation enabling the Government to borrow at our present rate of interest has been enacted and that any serious delay may indefinitely postpone consideration of the loan because of staff constraints. Under this alternative if the proposed loan is approved in October 1971 the period between a loan commitment and significant disbursement might be reduced to about 12 months and retroactive financing might be requested for about six months;

b) We agree to postpone the loan, if the Government so requests, until project preparation is substantially completed and include an amount not exceeding $500,000 in the proposed loan to help cover the costs of preliminary activities provided a satisfactory arrangement can be worked out with the Government and the University on the procedures for carrying out these activities; and

c) We propose to the Government and the University a project preparation loan to cover the estimated foreign exchange costs of preliminary activities which would be refunded out of the proceeds of a project loan, if subsequently approved. This would require an extension of the purposes described in OM 2.11 para 7(b) for which project preparation loans can be made in order to meet the requirements of this and other education projects.

Under all alternatives we would urge the Government and the University to commence campus planning and design work forthwith.

12. My own preference would be for alternatives (b) and (c) in that order for the reasons given in paragraph 6 above. I recognize that if these procedures became our general practice, it might result in a slow down of loan commitments for education projects in the immediate future. A decision of the Loan Committee is required now as the loan officer for Thailand and a representative of Education Projects Department plan to be in Thailand in the second week of May to discuss the next steps in the processing of this project and our consideration of the proposed loan.

Raymond J. Goodman
Director
East Asia and Pacific Department

Population: 32.7
GNP Per Cap: $130

THAILAND - FIVE-YEAR OPERATIONS PROGRAM
(By Fiscal Year - Amounts in $ millions)

OPERATIONS PROGRAM			1971	1972	1973	1974	1975	1976
6 - THL-AC-02	Agricultural Credit II	IBRD					10.0	
6 - THL-AI-07	Irrigation - Pitsanuloke	IBRD			27.0			
6 - THL-AI-08	Irrigation - Uttardit	IBRD						27.0
6 - THL-AX-02	Agriculture Unidentified I	IBRD			5.0			
6 - THL-AX-03	Agriculture Unidentified II	IBRD				10.0		
6 - THL-AX-04	Agriculture Unidentified III	IBRD					5.0	
6 - THL-AD-01	Chao Phya Devt.	IBRD			5.0			
6 - THL-CC-01	Telecommunications I	IBRD		35.0				
6 - THL-CC-02	Telecommunications II	IBRD				10.0		
6 - THL-DD-03	DFC - IFCT II	IBRD				5.0		
6 - THL-DD-04	DFC - IFCT III	IBRD						10.0
6 - THL-EE-02	Kasetsart University	IBRD		13.5				
6 - THL-EE-03	Education - Agric. & Fisheries	IBRD					10.0	
6 - THL-EX-01	Education - Unidentified I	IBRD			10.0			
6 - THL-EX-02	Education - Unidentified II							10.0
6 - THL-IL-01	Industrial Estate I	IBRD				5.0		
6 - THL-PT-01	Power VI - S. Bangkok Thermal	IBRD		25.0				
6 - THL-PH-04	Quai Yai Dam & Power	IBRD			25.0			
6 - THL-QX-01	Tourism Unidentified	IBRD				5.0		
6 - THL-TH-05	Highways V	IBRD		25.0				
6 - THL-TH-06	Highways VI	IBRD				30.0		
6 - THL-TH-07	Highways VII	IBRD					30.0	
6 - THL-TP-04	Port - Bangkok III	IBRD	12.5					
6 - THL-TP-06	Port - Deepwater	IBRD				20.0		
6 - THL-TP-05	Port - Unidentified	IBRD			5.0			
6 - THL-UT-01	Urban Transportation	IBRD					10.0	
6 - THL-WU-01	Water Supply - Bangkok	IBRD				30.0		
6 - THL-WE-01	Sewerage - Bangkok	IBRD				5.0		
	Total							
		IBRD	12.5	98.5	77.0	120.0	65.0	47.0
		No.	1	4	6	9	5	3

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: May 4, 1971

FROM: D. S. Ballantine DSB

SUBJECT: Thailand Kasetsart University Project - Loan Committee Memorandum from the East Asia and Pacific Department

1. Mr. Goodman's memorandum of May 5, 1971 to the Loan Committee gives a detailed account of the Kasetsart University project and comes forward with three alternative lines of action regarding the timing of our approval of the proposed Bank loan. Here, I wish to present a few supplementary points and to discuss, briefly, the broader aspects of Mr. Goodman's recommended line of action.

The Kasetsart Project

2. The history of the Kasetsart University project goes back to September 1968 when we first received the University's Development Plan. (The Plan itself had been a subject of controversy within the government for several years prior to that.) From the outset, the main issue has been the size and scope of the University's development plans for its new rural campus (Kampangsaen) and for the existing urban campus (Bankgen); one strong faculty group had a preference for staying essentially at the old campus, which in the judgment of FAO and the Bank, would be a serious mistake.

3. Preparation of the project has required a number of missions by the Bank and FAO, including several visits by senior Bank staff. From this, there resulted finally an acceptable compromise solution on the basis of which the project was appraised in September/October 1970. We cannot ignore the possibility that, if the momentum of the project is lost, this compromise solution may be endangered.

4. We had originally planned for the presentation of the Kasetsart project loan to the Executive Directors in FY 1971. In March 1971, we learned that the legislation now in effect in Thailand would not allow the country to borrow at interest rates more than 7% p.a. and enactment of new legislation would not be feasible well before October 1971. Mr. Goodman's present proposals would require a further postponement of the proposed Bank lending, with the danger that the compromise reached on the future development of the University may fall apart and the old controversies within the government and the University may be revived. If we delay signing a loan agreement until the detailed engineering work is completed (i.e. some 18 months from now), we would have to re-appraise the project and to update the present "yellow cover" appraisal report. These tasks would be additional charges on our limited manpower resources.

5. As far as I can see, the simplest solution would be for Messrs. Gibbs and Burt to "pre-negotiate" the project in Bangkok next week and, subject to the usual caveats for retroactive disbursement, to encourage the government to proceed with the detailed engineering work (i.e. engaging of architectural consultants and design work), overseas training programs and special studies for which provisions have been made in the project. Since the enactment of new legislation in Thailand and formal negotiations for the loan are not likely before the next fall, fortuitously a reduction of about six months would be made from the period normally subject to the commitment charge.

Broader aspects

6. The Kasetsart University project - like practically all other education projects - has been appraised on the basis of preliminary engineering data. Unlike the case of road projects, a lack of detailed engineering data does not normally create a difficulty. Our appraisal missions agree with the borrower on the space requirements per student, etc. and obtain information on the current and prospective unit costs for construction. Contingency allowances ranging 10-20% of the constructions costs are normally adequate to meet any eventualities. This procedure, also confirmed in the Operational Policy Memorandum No. 2.11 (para.3), is desirable from an operational point of view as the final composition of an education project is determined only during the appraisal stage (and sometimes as late as negotiations).

7. There is, admittedly, a lag in disbursement in the construction/equipment/furniture part of the education projects. This lag, corresponding to the detailed engineering phase of some other types of projects, may extend roughly over 18 months. Much of our institution-building role, i.e. setting up of a project unit, selection of suitable consultants and key project execution personnel, sound architectural planning, curricula revisions, etc. takes place during this period. A signed loan would give us a leverage which we would not otherwise have had vis-a-vis a borrower.

8. Education projects, as you know, start with a study of the whole sector, with a view to determining needs for reforms. This phase, together with the project preparation and appraisal work, may take approximately two years up to the signing of a loan agreement. A further postponement of a loan signing by, say, 18 months until the completion of the detailed engineering work would seriously reduce the Bank's leverage and would tax an average borrower's patience. The commitment charge argument would, of course, apply only in the case of the Bank lending. For uniformity in project practice, we would have to introduce similar techniques to the IDA-type lending which accounts roughly for a half of our total education lending. This would be an undue constraint.

9. If the Bank is seriously concerned about the commitment charge aspects of our education lending, the compromise solution to which I referred in paragraph 5 above may alleviate the situation in the Kasetsart

project case as well as in most other cases. We may also consider liberalization of the rules in respect of the commencement of the commitment charge (such as postponement of it until preliminary work is scheduled to be completed). I wish to emphasize that the Kasetsart University project is not a typical education project: unlike most education projects it concerns only one institution (instead of a blend of various types, levels, etc.) and the amount of the proposed lending ($13.5 million) is twice as high as an average education loan.

10. We have already initiated a study of the education project cycle, concentrating first on the pre-appraisal and appraisal stages; this will be extended to the project implementation stage. Clearly, all stages are interdependent and in the end should be considered together. Meanwhile, I would be glad to continue with studies and experiments regarding various techniques to shorten the implementation stage, including special attention to the "start-up" period, which we are now giving, and the use of the "piggy-back" procedure which we shall try in the case of a recent loan to Brazil. In the meantime, I hope that the Kasetsart case will not be taken as a basis for sector-wide policy decisions.

cc: Messrs. Aldewereld
Chadenet
Baum
Goodman
Gibbs
Burt

OHCalika:jsc

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/A/71-6

May 4, 1971

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Friday, May 7, 1971 at 4:00 p.m. in Room C1006.

AGENDA

Thailand - Kasetsant University Project

The Committee will consider memoranda from the East Asia and Pacific and Education Projects Departments, which will be distributed later.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/71-23

May 3, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Brazil - Santos Port Project" held at 3:00 p.m. on Thursday, April 15, 1971 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
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LM/M/71-23

May 3, 1971

Minutes of Special Loan Meeting to consider "Brazil - Santos Port Project" held at 3:00 p.m. on Thursday, April 15, 1971 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Aldewereld, Alter, Baum, Gabriel, Knox, Nurick, Mackay, Wiese, Carmichael, Husain and Pearce (Secretary).

2. Issue: The meeting had been called to consider the South America Department's memorandum of April 12, 1971 to the Loan Committee (LC/0/71-57), which recommended that negotiators be invited for a $45 million loan to finance the foreign exchange component of civil works and equipment for the Santos Port project. The only issue for discussion was the justification for the proposed loan.

3. Discussion: The meeting noted that:

(a) The South America Department's projections of the resources of Brazil's National Ports Department (DNPVN), the executing agency for all port works including the Santos project, suggested that DNPVN, by using the 60 per cent National Port Fund and other government resources, could possibly finance the Santos project, if it were accorded priority in the allocation of funds, entirely from its own resources. However, a proposed study of port tariffs and taxes - a principal source of DNPVN's income - was expected to lead to a reduction in these charges or to a distribution of surpluses by way of income tax or dividends to the Government. In this event, some external capital would be needed between 1971-75, the project execution period.

(b) The project's technical assistance and institution-building component, including its expected contribution to the definition of a national port improvement and expansion program, adequately justified the proposed loan. The Bank had been associated with reforms in Brazil's transport sector since 1965 and its direct involvement would reinforce hitherto weak efforts to introduce much-needed organizational and financing reforms and investment planning.

(c) The project's importance for institution-building also made it a suitable vehicle for the provision of foreign exchange, which Brazil undoubtedly needed.

(d) During negotiations the Brazilians would be asked to undertake that profits earned by the Santos port in excess of the amount required to pay the concessionnaire's fixed remuneration, would be made available promptly for capital investment required beyond 1975 by DNPVN.

4. Decision: The Chairman approved the South America Department's recommendation that negotiators be invited for the proposed loan.

David Pearce
Secretary

Cleared by: Messrs. Cope
Alter/Husain
Carmichael

cc: Loan Committee
Participants

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Ivory Coast - Second Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 29, 1971 from the Western Africa Department, entitled "Ivory Coast - Proposed Loan for a Second Highway Project" (LC/O/71-74).

2. Comments, if any, should be sent to reach Mr. Schott (ext. 4758) by 5:00 p.m. on Tuesday, May 4.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
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CONFIDENTIAL

LC/O/71-74

April 29, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

IVORY COAST - Proposed Loan for a Second Highway Project

Introduction

1. Attached for consideration by the Loan Committee is an Appraisal Report (No. PTR-86) entitled "Second Highway Project" which recommends a loan to the Government of the Ivory Coast in the amount of US$20.5 million to assist in financing the construction of two major roads and detailed engineering, which is expected to form the basis of a future loan to the Ivory Coast.

2. The Bank has made six loans to the Ivory Coast, three for the development of oil palm and coconut plantations and the construction of a palm oil mill, and one each for education, cocoa production, and roads. Excluding a loan made in 1954 to the former colonial railway administration for French West Africa, which has been entirely repaid, the Bank has made loans to the Ivory Coast in a total amount of US$41.4 million. Two concurrent loans for oil palm and coconut development and construction of a palm oil mill totaling US$7.0 million are being submitted to the Loan Committee at the same time.

Economic Situation

3. The most recent economic report on the Ivory Coast, Report No. AW-17a, Economic Growth and Prospects of the Ivory Coast, Vols. I-IV, July 24, 1970, confirmed the country's creditworthiness. A new economic mission visited the Ivory Coast in January of this year and is preparing its report. Its preliminary findings confirm the Ivory Coast's continued creditworthiness. The Five-Year Lending Program for the Ivory Coast is attached.

4. The economy of the Ivory Coast has grown rapidly in recent years with GDP increasing by an average of about 11 per cent per year at current prices and about 7 per cent in real terms. By 1970, GDP per capita had risen to US$286. The principal factor in this rapid growth has been agricultural and forestry exports. However, due to projected world commodity

price declines and limitations on timber resources, exports will probably grow at a slower rate. GDP should nevertheless continue to grow at an annual rate of 5 to 6 per cent in real terms.

5. Owing to favorable export prices, the Ivory Coast's balance of payments has been in very satisfactory condition in recent years. The balance of trade showed sizeable surpluses which together with the inflow of foreign grants and loans allowed a substantial increase in net external assets. By 1970 these amounted to the equivalent of 4 months of imports. On the other hand, public debt has increased rapidly and the debt service ratio presently at 7 per cent (1970) is expected to begin a sharp rise during the 1970's.

6. The Government is strongly committed to economic and social development and continues to make great efforts to mobilize domestic resources for this purpose. Consequently, public investment has been rising rapidly. Part of the investment program appears to be very useful particularly the investments being undertaken for agricultural diversification, regional development, education, and improvements in infrastructure. However, in recent years, the Government has shown a tendency to include in the public investment program large projects of uncertain merit, for example, the Kossou dam and the so-called African Riviera (urban development and tourism). The danger exists that with the inclusion in the public investment program of such projects, total public investment may grow beyond the financial capacity of the Government, leading to a fast accumulation of external debt. We have raised these matters with the Government.

The Project

7. The project consists of the following principal elements:

a) the construction of the Yabayo-Duekoue-Man road (219 km) and a branch of this road from Pinhou to Guiglo (19 km);

b) construction of the Bouaké-Katiola road (49 km);

c) supervision of construction by consulting engineers; and,

d) preparation of detailed engineering for about 300 km of roads.

The feasibility studies and detailed engineering for the Yabayo-Duekoue-Man and Guiglo roads were prepared as part of the Bank's first highway loan to the Ivory Coast. The studies for the Bouaké-Katiola road were financed under a UNDP financed Transport Survey of the Ivory Coast. The Directorate General of Public Works in the Ministry of Public Works and Transport will be responsible for the execution of the project and will be assisted by consultants. All construction under the project will be by contractors selected through international competitive bidding in accordance with Bank/IDA guidelines.

8. The road system of the Ivory Coast comprises about 14,000 km of all weather roads, 1,300 km of which are paved, and about 20,000 km of unimproved earth tracks. While this network provides reasonable access to most parts of the country, it is insufficient for the increasing demands made on it by the rapid development of the country. The UNDP has financed a Transport Survey of the Ivory Coast for which the Bank is Executing Agency. The first phase of this study, completed in 1970, recommended an extensive program of road improvements. The second phase of the study, which is underway, includes feasibility studies of 1,100 km of roads to be reconstructed or reinforced. The Government's road investment program calls for improving the links between Abidjan and the principal population concentrations in the North, Center and West of the country and opening up the hinterland of the new port of San Pedro in the South-West. On our part we are placing considerable emphasis in our lending program for the Ivory Coast on the development of the country's road infrastructure and improvement of its road maintenance and road user regulation.

9. The Yabayo-Duekoue-Man road will provide the timber producing region of Duekoue and Guiglo with improved access to San Pedro. Forest production from the Western region, which is presently exported through Abidjan, is expected to shift to San Pedro when the port and the new San Pedro-Yabayo-Issia road are opened. The Yabayo-Duekoue road will then provide a 30 km shorter route to the principal timber producing areas and allow important savings in vehicle operating costs. The Bouaké-Katiola road is a well travelled section of the main North-South axis from Abidjan to Upper Volta and Mali. The 300 km of detailed engineering provided for in the project will be selected from roads found to be of high priority in Phase II of the UNDP Transport Survey.

10. The total cost of the project is estimated at US$35.5 million including 20 per cent provided for contingencies. The Bank will finance only the foreign exchange costs which are estimated at US$20.5 million or 58 per cent of total project costs and 55 per cent of construction costs. Direct and indirect taxes and import duties represent about 25 per cent of the construction costs and are, therefore, over half of the local contribution to the cost of the project. Construction work in the Ivory Coast is mostly carried out by foreign contractors. However, the Bank financed Abengourou-Agnibilekrou road is being constructed by a Government owned firm in a joint venture with an Israeli firm. The joint venture will probably be in a position to bid on elements of this project. Moreover, provision is being made in the project for the training of Ivorian personnel in the supervision of construction.

11. In its first road loan, the Bank financed the reconstruction of the Abengourou-Agnibilekrou road (60 km), a link in the main road between the Ivory Coast and Ghana, feasibility studies of about 700 km of roads and detailed engineering of about 350 km of these roads found to be of high priority. The loan was recently amended, with the approval of the Executive Directors, to use surplus funds for the detailed engineering of additional

roads. The construction of the Abengourou-Agnibilekrou road is about 60 per cent completed. The project was slow in starting, but progress is now satisfactory. The feasibility studies and a large part of the detailed engineering originally financed by the loan have been completed and performance under the loan has been generally satisfactory.

12. Rate of return: The rate of return has been calculated for both roads on the basis of savings in vehicle operating costs. For the Yabayo-Duekoue-Man road with its branch to Guiglo, economic analysis shows that the three sections analyzed separately would all have rates of return of about 16-17 per cent. Construction of the Bouaké-Katiola road to paved standards has been estimated to yield a rate of return of 26 per cent. Both roads have been subjected to sensitivity analysis, and, using fairly pessimistic assumptions, both still provide satisfactory rates of return.

Principal Issues

13. Road Construction Program: On the basis of the recommendations of Phase I of the UNDP Transport Survey, the Government has proposed an investment program for the Five-Year period 1971-1975 of US$76 million for highways - about 10 per cent of the total public investment budget. Of the total, $55.0 million has been earmarked for primary road construction and improvement. The Transport Survey identified a volume of high priority road construction and road improvements covering about 1,600 km, mostly of primary roads, at a total cost of $80.0 million. The present loan and the one already planned for next year will tie up most of the Government's funds for road construction through the end of the present plan period. Therefore, we will require close consultation with the Government on its road construction program in order to ensure that it is not expanded unduly.

14. Design Standards: Preparation of this project was slightly delayed to allow for discussions with the Government of the design standards for the Bouaké-Katiola road. The consultants recommended that this road be designed with a roadway of 9 meters and a pavement width of 6 meters in order to maximize the rate of return. The Government requested standards of an 11-meter roadway and 7-meter pavement in accord with guidelines they had adopted for all road construction. The Government reviewed the matter with the consultants and repeated its request for the higher standards, because of the greater incidence of accidents and additional maintenance costs resulting from roads designed to the lower standards. We agreed to the Government's request to use higher standards for the roads in this project on the understanding that it will evaluate the economic justification of standards for the construction of new roads on a case-by-case basis.

15. The discussions with the Government on design standards required that the detailed engineering for the Bouaké-Katiola road be delayed until a decision was reached. For this reason the cost estimates for construction of this road were based on preliminary engineering. A cost estimate based

on detailed engineering has just become available and is being checked with the consultants. This tentative cost estimate is well within the estimate given in the appraisal report.

16. Road User Regulations and Maintenance: The Department of Public Works which is responsible for the road network has been unable to perform fully its regulatory functions. It is also not equipped to perform completely satisfactory maintenance on the growing highway system. It has so far failed to assure reliable traffic counts and has only recently started to enforce the load limits. Moreover, regulations pertaining to licensing, freight rates and road user taxes may require further study. Highway maintenance and administration are being studied under the UNDP Transport Survey and we shall obtain assurances that the Government will discuss with the Bank a program implementing the recommendations made by the consultants. The Government shall also be asked to agree that load limits will be enforced, that a traffic counting unit will be established in the Directorate of Public Works and that additional studies on transport regulation and taxation will be undertaken if required.

17. Yabayo-Duekoue Road: The economic justification of the Yabayo-Duekoue section (134 km) of the Yabayo-Man road will depend in major part on the timber traffic to San Pedro. After the feasibility study for this road was completed, it was learned that a U.S. firm, Pickands Mather, was in the process of evaluating iron ore deposits in the region between Duekoue and Man. Initial results of the prospecting have been positive and the company is presently delimiting its concession with the apparent intention of developing the ore bodies in the next several years. In view of the large tonnages to be transported - up to 10 million tons per annum - the Government has expressed an interest in building a railroad into the area. On the other hand, the iron ore company is studying a pipeline for the transport of the ore.

18. If a railroad were built, it would probably parallel the proposed road and offer a cheaper means of transport for log traffic. Considerable uncertainties exist regarding the construction of a railroad, principal among them are the possibility of opening the mines in view of the world market situation for iron ore and the possibility that the iron ore developer will find the pipeline solution both technically feasible and economically better than rail transportation. We have evaluated the situation in the light of the available information, and discussions with the Government and Pickands Mather. We concur with the conclusions in the appraisal report that the mine and the railroad are very unlikely, even under optimistic assumptions, to be functioning before 1977. However, if the railroad did enter service in 1977, the rate of return on the proposed road would still not be less than 10 per cent.

19. Condition of Effectiveness: The Appraisal Report recommends that the Government be required to sign a contract with consultants acceptable to the Bank for the supervision of the construction work as a condition of effectiveness of the loan.

Recommendation

20. I recommend that the Bank invite the Government of the Ivory Coast to negotiate a loan in the amount of US$20.5 million for the project described above on the basis of the recommendations contained in section 6 of the attached Appraisal Report.

Attachments

Bruce M. Cheek
Deputy Director

Population : 4.10 m
GNP per Cap.: $260

IVa. IVORY COAST - 5 YEAR OPERATIONS PROGRAM
(By Fiscal Year - Amounts in $ millions)

			1971	1972	1973	1974	1975	1976
7-IVC-AP-03	Coconut II	IBRD	8.5					
7-IVC-AP-07	Cocoa II	IBRD			5.0			
7-IVC-AP-04	Cocoa III	IBRD						5.0
7-IVC-AP-05	Rubber I - Southwest	IBRD			10.0			
7-IVC-AP-06	Oil Palm & Coconut II	IBRD				9.0		
7-IVC-AN-01	Ind. Coffee de-shelling	IBRD			8.0			
7-IVC-AX-01	Agriculture Unidentified	IBRD						5.0
7-IVC-AX-02	Agriculture Unidentified	IBRD					5.0	
7-IVC-CC-01	Telecommunications	IBRD			3.0			
7-IVC-EE-02	Education II	IBRD					6.0	
7-IVC-PP-01	Power	IBRD					2.5	
7-IVC-QQ-01	Tourism Unidentified	IBRD				6.0		
7-IVC-UT-01	Urban Transport - Abidjan	IBRD			8.0			
7-IVC-UT-02	Urban Transport II	IBRD						5.0
7-IVC-TH-02	Roads II	IBRD	20.0					
7-IVC-TH-03	Roads III	IBRD		15.0				
7-IVC-TH-04	Roads IV - Maintenance	IBRD				10.0		
7-IVC-TH-05	Roads V	IBRD						10.0
7-IVC-TR-02	Bangolo Railways	IBRD					10.0	
7-IVC-WW-01	Sewerage - Abidjan	IBRD				5.0		

	Total 1964-68	Total 1969-73	Total 1972-76		1971	1972	1973	1974	1975	1976
IBRD	5.8	113.1	127.5	IBRD	28.5	15.0	34.0	30.0	23.5	25.0
No.	1	11	18		2	1	5	4	4	4

P & B 4/27/71

Form No. 60
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INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
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April 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Ivory Coast - Second Oil Palm and Coconut Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 29, 1971 from the Western Africa Department, entitled "Ivory Coast - Proposed Loan for a Second Oil Palm and Coconut Project" (LC/O/71-73).

2. Comments, if any, should be sent to reach Mr. Schott (ext. 4758) by 5:00 p.m. on Tuesday, May 4.

3. It is planned then, if the Committee approves, to inform the Government and representatives of the Participation 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 -

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CONFIDENTIAL

LC/O/71-73

LOAN COMMITTEE

April 29, 1971

Memorandum from the Western Africa Department

IVORY COAST - Proposed Loan for a Second Oil Palm and Coconut Project

Introduction

1. Attached for the consideration of the Loan Committee is an Appraisal Report entitled "Second Oil Palm and Coconut Project" (No. PA-89) which recommends two Bank loans totalling US$ 7 million to SODEPALM-PALMIVOIRE and PALMINDUSTRIE-PALMIVOIRE, all of which are associated companies. Both loans would be guaranteed by the Government of the Ivory Coast and the loan to PALMINDUSTRIE would also be guaranteed by SODEPALM and PALMIVOIRE.

2. The Bank has made six loans to the Ivory Coast, including three made to member companies of the SODEPALM-PALMINDUSTRIE-PALMIVOIRE Group (commonly referred to as the Participation) for the development of oil palm and coconut plantations and the construction of an oil mill in 1969. The other three loans were for education, cocoa production and roads. Excluding a loan made in 1954 to the former colonial railway administration for French West Africa, which has been entirely repaid, the Bank has made loans to the Ivory Coast in a total amount of US$41.4 million. A second highway project is expected to be negotiated immediately after this project in the amount of US$20.5 million.

3. Although the projects financed in the three previous loans to members of the Participation have been either completely or substantially completed, only US$2.6 million has been disbursed to date out of a total of $17.1 million (including capitalized interest). We have been informed by letter, however, that additional disbursements totalling US$3.1 million will be requested shortly. The cash flow position of the Participation has been unexpectedly good due to unusually high prices for palm oil and palm kernels and the Participation has been able to obtain short-term funds at low interest rates. The management of the Participation assures us that they will soon draw down the loans and have agreed to provide us with a schedule of proposed disbursements for Loans 611, 612 and 613-IVC during the negotiations.

Economic Situation

4. The most recent economic report on the Ivory Coast, Report No. AW-17a, Economic Growth and Prospects of the Ivory Coast, Vols. I-IV, July 24, 1970, confirmed the country's creditworthiness. A new economic mission visited the Ivory Coast in January of this year and is preparing its report. Its preliminary findings confirm the Ivory Coast's continued creditworthiness. The Five-Year Lending Program for the Ivory Coast is attached.

5. The economy of the Ivory Coast has grown rapidly in recent years with GDP increasing by an average of about 11 percent per year at current prices and about 7 percent in real terms. By 1970, GDP per capita had risen to US$286. The principal factor in this rapid growth has been agricultural and forestry exports. However, due to projected world commodity price declines and limitations on timber resources, exports will probably grow at a slower rate. GDP should nevertheless continue to grow at an annual rate of 5 to 6 percent in real terms.

6. Owing to favorable export prices, the Ivory Coast's balance of payments has been in very satisfactory condition in recent years. The balance of trade showed sizeable surpluses which together with the inflow of foreign grants and loans allowed a substantial increase in net external assets. By 1970, these amounted to the equivalent of 4 months of imports. On the other hand, public debt has increased rapidly and the debt service ratio presently at 7 percent (1970) is expected to begin a sharp rise during the 1970's.

7. The Government is strongly committed to economic and social development and continues to make great efforts to mobilize domestic resources for this purpose. Consequently, public investment has been rising rapidly. Part of the investment program appears to be very useful particularly the investments being undertaken for agricultural diversification, regional development, education, and improvements in infrastructure. However, in recent years, the Government has shown a tendency to include in the public investment program large projects of uncertain merit, for example, the Kossou dam and the so-called African Riviera (urban development and tourism). The danger exists that with the inclusion in the public investment program of such projects, total public investment may grow beyond the financial capacity of the Government, leading to a fast accumulation of external debt. We have raised these matters with the Government.

The Project

8. The project has a total cost of US$17.6 million and consists of the following principal elements:

a) the establishment of 8,000 ha. of industrial coconut plantations, 4,500 ha. of outgrowers' holdings planted in coconuts and 4,500 ha. of outgrowers' holdings planted in oil palm;

b) roads and other infrastructure for existing and planned coconut plantations; and

c) construction of a palm oil mill at Dabou with the capacity to process the produce of some 13,000 ha. of oil palm production.

The project was prepared by the Participation. Because of the Participation's legal structure, it will be necessary to divide the project into two concurrent loans, one to SODEPALM for the plantations and the other to PALMINDUSTRIE, the owner of the processing facilities, for the mill. The principal issues in the project concern the procurement of goods and services for the mill and the plantations, the strengthening of the Participation's management, and the payments to be made by the outgrowers for the development of their holdings.

9. SODEPALM is a government-owned company responsible for the development of both oil palm and coconut plantations. PALMINDUSTRIE, which is the owner of the oil palm processing facilities, already owns eight palm oil mills located close to the SODEPALM plantations. At the present, there are about 27,000 ha. of coconut and 79,500 ha. of oil palm plantations in existence or planned. With the completion of the present program, the Ivory Coast will become an exporter of coconut products just as it has already become a small but growing exporter of palm oil and palm kernels. Yields from SODEPALM's coconut estates and from the coconut outgrowers' holdings are expected to be excellent by world standards, and will result in good financial returns to SODEPALM and to the outgrowers. Oil Palm yields in the Ivory Coast are good by West African standards and are satisfactory, even though yields in South-East Asia are 30-40 percent higher. The present program should result in net annual foreign exchange earnings to the country of about US$5.8 million by 1983.

10. The Ivory Coast has in recent years enjoyed excellent conditions for agricultural development: abundant land, a plentiful supply of labor and favorable world market conditions for its principal products. The Government has implemented a policy of diversification in order to reduce the country's dependence on coffee and cocoa. Thus, it has introduced the cultivation of such export products as oil palm, coconuts, bananas and pineapples. These programs,

which have been entrusted largely to autonomous state corporations, have been highly successful and agricultural production has responded with a production growth rate of 6.5 percent at current prices and, up to the present, an export growth rate of 11 percent per year.

11. Financing: Project costs during the period of disbursement, 1972-76, are estimated at CFAF 4.9 billion (US$17.6 million) of which the foreign exchange component is CFAF 3.3 billion (US$11.8 million) or 67 percent of the total. It was agreed with the cofinancer of the project, the Caisse Centrale, that the Bank and the Caisse would finance equal shares of 40 percent of the total and the companies 20 percent. The loan from the Caisse will be made to BNDA (Banque Nationale de Développement Agricole of the Ivory Coast) and will be relent by it to SODEPALM and PALMINDUSTRIE. The balance of project costs will be met, in the case of SODEPALM, by allocations from the Government's investment budget and, in the case of the oil mill, from the self-generated funds of PALMINDUSTRIE. The Bank and CCCE will finance about 88 percent of the total project costs net of taxes. However, the Bank will assume the financing of foreign exchange costs only. Because of the relatively good cash flow position of the companies, due to the entry into production of certain of the plantations, interest will not be capitalized during the grace period. The following table shows the financing plan:

Financing Plan 1971-1976

	IBRD		CCCE		BSIE		Self-Generated Funds		Total	
	US$m	%	US$m	%	US$m	%	US$m	%	US$m	%
Coconut Program	4.4	40	4.4	40	2.3	30	-	-	11.1	100
Oil Palm Outgrowers	0.7	40	0.7	40	0.3	20	-	-	1.7	100
Dabou Oil Mill	1.9	40	1.9	40	-	20	1.0	20	4.8	100
Total	7.0	40	7.0	40	2.6	14	1.0	6	17.6	100

12. As in the case of the first oil palm and coconut project, separate loans would be made to SODEPALM and PALMINDUSTRIE as follows:

a) US$5.1 million to SODEPALM-PALMIVOIRE to finance the estate and outgrower coconut and outgrower oil palm plantations; and

b) US$1.9 million to PALMINDUSTRIE-PALMIVOIRE to finance the Dabou mill.

The loan to SODEPALM would be repaid in 15 years following completion of the project in 1976 and that to PALMINDUSTRIE in 15 years starting in 1974.

13. Procurement: Because most of the engineering works will be carried out by the companies for their own account, only a small proportion, about US$3.5 million, of the entire project will be subject to international competitive bidding.

14. Out of the total SODEPALM program of coconut and oil palm plantings, only US$1.6 million for the procurement of fertilizers, insecticides, kilns, some vehicles and wire nets will be suitable for and subject to international competitive bidding. A small amount of project costs, about US$0.2 million, for vehicles, is suitable for international competitive bidding but will be procured under CCCE's regulations. The rest of the project consists of land surveys and clearing, buildings, roads and maintenance, and general staff and labor costs, which SODEPALM would carry out on force account.

15. The civil engineering for the oil mill will be executed by PALMINDUSTRIE and will be financed by PALMINDUSTRIE and CCCE. The mill equipment will be financed by the Bank and will be procured under an international but restricted call for bids. The request for an exception for this equipment from our customary rules of international competitive bidding was granted on February 1, 1971, in recognition of the savings in time and money resulting from standardization. PALMINDUSTRIE's eight other mills have been equipped by the two bidders to be solicited. This is the last mill in the program and no additional mills are expected to be undertaken for several years to come. The Bank will also finance the purchase of some vehicles, costing about US$0.2 million, which will be subject to the Bank's normal procurement rules.

16. Management: The three companies SODEPALM, PALMINDUSTRIE and PALMIVOIRE are linked by a contract of Association en Participation, but are independent legal entities with separate accounts. PALMIVOIRE is responsible for the management of PALMINDUSTRIE and for SODEPALM's industrial oil palm estates. SODEPALM is responsible for its own coconut and oil palm outgrower estates. In fact, the management of both companies is interlocked in the person of the Director General of PALMIVOIRE and certain of his immediate subordinates. This has tended to make the Participation highly centralized with all the decision making authority concentrated at the top. Moreover, it has made the continued management of the companies unduly dependent on the Director General.

17. In order to strengthen the management of the companies, we have decided that SODEPALM-PALMIVOIRE should consider a plan to decentralize their management structure. The new structure should allow a decentralization of authority and should assure the continuity of management by encouraging promotion from within the company. We would require that a suitable plan be proposed within a year of the effective date of the loan and that it be implemented before the closing date of the loan, i.e., within about four years. At the same time, we intend to require that the training of Ivorians covenanted in previous loans, be accelerated. We will also require, as in the previous loans, that appointments to key managerial positions be subject to the approval of the Bank.

18. Lending Terms to Coconut Outgrowers: The project assumes that coconut outgrowers would repay SODEPALM's loans over a period of 21 years including a five-year grace period and an interest rate of 7-1/2%. The Government has proposed an interest rate of 6% in line with existing agricultural credit and a repayment period of 24 years. These terms would simplify SODEPALM's loan collection system which is based on a unitary price per coconut. We feel, however, that the return to the outgrowers is already excellent and very much superior to the return in other agricultural areas. Therefore, we favor the higher interest rate in order not to magnify the income differential between hybrid and other coconut plantings, and between oil palm and coconut plantings. Our position is expected to meet strong Government and borrower resistance during negotiations, because the system of payment to the farmers is considered to be politically sensitive.

Rate of Return

19. Based on expected world prices for coconut and oil palm products, the rates of return for the plantations are estimated to be as follows:

- coconut estates 18%;
- coconut outgrowers 16%; and
- oil palm outgrowers 17%.

For the mill, the internal economic rate of return has been calculated to be 17%. Utilization of existing capacity in lieu of the commissioning of a new mill at this time has been studied, but it was considered that the intangible benefits of operating efficiency outweighed the slight savings in deferring construction of the new mill.

20. As a condition of effectiveness of the proposed loan to PALMINDUSTRIE the appraisal report would require that the Government and IRHO agree to the closing of their oil palm mills and that they undertake to process their oil palm production in the mill to be financed with the proceeds of this loan. The report would also require that SODEPALM submit to the Bank a model form of a coconut outgrowers agreement for Bank approval before the loan to SODEPALM becomes effective.

Recommendation

21. I recommend that the Bank invite the Government of the Ivory Coast and representatives of the Participation to negotiate two loans, in a total amount of US$7.0 million, $5.1 million to SODEPALM, for the establishment of new coconut estates, and oil palm and coconut outgrowers' holdings and $1.9 million to PALMINDUSTRIE for the construction of a palm oil mill in accordance with Section 8 of the attached Appraisal Report.

Attachments

Bruce M. Cheek
Deputy Director

Population : 4.10 m
GNP per Cap.: $260

IVa. IVORY COAST - 5 YEAR OPERATIONS PROGRAM
(By Fiscal Year - Amounts in $ millions)

			1971	1972	1973	1974	1975	1976
7-IVC-AP-03	Coconut II	IBRD	8.5					
7-IVC-AP-07	Cocoa II	IBRD			5.0			
7-IVC-AP-04	Cocoa III	IBRD						5.0
7-IVC-AP-05	Rubber I - Southwest	IBRD			10.0			
7-IVC-AP-06	Oil Palm & Coconut II	IBRD				9.0		
7-IVC-AN-01	Ind. Coffee de-shelling	IBRD			8.0			
7-IVC-AX-01	Agriculture Unidentified	IBRD						5.0
7-IVC-AX-02	Agriculture Unidentified	IBRD					5.0	
7-IVC-CC-01	Telecommunications	IBRD			3.0			
7-IVC-EE-02	Education II	IBRD					6.0	
7-IVC-PP-01	Power	IBRD					2.5	
7-IVC-QQ-01	Tourism Unidentified	IBRD				6.0		
7-IVC-UT-01	Urban Transport - Abidjan	IBRD			8.0			
7-IVC-UT-02	Urban Transport II	IBRD						5.0
7-IVC-TH-02	Roads II	IBRD	20.0					
7-IVC-TH-03	Roads III	IBRD		15.0				
7-IVC-TH-04	Roads IV - Maintenance	IBRD				10.0		
7-IVC-TH-05	Roads V	IBRD						10.0
7-IVC-TR-02	Bangolo Railways	IBRD					10.0	
7-IVC-WW-01	Sewerage - Abidjan	IBRD				5.0		

	Total 1964-68	Total 1969-73	Total 1972-76		1971	1972	1973	1974	1975	1976
IBRD	5.8	113.1	127.5	IBRD	28.5	15.0	34.0	30.0	23.5	25.0
No.	1	11	18		2	1	5	4	4	4

P & B 4/27/71

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Uruguay - Fourth Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 29, 1971 from the South America Department, entitled "Uruguay - Fourth Livestock Development Project" (LC/O/71-72).

2. Comments, if any, should be sent to reach Mr. Chadwick (ext. 4778) by 4:00 p.m. on Monday, May 3.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/71-72

April 29, 1971

LOAN COMMITTEE

Memorandum from the South America Department

URUGUAY: Fourth Livestock Development Project

1. Attached is appraisal report (PA-88) recommending a Bank loan of US$4.0 million to the Republic of Uruguay to assist in financing a Fourth Livestock Development Project. The proposed loan would supplement the US$6.3 million loan (698-UR) made in June 1970 to finance the foreign exchange costs of the national livestock development program for a period of approximately one year. Rancher interest in participating in the program has greatly exceeded original expectations, and in January of this year the Borrower urgently requested the Bank to provide additional financing to help complete the program during the present year. In response to this request, the South America Department recommended, and the Chairman of the Loan Committee agreed, that an interim loan should be appraised.

2. The proposed loan would be the Bank's ninth operation in Uruguay and would bring the amount of Bank lending to US$130.5 million. The last operation was a loan to Usinas y Telefonos del Estado (UTE) of US$18.0 million (712-UR) made in November 1970 for the expansion of power generating capacity and the extension and rehabilitation of distribution facilities.

The Lending Program

3. The proposed loan would help to maintain the momentum of Uruguay's livestock development program pending the availability of funds under a larger, more comprehensive Fifth Livestock Development Project planned for FY 1972. When the Country Program Paper for FY 1972-76 was reviewed on February 12, 1971 it was agreed that the Bank should continue its support for the livestock sector so long as sector conditions remain favorable and overall economic performance is adequate to maintain Uruguay's basic creditworthiness. Under the approved lending program, the proposed FY'72 livestock loan would be followed by similar operations in FY'74 and FY'76. The five-year lending program envisages total Bank lending of US$87.0 million (see attached table). In addition to livestock the lending program includes projects in power, highway maintenance, tourism and industrial financing.

The Economy

4. A report on Uruguay's current economic situation and prospects (WH 205a) was distributed to the Executive Directors on February 8, 1971. The report concluded that during 1969 and 1970 the economy began to emerge

from a prolonged period of stagnation and that, both in terms of internal reforms and long-term balance of payments outlook, Uruguay appeared to have made good progress in establishing a basis for a period of sustained economic growth. Output rose by 5% in each of the past two years, exports increased, there was a rise in public and private investment, public finances were strengthened and inflation was sharply curtailed. Last year's 21% increase in the general price level was sharper than in 1969, but the bulk of the increase was attributable to corrective adjustments in public sector tariffs, and to higher meat prices.

5. In the latter part of 1970, however, the economic situation began to be overshadowed by a sizeable drain on the foreign exchange reserves which, by the end of last year, had declined by US$38.8 million (IBRD definition) to US$65.6 million or about three and a half months of imports. While there was a sharp increase in imports and other current account expenditures in 1970, the major cause of the reserve drain was the flight of capital which began in the wake of the devaluation of the Argentine peso last June. The outflow of capital was encouraged by a relaxation in credit policy and gained momentum as the authorities failed to adjust the exchange rate. Confidence was shaken by an upsurge of internal terrorist (Tupamaro) activities and by growing uncertainties surrounding the national elections scheduled for November of this year.

6. While the Government's unwillingness to take action on the exchange rate has created difficulties for non-traditional exports, and has undoubtedly contributed to the poor tourist season just experienced, the all-important livestock sector has continued to flourish under the stimulus of rising world prices. Preliminary indications are that the record level of beef exports achieved in 1970 (153,000 metric tons worth $88 million) is being maintained so far in 1971. This, of course, provides a major support to the balance of payments. The Government took steps towards the end of last year to limit payments for certain purposes (e.g. private overseas travel) and to directly restrain the build-up of imports. Nevertheless, the reserve drain continued during the first quarter of 1971, although at a reduced pace. In order to bolster their foreign exchange position and meet external debt amortization requirements, the authorities have over the past several months, been borrowing abroad on medium and short-term, thus tarnishing one of the most remarkable aspects of recent Uruguayan economic performance--the rapidity with which short-term official debt in the form of rescheduled commercial and financial arrears accumulated in the mid-sixties had been amortized. However, Uruguay now appears to have reached the limits of its ability to borrow substantial amounts at short-term from banks and others abroad without pledging its large gold holdings, something which seems even more anathema to the authorities than devaluation. We assume that if the reserve drain continues, and threatens Uruguay's ability to meet current payments and amortize debt, the authorities will be impelled to accept the need for devaluation.

The Sector and the Project

7. Loan 698-UR was intended to provide technical and financial assistance to ranchers for one year, during which time we could assess the Government's progress in resolving sector policy issues and making necessary institutional reforms, especially in the meat packing industry. The progress made to date has, if anything, exceeded our expectations. Labor and other reforms in the meat packing industry have enabled the packing houses to operate more efficiently and, thereby, to pay higher prices to ranchers; substantial new investments are being made to modernize the packing plants; and sanitary standards have been raised and the Government inspection services reorganized and strengthened. Another important element in the Government's meat policy has been to periodically readjust consumer prices to keep them in line with rising world market prices, thus restraining domestic demand and freeing production for export. As a result of these internal reforms, and a substantial rise in world market prices, the incentives to invest in the livestock sector in Uruguay are today most attractive.

8. In addition to the improvement in sector conditions, the increase in rancher demand for development credit reflects widespread enthusiasm for the new pasture improvement and management techniques introduced under earlier Bank projects and the favorable reaction to several new features incorporated in the third project. The latter include (1) indexing, which appears to have been fully accepted by ranchers, and which made it possible to extend the maturities of sub-loans to a minimum of 7 years, compared with a maximum of 3 years available under the previous project; (2) the limitation of indexing, which is based on a livestock product index, to the amount of the increase in the cost of living index and (3) the opening of the lending under the livestock program to all ranchers regardless of the size of their holdings.

9. Originally, the 1971 program was expected to involve about 3,000 ranchers and the improvement of some 200,000 hectares of pasture. Based on revised estimates, some 3,400 ranchers are now likely to borrow under the program. These ranchers will improve about 375,000 hectares, nearly double the area originally contemplated. Based on the loan applications received, the total cost of the 1971 program is now estimated at $21.4 million compared with the original $13.1 million; the foreign exchange component is put at $10.3 million compared with $6.3 million. The proposed loan would finance the $4 million estimated increase in the foreign exchange component, while Uruguayan official and rancher contributions would meet the additional $4.3 million in local costs. The loan would be made on the same conditions as Loan 698-UR; it would finance only ranch development costs since no additional funds are now required for technical services.

Recommendation

10. I recommend, and the Departments concerned concur, that the Bank inform the Government that it is prepared to negotiate a loan of $4 million equivalent substantially along the lines set forth in the attached Appraisal Report and discussed above.

Gerald Alter
Director

Attachments
Washington, D.C.
April 27, 1971

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

Population: 2.9 m
Per Cap Inc: US$ 620 (1970)

		1971	1972	1973	1974	1975	1976	Total 1972-76
Livestock IV	IBRD	4.0						
Livestock V	IBRD		12.0					
Livestock VI	IBRD				12.0			
Livestock VII	IBRD						12.0	
Highway Maintenance	IBRD			5.0				
Power IV	IBRD	18.0						
Power V	IBRD			40.0				
Power Distribution	IBRD					10.0		
Tourism I	IBRD				8.0			
Tourism II	IBRD						10.0	
DFC	IBRD						4.0	
Operation Program	IBRD		12.0	45.0	20.0	10.0	26.0	113.0
	No.		1	2	2	1	3	9
Lending Program	IBRD	22.0	12.0	30.0	15.0	15.0	15.0	87.0
	No.	2	1	2	------------	------3------	------------	6

South America Department
April 27, 1971

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Honduras - Second Port Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 29, 1971 from the Central America and Caribbean Department, entitled "Honduras - Proposed Bank Loan for a Second Port Project" (LC/O/71-71).

2. Comments, if any, should be sent to reach Mr. DaCosta (ext. 3881) by 4:00 p.m. on Monday, May 3.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/71-71

April 29, 1971

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

HONDURAS - Proposed Bank Loan for a Second Port Project

1. I attach Report No. PTR-85, "Appraisal of the Second Port Project" dated April 19, 1971, recommending a Bank loan of $6 million to the Empresa Nacional Portuaria (ENP) in Honduras. The revised FY-1971-76 Lending Program is also attached.

Background

2. The Bank has made nine loans to Honduras since 1955 totaling $52.1 million, and five IDA credits totaling $24.0 million, net of cancellations. In FY1970 the Association gave the Government a $2.6 million credit for livestock development, and a Bank loan and IDA credit were granted, each of $5.5 million, for a fourth power project. No lending has taken place in the current fiscal year. For FY1972 the lending program, which has been modified somewhat since the country review on November 6, 1970, includes only a Bank loan of $8 million for a proposed power project. We plan to discuss our lending program with the new Government of President Ramon Ernesto Cruz, who will assume office in June, having scored a narrow electoral victory on March 28, 1971. Prior to elections, both parties agreed to give high priority to the proposed project.

3. On March 31, 1971, a total of $19.9 million remained to be disbursed on four loans and three credits. Very little has been disbursed under the Livestock Credit (Credit 179-HO, made in March 1970) due principally to difficulties in recruiting a suitable Project Director, but the project is now getting under way and applications for sub-loans are being processed. Disbursements on the other credits and loans are proceeding satisfactorily. The North Road Project (Credit 71-HO/Loan 400-HO, made in FY1965) was delayed at the outset by difficulties in alignment. The credit has now been fully disbursed and loan disbursements are proceeding normally. However, it has been necessary to extend the Closing Date by six months to June 30, 1971, and a further extension will probably be required. A cost overrun of about $1.6 million (7 percent of total appraised costs) is now likely to emerge on this project. It has been occasioned largely by physical damage from severe weather conditions, requiring additional works and repairs.

4. The proposed loan would be the second Bank loan to ENP, which would execute the project. The first loan (463-HO made in FY1967) helped finance additional facilities and equipment, including two new berths, a warehouse and a port service building at Puerto Cortes. That project, which was completed in 1970, also led to institutional improvements in ENP, and the port is operating satisfactorily.

5. Under Loan 463-HO, the Government was obligated to reimburse ENP for port charges not paid by port users because of special exemptions. The Government did not honor its obligation in regards to payments due by the Tela Railroad Company - a subsidiary of United Fruit Co. We have been discussing this issue with the Government for over two years. As the appraisal report notes (para. 6.06), the Government has now agreed to transfer property to ENP and thus satisfy its obligation. We intend to obtain confirmation of this during negotiations.

Economic Situation

6. With the lowest per capita income in Central America, Honduras has been demonstrating - by regional standards - a good development effort, with an investment ratio rising from 15.7 percent of GDP in 1965 to an estimated 21 percent in 1970. Public investment rose steadily from 2.5 percent of GDP in 1966 to 6.4 percent in 1969-70. Until mid-1969 real GNP increased by over 5 percent a year in a framework of cautious fiscal and monetary policies, growing foreign exchange reserves and stable prices. However, in the last two years economic growth slowed down, the balance of payments deteriorated, and the fiscal position tightened, mainly as a result of severe hurricane damage in 1969, emergency expenditures occasioned by the war with El Salvador, and disruption of regional trade emerging from the still unresolved Central American Common Market (CACM) crisis. As a result per capita income at constant prices has remained stagnant at the 1968 level. Prices have increased by about 5 percent per year.

7. Honduras has de facto withdrawn from the Central American Common Market in January 1971 and has had practically no relations with El Salvador since the mid-1969 war. However, Honduras has recently agreed to enter into bilateral peace talks with El Salvador as well as to continue discussing with the other Central American countries ways to restructure the CACM.

8. Net international reserves dropped by \$4 million in 1969 and \$14 million in 1970, to a level equivalent to only 15 days of imports. This was the result of a drop in exports (due to the hurricane and the interruption of trade with El Salvador) and a sharp increase in imports, largely due to a rebuilding of inventories and speculative imports induced by the uncertain future of the CACM, but also to the vigorous public investment effort.

9. Public savings dropped from L43.0 in 1968 to L27.0 in 1970 (2 Lempiras = 1US Dollar), and this led to a sharp increase in Central Bank financing of the Central Government, which has contributed to the pressure on the balance of payments and the price level. Declining foreign trade and general economic activity have negatively affected revenue growth, but rapidly growing current expenditures as a result of the war and the hurricane were the main reason for the decline in public savings. Since at the same time public investment continued to expand rapidly, the overall budget deficit rose from just under L7 million in 1968 to L55 million in 1970. Correspondingly net Central Bank financing, which was negative in 1968, increased to L16 million in 1969 and L21 million in 1970.

10. Prospects for 1971 are not too encouraging. Real GDP is not likely to expand by more than 3.5 percent, barely in line with population growth. The balance of payments on current account is likely to improve, partly because of the expected recovery of banana exports to pre-hurricane levels, but mainly because of a reduction of imports from Central America resulting from the application of tariffs to regional imports. However, as private capital inflows are likely to decline, net international reserves are expected to remain at the present low level. Public finances will remain very tight, as the banana companies are expected to pay very little income tax, due to the hurricane damage that affected the 1970 banana production, and high priority investment expenditures cannot be postponed. In the longer run Honduras' prospects are better, provided the strong development effort mounted in the last three years is not affected too seriously by short-term difficulties. External debt service moreover is still quite moderate, absorbing 2.9 percent of current account earnings in 1970.

11. The Hondurans have recognized the need for measures to restore public savings. Already, largely as a result of discussions with the Bank and the IMF, the 1971 budget has been pruned and non-development or low priority development expenditures have been cut back. A $15 million stand-by arrangement was negotiated with the IMF in March according to which monetary and credit policies will be tailored to avoid a further decrease in international reserves.

12. Our 1969 Economic Report and subsequent discussions during the Aid Coordination meeting a year ago in Tegucigalpa and CIAP meetings in Washington stressed the need for fiscal measures to increase public savings. The expenditure cuts now being introduced are not enough. While we recognized that it would have been politically unrealistic to introduce any new tax measures before the March '71 presidential elections, we will be pressing from now onwards for new revenue measures and a reduction in current expenditure growth to improve savings. We plan to do this as soon as the new Government assumes office and in any case no later than July-August, when a Bank economic mission is scheduled to visit Honduras.

The Project

13. The project includes new facilities both in the Caribbean port of Cortes and on the Pacific. Puerto Cortes is the most important port in Honduras, handling nearly three-quarters of the seaborne cargo traffic and almost one-half of total dry cargo. Dry cargo traffic in recent years has increased much beyond expectations, and by 1970 had exceeded the figure forecast during appraisal of the first port project by well over 50 percent. On the Pacific coast a lighterage port based on Amapala-El Muerto-San Lorenzo has become important and now handles about 10 percent of total dry cargo. The appraisal of the proposed project followed a feasibility study for the Puerto Cortes development by the consultant TAMS Ingeneria S.A. (USA) financed by ENP, and a study of a development in the Gulf of Fonseca by NEDECO (Netherlands) financed by the Bank under Loan 463-HO. The Bank appraisal mission reviewed and modified the consultants' recommendations jointly with ENP. The loan under consideration will help finance in Puerto Cortes the construction of a new wharf and other facilities and equipment essential to accommodate anticipated traffic growth and ensure improved operational efficiency. The proposed project on the Pacific coast comprises the construction of a wharf and other facilities at Henecan, which would handle forecast traffic there. The construction period of the overall project would be 1972 through 1974.

14. The total estimated cost of the project is $9.8 million, of which $5.9 million would be incurred at Puerto Cortes and $3.9 million at Henecan. The Bank loan of $6 million recommended by the report would finance the foreign exchange cost, excluding interest during construction, with the remaining $3.8 million to be met by the ENP.

15. ENP is a well-managed and efficient organization, and financial forecasts indicate that sufficient funds should be generated during 1971-75 to meet local costs. Adequate cash reserves should be built up thereafter to cover a fair share of the next expansion phase.

16. The Appraisal Report, with the recommendations of which I agree, does not raise any major issues.

Recommendation

17. I recommend that representatives of the ENP and the Government be invited to negotiate a loan of about $6 million on the terms and conditions set forth in paragraphs 7.01 and 7.02 of the Appraisal Report.

E. Peter Wright
Deputy Director

Attachments

Population: 2.6 million
Per Cap GNP: $271

HONDURAS: ACTUAL AND PROPOSED LENDING THROUGH FY 1976

Attachment 1

($ million)

		Through 1963	1964	1965	1966	1967	1968	Fiscal years 1969	1970	1971	1972	1973	1974	1975	1976	Total 1964-1968	Total 1969-1973	Total 1972-1976
Livestock I	IDA								2.6									
Livestock II	IDA											5.0						
Livestock III	IDA														5.0			
Irrigation I	IDA											4.0						
Irrigation II	IDA													4.0				
Agriculture (Unidentified)	IDA												5.0					
Education I (Unidentified)	IDA												5.0					
Power I-II	IBRD	10.3																
Power III	IBRD						7.5											
Power III	IDA						4.0											
Power IV	IBRD								5.5									
Power IV	IDA								5.5									
Power V - Interim Thermal	IBRD										8.0							
Power VI - Humuya Hydro	IBRD												20.0 1/					
Port I	IBRD					4.8												
Port II	IBRD									6.0								
Port III	IBRD														5.0			
Highways I-II	IBRD	9.7																
Highways III	IDA	9.0																
Highways IV	IBRD			6.0														
Highways IV	IDA			3.5														
Highways V	IBRD					8.6												
Highways VI - Teguc-Jutic.	IBRD											17.0						
Highways VII - Central Hwy.	IBRD													10.0				
Tourism	IBRD													2.0				
Operations Program	IBRD									6.0	8.0	17.0	20.0	12.0	10.0		36.5	67.0
	IDA											9.0	10.0	4.0			17.1	23.0
	Total									6.0	8.0	26.0	30.0	16.0	10.0		53.6	90.0
	No.									1	1	3	3	3	2		7	12
Lending Program	IBRD	20.0		6.0		13.4	7.5		5.5	6.0	8.0	17.0		20.0	7.0	26.9	36.5	52.0
	IDA	9.0		3.5			4.0		8.1			5.0	9.0	5.0	5.0	7.5	13.1	24.0
	Total	29.0		9.5		13.4	11.5		13.6	6.0	8.0	22.0	9.0	25.0	12.0	34.4	49.6	76.0
	No.	5		1		2	1		2	1	1	2	2	2	3	4	6	10
IBRD Loans o/s																		
- including undisbursed		15.9	15.0	20.0	19.4	31.9	38.6	37.7	42.5	47.4	53.7	68.9	67.0	84.7	88.7			
- excluding undisbursed		13.0	14.9	13.9	13.4	12.7	12.1	15.7	25.0	32.1	36.5	42.2	48.1	53.5	58.5			
IBRD - gross disbursements		17.0	2.7	0.1	0.1	0.2	0.2	4.5	10.1	8.2	6.1	7.5	7.8	7.7	8.0	3.3	36.4	37.1
- net disbursements		13.2	1.7	-0.7	-0.5	-0.4	-0.4	3.8	9.3	7.1	4.4	5.7	5.9	5.4	5.0	-0.3	30.3	26.4
- net transfers		11.3	0.8	-1.6	-1.4	-1.3	-1.2	3.0	8.2	5.3	2.1	3.3	3.2	2.4	1.8	-4.7	21.9	12.8
IBRD/IDA - gross disbursements		19.4	4.7	1.1	1.9	1.7	2.0	6.4	12.0	9.9	10.2	10.4	11.6	10.5	12.6	11.4	48.9	55.3
- net disbursements		15.6	3.7	0.3	1.3	1.1	1.3	5.7	11.3	8.8	8.4	8.5	9.6	8.1	9.5	7.7	42.7	44.1
- net transfers		13.7	2.8	-0.6	0.4	0.2	0.4	4.7	10.0	6.9	6.0	6.0	6.8	5.0	6.2	3.2	33.6	30.0

1/ Increase probable.

Central America and Caribbean Department
April 27, 1971

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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April 28, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Guinea - Boke Bauxite Extension Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 28, 1971 from the Western Africa Department, entitled "Guinea - Proposed Boke Bauxite Extension Project" (LC/0/71-70).

2. Comments, if any, should be sent to reach Mr. Rosenblad (ext. 4847) by 1:00 p.m. on Monday, May 3.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/71-70

April 28, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

Guinea - Proposed "Boké Bauxite Extension Project"

1. Attached is an appraisal report (PTR-84) dated April 19, 1971 recommending a Bank loan to the Government of Guinea of US $ 9.0 million equivalent for a term of 21 years including a grace period of 2 years.

2. A special Loan Committee meeting on October 30, 1970 considered some major issues with respect to the extension project such as financing of the mine extension by long-term debt exclusively (para. 22 of this memorandum), and the negotiated extension of contracts under the extended infrastructure project (para. 24). Further important issues presented below concern the delivery date of bauxite (para. 23), retroactive financing (para. 25) and the use of any surplus loan funds (para. 30).

I. BACKGROUND

3. In June 1964, the Government of the Republic of Guinea asked the Bank to consider financing the foreign exchange cost of a railway, port and townsite project necessary for the exploitation of the Boké bauxite. In March 1966, the Bank made an engineering loan of US $ 1.7 million (S. 1-GUI) to finance consultants services required to provide detailed engineering and cost estimates for the project.

4. The original Boké bauxite project loan, 557-GUI for US $ 64.5 million, was signed on September 8, 1968 and became effective on December 15, 1968. It provided for the estimated foreign exchange expenditures relating to construction by the Government of a railway, a port and a townsite to enable export of about 6.6 million tons of bauxite to be produced by a new mine, developed by Compagnie des Bauxites de Guinée (CBG). Also Loan S.1-GUI was refinanced by Loan 557-GUI. The total cost of the transport infrastructure and townsite was estimated to be US $ 83.5 million, of which the local currency, US $ 19 million equivalent, was provided by a USAID loan. The CBG mining project comprising the mine, railroad, rolling stock, crushing, drying and loading equipemnt was estimated to cost $99,0 million.

5. The Government owns 49% of Compagnie des Bauxites de Guinée and Halco, a Delaware corporation in which six major aluminum producers are shareholders, 51%. To carry out its part of the project, mainly construction and operation of the infrastructure, the Government, by decree, established a semi-autonomous agency, the Office d'Amenagement de Boké (OFAB). Coordination during construction between the mining and infrastructure projects is ensured by a Coordination Committee (CCC).

6. Because of the complexity of the works to be undertaken and in order to make project execution more efficient, one overall contractor was appointed for all of OFAB and CBG civil engineering. Supply contracts were let separately. Work commenced on site in October 1969 and is expected to be sufficiently advanced to enable bauxite to be shipped by December 1972, about nine months after the contract date. By February 1971, the civil engineering work was about 35% completed and disbursements from the loan amounted to $24.7 million (at March 31, 1971: $26.6 million). Delays are mostly due to strikes in Italy which affected the arrival of the contractor's plant and to the November 1970 disturbances in Guinea and their aftermath which caused restrictions on entry of foreign personnel and other difficulties for the contractor.

7. The infrastructure as well as the mining project are subject to substantial cost overrun in foreign exchange due to variation orders, a considerable escalation of costs, increased interest during construction, and contractors claims, the latter two mainly due to delays in project completion. Foreign exchange overrun for the infrastructure project, to be financed by CBG, is now estimated at $7.5 million; overrun on the mining project is estimated at US $ 14.4 million.

8. In view of the lack of creditworthiness at the time of signature of the original Boké project Loan 557-GUI, the Bank insisted on satisfactory arrangements with the shareholders of Halco to secure loan service. Similar provisions would apply to the proposed extension.

II. THE ECONOMY

9. Since independence in 1958, the economy of Guinea expanded at a rate slightly under population growth (2.7% p.a.) through 1966, and at a rate around or slightly more than population growth since that year (2.9% p. a.). This unsatisfactory development in a country endowed with a very substantial economic potential in agriculture and mining is the result of stagnant rural production accompanied by a fall in exports and of misallocation of public resources accompanied by a continuous sharp inflation because of excessive Central Bank lending to the public sector.

10. Guinea's unsatisfactory economic situation has not improved over the last few years, despite some earlier expectations. Since 1962, the country has experienced a continuous fall in foreign exchange earnings, which have become insufficient to cover even the baisc needs of the economy. Over the past ten years, money circulation has increased five times, resulting in a widening gap between demand and supply and giving rise in turn to serious economic distortions and the development of a vast parallel market in which prices are well above the artificially low official prices.

11. A substantial decline in agricultural exports - partly caused by the neglect of phyto-sanitary measures after independence, partly by a lack of farmers incentives - and the breakdown of diamond exports after nationalization of the diamond mine, started off a vicious circle with falling foreign exchange earnings leading to reduced imports, which in turn reduced production for export. Unjustified increases in foreign indebtedness were an additional burden to the balance of payments.

12. Since 1966/67 the current budget is in deficit due to a continuous fall in current revenues (mainly import taxes) while current expenditures have slightly increased. The Guinean authorities decided in the summer of 1969 to introduce tax measures aimed at improving Government revenues and in 1969/70 budgetary performance is likely to have somewhat improved, although no figures are available as yet.

13. The difficult economic situation can largely be explained by the haphazard process of decision making in Guinea, often influenced by purely political motivations. Consequently, there have been badly conceived public investments and inadequate staffing of low and middle level management positions in the public sector.

14. In 1969, largely under pressure from IMF with whom the Bank has cooperated closely, there has been some attempt to improve performance as evidenced by increased in tax rates and in producers prices of some important crops. Available data indicate that the attempt has largely failed also, as accompanying measures such as those aimed at credit limitation were not vigorously pursued. The two basic economic problems remain: the imbalance between supply and demand as a consequence of continuous deficit financing of the public sector and the vicious circle of insufficient imports, lack of consumer goods, falling exports and stagnation production.

15. In order to revitalize the economy there is need for Guinea to undertake as early as possible a comprehensive stabilization effort, aimed at correcting the present financial imbalance, providing incentives for agricultural production, strengthening the balance of payments and reducing heavy reliance on restrictions on trade, payments and transfers for current transactions. Such a program would have to involve major measures in

monetary policy and be accompanied by a heavy capital inflow and technical assistance to rebuild the seriously deteriorated capital stock of the country. Assistance of this magnitude is unlikely to occur in present circumstances.

16. Guinea is not creditworthy for Bank lending, nor does its performance justify IDA operations. There is therefore no basis at present for considering non-enclave projects. The Boké Extension Project is independent of these judgments on economic performance; given its enclave nature the lack of creditworthiness is not a decisive factor. At the same time, the Boké extension will create substantial additional advantages to Guinean economy with relatively modest additional investment.

17. Under the expanded project, net income to Guinea from bauxite sales is estimated at about US $ 475 million over a 20 year period. Additional indirect income generated by the project, such as local wages, payroll taxes, import duties, is estimated at US $ 80 million over the same period. Financing of the Boké project constitutes the most important contribution the Bank Group can make to Guinea's economic development under prevailing conditions. The very substantial benefits the country will derive from the project should enable the Government to start implementation of the policy of economic and financial recovery required to allow sustained growth and make an optimal use of the country's very substantial resources.

III. THE PROJECT

18. The extension of the Government's transportation infrastructure in the proposed project nncludes additional port works to increase capacity, larger railway passing stations and heavier rail, additional roads and services at Kamsar townsite, an extension of the hospital, and ancillary works. The extension will enable the production and sale of bauxite to be increased from the originally proposed 6.6 million tons, of which 5.1 million had been contracted, to 9.2 million tons annually of which 9.0 million tons are contracted.

19. The proposed extension loan would finance the total foreign currency cost of the additional works and the superivsion and other professional services required, amounting to $9.0 million equivalent. The local currency cost will be financed from the original $21.0 million equivalent USAID loan under which adequate uncommitted funds remain available. As for the prior loan, CBG will be responsible for any overrun on the extension of the infrastructure and Halco shareholders will secure service of the extension loan as well as of the original loan. Total cost of the OFAB expanded infrastructure project will now be US $ 101.4 million. CBG will provide all requirements to expand production and procession capacity to 9.2 million tons annually at an estimated additional cost of $22.9 million, bringing CGB total investment for the expanded project to US $ 143.5 million. Furthermore,

CBG will also have to finance $7.5 million overrun on the infrastructure component of the initial project. Overall cost of the expanded project is now estimated to be US $ 245.0 million.

20. On the basis of the projected sales and selling prices, the discounted financial return on the Government's investment is expected to increase from 14.5% for the original project to 20.8% for the expanded project. The economic rate of return would increase from 18% to 26% over an economic life conservatively estimated at 20 years.

21. The benefits derived from the expansion of the original project will accrue in a proportionately greater degree to Guinea than to Halco shareholders in CBG as the additional investment to increase infrastructure capacity is relatively smaller than that needed to increase mining and processing capacity.

22. Financing by CBG of the extension of the mine and ancillary facilities is envisaged by long-term debt exclusively; equity capital and subordinated debt will remain unaltered at US $ 36 million. Consequently, the debt equity ratio which was 63/37 for the original project will become 76/24 for the expanded project. It would be extremely difficult to distribute additional equity among the Halco partners since the amount of shares they own and their responsibility for the Bank loan guarantee are proportionate to their purchases under the original bauxite contracts while the incremental bauxite output to be derived from the project's extension will not be distributed on the same basis. In view of the shareholders guarantee of the Bank loan, of the improving debt service coverage of the Bank as a result of the project extension, of the rapidly improving debt equity ratio in the early years of the expanded operation and of the fact that Guinea's income due to the extension will increase more rapidly than dividends earned by Halco, maintenance of the earlier debt equity ratio is not considered a matter of critical financial significance to the Bank or to Guinea. Additional equity is therefore not considered necessary.

23. It was originally contemplated that the shareholders would be obliged to take delivery of bauxite 90 days after delivery by the Chairman of the CCC of Completion Certificates, the issuance of which was initially scheduled to take place not later than April 1, 1972. As a result of delays in the execution of the original project and of the proposed extension, it is now estimated that Certificates can be issued by April 1973. However, it is anticipated that the first bauxite shipment would be possible in December 1972. A question which remains to be decided is how the existing arrangements could be modified to commit the shareholders to take delivery of bauxite at or about that time. The Bank has proposed that as a compromise between the interests of Guinea and those of the stockholders, the obligation of the stockholders to purchase bauxite would begin upon certification by the CCC and consulting engineers that:

(i) a certain tonnage of bauxite to be agreed upon is stockpiled at the port;

(ii) handling equipment is available to load ships.

It is proposed that firm assurances to that end in the form of amendments to the existing bauxite contracts be made conditions of effectiveness of the loan.

24. Because the project expansion consists essentially of extensions to existing contracts, it is not considered that international competitive bidding is appropriate. Construction of the expanded infrastructure project would be carried out by variation orders on the existing contracts and is expected to be fully completed by April 1973 and sufficiently advanced for the first shipments of bauxite to take place in December 1972.

25. The need to advise the contractor of the proposed variation orders to the existing contracts, in time to ensure a smooth and efficient continuation of project execution and the need to obtain some supplies before the anticipated date of loan signature (late June 1971) will require some retroactive financing under the proposed Bank loan, estimated at some US $250,000.

IV. THE ARRANGEMENTS

26. In view of Guinea's lack of creditworthiness, service on the prior Bank loan is assured by the Halco shareholders. These assurances have been incorporated in a Financial Assurances Agreement to which CBG, Guinea, Halco, the shareholders and the Trustee are a party and in a Trust Agreement with the same parties and the Bank. All parties involved in the project have recognized the need to minimize changes in the existing agreements covering the original project and to leave all contractual arrangments intact.

27. Since the extension project is a new project and the Bank's General Conditions now apply rather than the Loan Regulations no. 3 applicable to the prior loan agreement, it is proposed that for the extension project there be a new loan agreement complemented by a new project agreement. The new loan agreement would incorporate by reference the substantive provisions of the prior agreement. It would contain one additional covenant regarding adequate maintanance of the highway between Conakry and the project area. The new project agreement would also incorporate by reference the particular covenants of the prior project agreement.

28. It is unavoidable that some of the nine basic agreements entered into by parties involved on the occasion of the original Boké project require amendment although these amendments would be kept to the strictest minimum to avoid the opening of any issue that might touch upon the project's general

arrangements. Amendment of the Financial Assurances Agreement will be required in some places to account for the extension of the original project. As a consequence, some minor amendments to the Participation Agreement will be necessary. The USAID Loan Agreement will require some slight technical amendment to make reference to the expanded project.

29. The amendment of the Financial Assurances Agreement, the Participation Agreement, the Bauxite contracts, and the USAID Loan Agreement are additional conditions to the usual conditions of effectiveness for the Bank Loan.

30. The proposed extension loan will have an allocation of proceeds which preserves the same categories as under the prior loan. It will however be impractical to isolate for the purposes of disbursement expenditures under the prior and the proposed loan. For purposes of disbursement it is therefore proposed to merge proceeds of the two loans and to disburse completely the prior Loan 557-GUI before drawing down the proposed loan. Should the proposed extension loan cover more than the actual cost of the expanded project, it would of necessity reduce the overrun to be paid by CBG on the original project. Such a possibility is felt to be unlikely. However, if it did occur, it would not substantially change relations between the parties involved. It has never been intended to make CBG participate in the financing of the OFAB infrastructure, and the overrun provision was conceived only to ensure completion of the project.

31. CBG, Halco and the shareholders have so far entered into satisfactory loan agreements to provide $ 90.1 million; this together with the equity makes $ 127.1 million total available. The construction cost of the expanded project plus preliminary expenses incurred by Halco and its shareholders, working capital necessary to start operation, overage loans to OFAB for the original infrastructure project and the first installments of principal repayments, bring CBG's total capital requirements to $ 153.1 million. The gap of $ 26 million covers to a large extent expenditure to be made only 18 months from now and would require untied funds. Considering the tendency for falling interest rates, it would not be in the interest of CBG, Halco and its shareholders to raise this money now. In view of CBG's exposure in the project and of the fact that the Company is committed to complete the mine under the provisions of the Financial Assurances Agreement, it is not proposed to require CBG, as was the case in the prior Loan Agreement, to arrange a standby to cover full financing of the expanded mining project at this stage.

Recommendation

32. I recommend that the Bank negotiate with the Government of Guinea a proposed loan of $ 9 million, generally in accordance with the recommendations set forth in Section 7 of the Appraisal Report.

Bruce M. Cheek
Deputy Director

Attachment

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 27, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Korea - First Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 27, 1971 from the East Asia and Pacific Department, entitled "Korea - Proposed $40 Million Loan for Highways" (LC/0/71-69).

2. Comments, if any, should be sent to reach Mr. Baig (ext. 2387) by 5:00 p.m. on Thursday, April 29.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/71-69

April 27, 1971

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

KOREA - Proposed $40 Million Loan for Highways

1. Attached is an appraisal report (PTR - 83), dated April 20, 1971 recommending a $40 million loan to help finance the construction of high priority national highways, feasibility studies and detailed engineering of other national highways, a highway maintenance study and purchase of maintenance equipment. The loan would be made to the Republic of Korea.

2. The attached five-year lending program gives priority to projects in transportation and agriculture, as these sectors have been neglected in the past. So far, practically all of Bank Group financing for transportation has been for railways ($79.7 million) with only $3.5 million for highway organization and feasibility studies. This reflects in part the important role the railways have played in the past, and the neglect of road development. When, in 1968, the Government began to recognize the need for developing an improved road network, and greatly increased allocations for highway construction, most of these funds were spent on the construction of the Seoul-Inchon and Seoul-Pusan four-lane toll expressways, with little left over for improvement or maintenance of existing roads.

3. The preparation for this project goes back to 1965 when the Bank made a grant of $200,000 for an overall Transportation Survey to be carried out by consultants. The survey report drew attention to the lack of adequate roads and recommended that the Government devote more attention to improving the existing system. The report also recommended major changes in the organization of highway administration, planning, construction and maintenance, and recommended a centralized transport coordination mechanism. To follow up these recommendations we made a $3.5 million IDA credit in 1968 to finance feasibility and detailed engineering studies of specified roads. The credit also financed studies to recommend a transportation organization structure suitable for overall planning of all transport modes, and a highway organizational structure to design, construct and maintain the road network; and provided financing to help in the initial stages of establishing these organizations.

4. The proposed project is based on the studies financed by the 1968 credit. The construction of 372 km of national primary highways to be financed under the project are among the highest priority roads within the 8,600 km national highway network. The road to be constructed under the proposed project links the major cities of Chonju, Kwangju, Sunchon, Masan and Pusan, will be built on a new alignment and will have a two-lane

asphaltic concrete pavement. Construction will be supervised by consultants acceptable to the Bank. Because performance on highway maintenance has consistently been poor, the loan under consideration would finance a detailed study by consultants to prepare for setting up a new organization for maintaining highways, and would also provide funds for the purchase of maintenance equipment to be used in a pilot field maintenance organization.

5. In addition to highway construction and maintenance, the project includes detailed engineering of 225 km of highway, for which feasibility studies were financed under the 1968 credit. These roads could form the basis for a second highway loan, tentatively scheduled in our Five-Year Program for FY1974. Feasibility studies of an additional 1,400 km of roads would also be financed by the loan presently under consideration, from which, if justified, about 900 km will be selected for detailed engineering; the construction of these roads could possibly constitute a third highway loan.

6. The $40 million recommended for this loan is based on the expected foreign cost component of the total project. It assumes that 75% of the road construction will be carried out by domestic contractors and 25% by foreign contractors. If domestic contractors win more than three-quarters of the contracts, the loan would finance a small element of local costs.

7. Out of the proposed $40 million loan, $9.3 million would be allocated to cover the foreign exchange costs of various consultants to do supervision of construction, feasibility studies, detailed engineering and highway maintenance studies. The UNDP was approached to provide financing for all or part of these services, but due to their existing and planned commitments were unable to do so.

8. Before the attached appraisal report can be put into final form, the following essential information will need to be received: (a) detailed engineering and cost estimates for the highways to be constructed under the project, which were not ready at the time of appraisal last December; (b) a satisfactory technical report from the Government on the construction of an intra-urban road, to be locally financed, through the northern part of the city of Pusan, which would be the terminal of the highway to be financed by the proposed loan; (c) a detailed statement from the Government concerning the establishment of a pilot maintenance organization, with a firm time schedule, estimated capital and recurrent costs, and a confirmed list of required equipment. Ever since the appraisal mission left Korea, the Government has been on notice that it was necessary for us to receive this information before we could complete the appraisal and invite them for negotiations; the Government promised this information by the end of March. Despite frequent reminders we have so far received only a broad statement on the highway maintenance organization, a preliminary list of required maintenance equipment, and detailed engineering of some sections of the highway.

9. The Transportation Projects Department understandably recommended in the attached Appraisal Report of April 20 that the required information be received and studied before negotiators are invited. Subsequent to printing the Appraisal Report, we received a cable from the Ministry of

Construction stating that all of the information mentioned in paragraph 8 of this memorandum either has already been mailed or will be mailed by the end of this month. If this loan is to be approved within this fiscal year, it will be necessary to invite negotiators without delay. In my opinion we should not wait for the receipt of this information but should issue the negotiation invitation now on the clear understanding that we would be unable to start negotiations unless all the required information had already arrived or had been brought with the negotiating team. I appreciate that loan negotiations may be somewhat protracted pending review by Transportation Projects Department of material brought by the team. Transportation Projects Department accepts this recommendation.

10. An economic mission visited Korea last fall, but its report will be delayed until it can be incorporated into the findings of another economic mission scheduled for June, which will be concerned mostly with evaluating the Third Five-Year Plan now under preparation. An updating memorandum on the Korean economy was circulated to the Executive Directors on April 15 in connection with our proposed loan to the Korea Development Finance Corporation (KDFC), scheduled for Board action on April 27. The same memorandum will be part of the documentation for the highway loan.

11. Except as mentioned above regarding the invitation to negotiate, I agree with the recommendations of the appraisal report and propose that the Government of Korea be invited to send representatives to Washington to negotiate a highway loan in an amount equivalent to $40 million.

Douglas J. Fontein
Deputy Director

Attachment

Attachment 1

KOREA - FIVE-YEAR LENDING PROGRAM, 1972-76

Population: 31.79 million ($ million)
Per Cap. GNP: $223

		1972	1973	1974	1975	1976	Total 1969-73	Total 1972-76
Agricultural Credit I	IDA	10.0						
Agricultural Credit II	IDA			10.0				
Agricultural Credit III	IBRD					15.0		
Seed Production	IDA		8.0					
Yong San Gang Irrigation I	IBRD	20.0						
Yong San Gang Irrigation II	IDA				20.0			
Livestock II	IDA			10.0				
Agricultural Warehouses	IBRD		5.0					
Fisheries I	IDA		5.0					
Fisheries II	IBRD				10.0			
Telecommunications	IBRD				15.0			
DFC (KDFC IV)	IBRD		30.0					
DFC (KDFC V)	IBRD				30.0			
Education II	IDA		15.0					
Education III	IBRD					15.0		
Hapchun Multipurpose Dam	IBRD		20.0					
Thermal Power	IBRD			30.0				
Urban Transport	IBRD				30.0			
Tourism	IBRD		10.0					
Highway II	IBRD			15.0				
Highway III	IBRD					40.0		
Port Development I	IBRD		20.0					
Port Development II	IBRD					20.0		
Railroads IV	IBRD	30.0						
Railroads V	IBRD			20.0				
Water Supply	IBRD			20.0				
Sewerage	IDA					20.0		
Operations Program	IBRD	50.0	85.0	85.0	85.0	90.0	310.0	395.0
	IDA	10.0	28.0	20.0	20.0	20.0	78.3	98.0
	Total	60.0	113.0	105.0	105.0	110.0	388.3	493.0
	No.	3	8	6	5	5	19	27

East Asia and Pacific Department
April 22, 1971

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/71-6

April 26, 1971

Minutes of Loan Committee Meeting held at 4:30 p.m. on Friday, April 2, 1971 in the Board Room.

A. Present:

Mr. J. Burke Knapp (Chairman)
Mr. S.R. Cope
Mr. S. Aldewereld
Mr. R. Chaufournier
Mr. K.G. Gabriel
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. D. Hartwich
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. H. Scott
Mr. A. Stevenson
Mr. G. Votaw
Mr. G.K. Wiese
Mr. David Pearce (Secretary

In Attendance:

Mr. G.F. Bain
Mr. J. Bravo
Mr. L.H. Cash
Mr. H. Fuchs
Mr. R. Gulhati
Mr. S.S. Husain
Mr. J.W.P. Jaffe
Mr. E.V.K. Jaycox
Mr. G. Kalmanoff
Mr. A.D. Knox
Mr. R.N. Pigossi

B. Brazil - MBR

1. The Committee considered a memorandum dated March 30, 1971 from the South America Department entitled "Brazil - Proposed Bank Loans for MBR Iron Ore and Railway Project" (LC/O/71-48) and accompanying draft appraisal reports, which recommended that negotiators be invited for loans of $50 million to the Mineracoes Brasilieras Reunidas, S.S. (MBR), a private corporation,

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
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and $46 million to Rede Ferroviaria Federal, S.S. (RFFSA), a public corporation encompassing all federal railways in Brazil, to help finance mining installations, a deep water sea terminal and a railway link.

2. The Committee's consideration of the project focussed upon the three issues discussed in paragraphs 12-20 of the South America Department's memorandum: the railway freight contract, the iron ore sales contracts and the sponsors' obligations.

3. The Committee noted that the railway freight contract between MBR and RFFSA established freight rates in US dollars for its 15 year duration. While iron ore prices would probably keep pace with inflation, they were an insignificant element in the freight rate formula and RFFSA would need specific protection against erosion in the real value of its rates (i.e. receipts) during this period. RFFSA and MBR would therefore be required to negotiate a dollar escalation provision, under which freight rates would be adjusted automatically every four years by reference to the US wholesale price index. In addition, since RFFSA's contract with MBR was not a profit-sharing arrangement, it was inappropriate to require RFFSA to share MBR's commercial risk, a possibility under the proposed "force majeure" clause and MBR would therefore be asked during negotiations to agree that "force majeure" would not apply in respect of commercial risks.

4. The Committee noted that the iron ore sales contracts between MBR and five Japanese steel companies also included a "force majeure" clause, somewhat wider than that normally accepted by the Bank, which might be construed to excuse performance by the parties because of adverse commercial circumstances, in which event MBR's liquidity and/or support from its sponsors would have to be sufficient to cover inter alia its obligations until other buyers of ore were found. The extent to which MBR's sponsors were prepared to guarantee support in such circumstances would determine whether or not the Bank should seek a stricter interpretation of the "force majeure" provision.

5. The Committee noted further that the sponsors' obligations to guarantee MBR's liquidity and to provide all funds necessary to complete the MBR project or, alternatively, to repay the Bank's loans to MBR and RFFSA if the project were abandoned, would require a shareholders' agreement entered into by Antunes and Hanna. This would preferably be on a joint and several basis since the value of Antunes' guarantee would probably be limited to local currency obligations. If a joint and several guarantee were unobtainable, however, the Bank would need to be satisfied about the Antunes group's ability, in view of Brazil's exchange restrictions, to discharge its obligations in foreign exchange.

6. The Committee noted that, although the terms of the two loans were not coterminous, they would contain related provisions. The railway loan would extend 3 years beyond that of the mining loan and longer if the latter were prepaid. However, since the sponsors' obligations were both backed up by the Brazilian Government's guarantee and the amount outstanding

on the railway loan would be small by that date, the Bank's risk during the final years of the railway loan would be minimal.

7. The Committee also noted that the Bank would require accelerated repayment of the MBR loan by an amount equal to any gross dividend payments in excess of $5 million per annum. Dividends paid rather than earnings was an appropriate criterion in this respect, in view of the difficulty of rigorously defining earnings.

8. The Committee approved the South America Department's recommendation that negotiators be invited for the proposed loans.

C. Adjournment

9. The meeting adjourned at 5:20 p.m.

Secretary's Department
April 26, 1971

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Guyana - Georgetown Urban Protective Works Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 26, 1971 from the Central America and Caribbean Department, entitled "Guyana - Proposed Loan for Sea Defense II; Georgetown Urban Protective Works Project" (LC/O/71-67).

2. Comments, if any, should be sent to reach Mr. Feldman (ext. 4843) by 4:00 p.m. on Wednesday, April 28.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/71-67

LOAN COMMITTEE

April 26, 1971

Memorandum from the Central America and Caribbean Department

GUYANA - Proposed Loan for Sea Defense II; Georgetown Urban Protective Works Project

1. Attached for consideration by the Loan Committee is Appraisal Report No. PS-7 entitled "Georgetown Urban Protective Works Project, Guyana." It recommends a loan of US$4.4 million to the Government of Guyana to help finance a sea defense project to protect Georgetown, the capital of Guyana.

2. To date, Bank loans and IDA credits to Guyana total US$7.9 million and US$5.1 million respectively. Bank loans have consisted of US$2.9 million in FY69 for an education project and US$5.0 million in FY69 for sea defenses. A US$0.9 million loan for agricultural credit to British Guiana in 1961 has been repaid in full. Overall progress on the education and sea defense projects has been satisfactory. IDA credits include US$2.2 million in FY71 for a livestock project not yet effective, and US$2.9 million in FY69 for the education project mentioned above.

3. There was no Bank Group operation in FY70. The proposed loan would be the second operation in FY71. The lending program for FY71-76 is attached.

Economic Position

4. The economic mission which visited Guyana in January 1970 concluded that the country's overall economic performance in the past five years had been satisfactory. GNP, in real terms grew from 1965-70 at an annual average of about 3.5% with bauxite and alumina, construction and public administration having been the most dynamic sectors, and agriculture and manufacturing increasing at a lower rate than total output. Future economic growth will continue to depend to a great extent upon the inflow of external aid and upon the Government's capacity to translate this assistance into action programs. Service on external debt including government-guaranteed debt amounted in 1970 to 3.9% of earnings from exports by goods and non-factor services. The reliance on foreign aid coupled with the country's limited endowment of natural resources and a low per capita income emphasize the need for external assistance on concessionary terms. However, Guyana was judged to be creditworthy for a limited amount of borrowing on conventional terms.

5. During 1969-70 the Government adopted a number of measures with a view to increasing the volume of domestic financial resources available for its development program. It introduced new tax measures, ended a number of concessions on investment in the mining sector, and started a national insurance system. The additional revenues engendered therefrom should enable the Government to expand investment without adversely affecting the country's balance of payments. A 10-year Development Plan is now under preparation by the Government.

6. The prospects for the economy must be considered in light of the Government's recent decision to nationalize the Demerara Bauxite Co. Ltd. (DEMBA). At the end of 1970, Government started negotiations with DEMBA, the largest bauxite mining company in Guyana, a wholly owned subsidiary of Alcan, with a view to buying a participation of at least 51% out of future profits. Negotiations came to a standstill when Alcan refused to accept the Government's terms. The rumour is that Alcan was afraid of the repercussions of such an agreement on their investment in Jamaica. On Cooperative Republic Day, March 12, Mr. Burnham, Prime Minister, announced the intention of the Government to nationalize the DEMBA operations and presented to Parliament legislation relating to all "extractive" operations in the country which sets forth the following conditions: if Government entered into negotiations with a company to achieve "meaningful participation" and these broke down, the Minister of Mines would have the option to certify the breakdown of said negotiations upon which ownership would automatically vest in the Government. Government would pay compensation, the minimum being 1/8 of after-tax profits per annum.

7. The Government is presently negotiating with Alcan regarding the terms of the nationalization of DEMBA, with particular attention to the compensation arrangements and future sales to Alcan. It is expected that formal vesting of ownership will take place by July 1. In addition the Government has indicated that it intends to commence negotiations with the other significant bauxite producer in the country, Reynolds Aluminum Company; there appears to be a good chance of Reynolds accepting "meaningful participation" by the Government.

8. The Canadian Government has been approached through Mr. Isbister inquiring whether they would have any objection to a project for Guyana being considered by the Bank at this time. We have been informed by Mr. Isbister that the Canadian Government would not object.

9. It is difficult at present to see how DEMBA can be nationalized without adverse effects on production and overseas sales of bauxite and alumina, at least in the short and medium term. In 1970 bauxite and alumina (of which DEMBA had by far the largest share) contributed 46% of Guyana's earnings from exports of goods and non-factor services, and 19% of its GDP. We shall therefore need to take a fresh look at the country's economy and its prospective capacity for servicing external debt before considering major new Bank commitments. An economic mission will visit Guyana for this purpose during the summer. I see no reason, however, for holding up the relatively small loan now proposed which is the only Bank operation that can be presented to the Executive Directors before the end of calendar 1971.

The Project

10. In 1968 the Bank assisted Guyana in financing the works for Sea Defense I (Loan No. 559-GUA) which also included the economic and engineering feasibility study for the proposed Sea Defense II project. Both the ongoing and the proposed projects are part of the First Phase of a Twelve-Year Sea Defense Program to protect coastal areas below sea level against cyclical and local erosion and tidal inundation. Hydrographic studies forecast that

Georgetown would be affected by the erosion cycle which is expected to start sometime after 1973 and last for approximately thirteen years and cause six breaches in the sea defenses. The proposed project would improve these structures to provide the necessary flood protection for an area of about 2.5 square miles in Georgetown. This zone includes Guyana's main institutional and administrative centers as well as important residential communities and public utilities installations. Consequently, potential breaches in the sea defenses at Georgetown pose a substantial threat to economic development.

11. The proposed project consists of rehabilitation of 6,830 feet of existing sea defense structures; construction of 1,570 feet of new sea defense structures; construction of a diversion road; construction of seven drainage outfalls; consultant services for detailed engineering and supervision of construction; construction of a slipway; purchase of 2 tugs and 9 pontoons, and purchase of steel sheet piles. The total cost is estimated at US$5.8 million equivalent. The proposed loan of US$4.4 million equivalent would finance 76% of the entire foreign exchange component of the project including interest during construction of approximately US$0.3 million. Apart from financing the local cost estimated at US$1.5 million equivalent, the Government would also provide the necessary funds for the project's recurrent expenditures.

12. The project would protect Georgetown against floods which cause extensive damage to property and disruption to business activity. The estimated internal economic rate of return over the project life of 32 years is calculated to be over 30% and the benefit/cost ratio, using a discount rate of 10%, would be 3:8.

13. With the exception of stone and sand, construction materials for the proposed sea defense structures would be imported (cement, asphalt, steel sheet piles and polythylene sheets). The stone is available from public as well as private quarries for transportation to adequate unloading facilities in Georgetown. Arrangements exist which would assure a continuous supply of stone for the proposed project. In addition, the same consultants who prepared the feasibility study would be appointed to conduct the detailed engineering, supervise the execution of the project, and train their Guyanese counterparts. Their appointment would be made prior to the commencement of the project. This would insure that the initial delays experienced on the first Sea Defense Project would be avoided. The tugs and pontoons would be procured through international competitive bidding. Construction of the diversion road would be by force account, while construction of the sea defense structures would be according to normal Bank practice for award of civil works contracts.

14. There are no substantive issues raised by this project. The question of 15% preference for stone to be supplied by civil works contractors, which was an issue in Sea Defense I, does not arise here as all stone can now be supplied from local quarries and will be financed by Guyana.

Recommendation

15. I recommend that the Government of Guyana be invited to negotiate a loan of US$4.4 million for the proposed Sea Defense II project on the terms and conditions set forth in the appraisal report.

E. Peter Wright
Deputy Director

Attachments

Population: 0.7 m
GNP Per Cap: $330

IVa. GUYANA - 5 YEAR OPERATIONS PROGRAM
(By Fiscal Year - Amounts in $ millions)

OPERATIONS PROGRAM		1971	1972	1973	1974	1975	1976
Livestock I	IDA	2.2					
Livestock II	IDA					5.0	
Black Bush/Tapakuma Rehabilitation	IDA			4.0			
Sea Defense II	IBRD			5.0			
Fishery Development	IBRD		4.0		5.0		
Agriculture Unidentified	IBRD				5.0		
Power I	IBRD		5.0				
Power II	IBRD						6.0
Highways I	IDA		5.0				
Highways II	IDA				4.0		
Sea Defense	IBRD	4.4					

	Total 1964-68	Total 1969-73	Total 1972-76
IBRD		26.3	25.0
IDA		14.1	18.0
Total		40.4	43.9
No.		9	9

	1971	1972	1973	1974	1975	1976
IBRD	4.4	9.0	5.0	5.0		6.0
IDA	2.2	5.0	4.0	4.0	5.0	
Total	6.6	14.0	9.0	9.0	5.0	6.0
No.	2	3	2	2	1	1

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Malaysia - Sabah Ports Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 26, 1971 from the East Asia and Pacific Department, entitled "Malaysia - Sabah Ports Project" (LC/O/71-66).

2. Comments, if any, should be sent to reach Mr. John Foster (ext. 2555) by 4:00 p.m. on Wednesday, April 28.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/71-66

LOAN COMMITTEE

April 26, 1971

Memorandum from East Asia and Pacific Department

MALAYSIA: Sabah Ports Project

1. There is attached for the consideration of the Loan Committee an appraisal report "Malaysia - Appraisal of First Sabah Ports Project" (PTR-82), dated April 14, 1971. The report recommends that a Bank loan of US$16.1 million equivalent be made to the Sabah Ports Authority (SPA) guaranteed by Malaysia. The proposed loan, which will be the first to the Sabah Ports Authority and the first for a transport project in Malaysia, would cover the foreign exchange cost of the project.

Background

2. The proposed loan would be the Bank's sixteenth in Malaysia, including the proposed loan for the Second Telecommunications project. Previous loans have been made for projects in agriculture, forestry, industrial finance, power, telecommunications, water supply and education. The execution of these projects has been satisfactory and the disbursements have proceeded as expected, except in the case of Loans 560-MA (Telecommunications I) and 434-MA (Muda Irrigation). The disbursement of the former is expected to accelerate. The latter, however, may require postponement of the closing date by about 18 months to June 30, 1973. Although 95 percent of the project is completed, some works such as slope stabilization, pumping installation, widening of some roads and bridges, and local drain improvements still have to be carried out. In addition to the foregoing loans, the Bank has made a loan (405-MA) to Singapore, guaranteed by Malaysia, to finance the Johore River water project.

3. As of March 31, 1971, the amount of loans held by the Bank net of cancellations, sales and repayments was US$237.1 million. Since then, the Bank agreed to cancel US$2 million from Loan 579-MA, made to the National Electricity Board.

The Economy

4. The current course of the Malaysian economy is, paradoxically, one of satisfactory economic growth and financial stability in spite of lagging private and public investment and gradually rising unemployment, both of which are a cause for concern in assessing the long-term growth prospects of the economy. Despite sluggish investment, the economy is buoyed by rising output from heavy investments in the early 1960's, especially in the planting and replanting of rubber and oil palm, which have long gestation periods, and the development of timber resources. Continuing the trend of the early 1960's, real GNP increased at about 6 percent per year between 1965 and 1970.

5. A major economic policy objective for the future is thus to raise substantially the level of investment, not only in order to maintain the growth of income and employment in the immediate future, but, more importantly, to lay the basis for more rapid economic expansion in the long run. The achievement of this objective calls for the strengthening of agricultural and industrial policies so as to induce larger private investment, as well as for larger public investment programs than in the recent past. It will not be easy to develop and execute such policies and programs since the planning and implementation capacity of the government is already being strained by the shortage of technical and other special skill personnel.

6. Resource availability does not seem to be the primary obstacle to investment stimulation. However, if Malaysia were successful in raising the level of investment, resulting in more rapid expansion of the economy and hence import demand, she would need a public capital inflow of about US$85 million a year (net, including grants) for the coming five years in order to avoid an excessive drawdown of her external reserves. The debt service ratio is low at 3 percent, and is expected to remain below 5 percent for the rest of the 1970's. Malaysia is thus creditworthy for substantial external borrowings on conventional terms.

The Lending Program

7. The Country Program Paper was approved on March 30, 1971. The Bank's operations program for FY 1972-76 is attached as Annex I. During the remaining part of FY 1971 one more loan in the amount of $18.7 million for a second telecommunications project is expected to be presented to the Executive Directors.

The Project

8. The State of Sabah, situated in the northern part of Borneo, has an area of 30,000 sq. miles (roughly the size of Austria) and a population of about 650,000. It is predominantly mountainous and covered with dense tropical forests. There are few roads and the population is concentrated at a few points along the coast. The predominant mode of transport between these points and the outside world is by sea for godds and by air for passengers. Sabah is dependent on its ports not only for exports and imports but also for most transport of goods within the state.

9. The existing port facilities in two of the largest deep-water ports of Sabah - Kota Kinabalu and Sandakan - are too small and dilapidated to handle efficiently present and expected future traffic. The project for which Bank financing has been requested, would provide two new ports at these towns by engaging consultants' services for detailed engineering and construction supervision, further soil investigation and hydrographic studies and by building at each 1750 feet of quay, a transit shed as well as administration and workshop buildings. The project also provides for cargo-handling equipment at Kota Kinabalu, Sandakan, Tawau and three minor ports, and for training

schemes and possible advisory services to SPA.

10. Faster ship turn-around and more efficient cargo-handling will be the main economic benefits of the project. The economic rates of return for the ports at Kota Kinabalu and Sandakan calculated on the incremental investment over the next most economic alternatives are estimated to be 18 and 41 percent, respectively.

11. The total cost of the project is estimated at approximately US$22.1 million. The proposed loan of US$16.1 million would cover the foreign exchange component of the total cost. The local currency cost estimated at US$6.01 million equivalent would be provided by SPA from its internally generated resources. A maximum of US$300,000 equivalent would be required for retroactive financing of engineering services and soil investigation from February 1, 1971.

12. Contracts for goods and services for the project would be awarded after international competitive bidding in accordance with the Bank's Guidelines for Procurement. The appraisal report does not recommend any preference for local manufacturers, since little is known about Malaysian manufacturing capability in the field of port equipment. However, if during negotiations, the Malaysians should request a margin of preference for local manufacturers and show that there are reasonable prospects that such manufacturers could submit competitive bids, I recommend and the Transportation Projects Department concurs, that the Bank agree to a local preference of 15 percent or the actual tariff duty, whichever is less, in the comparison of local and foreign bids.

13. The Borrower would be SPA, an autonomous agency responsible to the Minister of Public Works and Communications in the State of Sabah. It was set up in late 1967 and is presently operating the ports of Kota Kinabalu and Tawau. Take-over of operations in Sandakan by SPA is a condition of disbursement in respect of the Sandakan part of the project. SPA will also assume responsibility for a number of small ports in the course of 1971 and 1972.

14. The appraisal report recommends that the SPA be required to earn a financial rate of return on its net fixed assets in operation of 5 percent in 1975, 6 percent in 1976 and 7 percent in 1977 and thereafter. In addition, these same rates of return should be earned separately at Sandakan and Kota Kinabalu. No major difficulty is expected in achieving these requirements. However, the report also recommends that the SPA be required to study the need for, as well as staffing and operations of, its minor ports and to break even at each one of them in order to avoid subsidization of their operation. I agree that the recommended studies should be carried out and minor ports be operated as efficiently as possible. However, if these requirements are met and these ports are found to be essential, there would seem to be no need to require that each port break even. SPA's overall financial position is adequately safeguarded by the above mentioned overall rates of return requirement. Therefore, I recommend that the requirement that the minor ports break even be deleted.

15. The report recommends in paragraph 7.01 (g) that agreement should be obtained during negotiations that importation of project materials and labour will be unrestricted. I agree with the recommendation concerning the import of material to the extent that it requires a commitment on the part of the Government to promptly issue the necessary import permits which may be needed. I also feel that the recommendation is too broad in the case of labour since immigration is a politically sensitive issue in Sabah. I recommend, however, and the Transportation Projects Department concurs, that the problem should be explored during negotiations and an understanding reached in some form that adequate labour will be made available to carry out the project.

16. As mentioned in paragraph 9 above, the proposed loan includes funds to finance the training of SPA personnel. The details of the training schemes remain to be worked out. With the concurrence of the Transportation Projects Department I recommend that an assurance be obtained during negotiations that SPA will formulate a training program and submit it to the Bank for its approval.

17. The loan would be guaranteed by the Government of Malaysia. In addition, however, certain of the matters covered by the recommendation of the appraisal report fall within the authority of the Government of the State of Sabah. These matters include those mentioned under paragraphs (d), (e), (g), (h) and (i) of paragraph 7.01 of the appraisal report. As in the case of other loans to Malaysia, involving matters within the jurisdiction of a constituent State of the Federation, these matters would be covered in a separate undertaking by the State of Sabah.

Recommendation

18. With the qualifications noted in paragraphs 12,14,15 and 16 above, I agree with the recommendations of the appraisal report and I recommend that Malaysia, the State of Sabah and the Sabah Ports Authority be invited to send representatives to Washington to negotiate a Bank loan of US$16.1 million for the Sabah Ports Project on terms and conditions set forth in the attached report.

Douglas J. Fontein
Deputy Director
East Asia and Pacific Department

Attachment

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Turkey - IGSAS Fertilizer Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 26, 1971 from the Europe, Middle East and North Africa Department, entitled "Turkey - Proposed $23 million Loan for the IGSAS Fertilizer Project" (LC/0/71-65).

2. Comments, if any, should be sent to reach Mr. Speller (ext. 4814) by 4:00 p.m. on Wednesday, April 28.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/0/71-65

April 26, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

TURKEY - Proposed $23 million Loan for the IGSAS Fertilizer Project

1. This memorandum recommends a Bank loan of $23 million to finance the major part of the foreign exchange component of a project for the manufacture and distribution of ammonia and urea fertilizer. A report (PI-6) entitled "Turkey - Appraisal of the IGSAS Ammonia-Urea Manufacturing Project", dated April 9, 1971, is attached hereto in support of the recommendation. This report is being shortened for grey cover.

2. The proposed loan would be the first Bank operation in Turkey's industrial sector aside from Bank group lending through the Industrial Development Bank of Turkey (TSKB). Other Bank and IDA operations contemplated for the near future were enumerated in the memorandum to the Loan Committee on the Education Project (LC/0/71-39 dated March 19, 1971). Reference is made in the same document to the present economic position and prospects of Turkey.

Project Issues

Marketing and Distribution

3. The marketing and distribution aspect of the project is considered to be a major problem area. The Appraisal Report emphasizes that the demand for nitrogen fertilizers in general, and urea in particular, leaves ample room for the currently planned expansion of production of these fertilizers in Turkey. However, growth of consumption depends upon the extent to which major market constraints such as inefficiency in distribution and the general lack of credit facilities can be removed, and the interest of farmers in using larger quantities of fertilizers developed and maintained. The success of the project, therefore, depends to a large extent on the availability of adequate credit facilities, a reorganization of the distribution system for fertilizers and, pending such reorganization, on adequate marketing arrangements for urea.

4. The Appraisal Report considers, and I concur, that a reorganization of the distribution system for fertilizers is essential for the development of agriculture in Turkey. Although it is recognized that such a

reorganization will take some time, assurances will be required from the Turkish Government on the adoption of certain steps, including an increase in the amount of credit available for retail buying by farmers through existing institutions, the financing of imported fertilizers (including urea) over the next few years until local production is built up (see paragraph 5.09 of the Appraisal Report), and the organization of adequate research and extension services. Credit requirements for fertilizers will be studied in a longer perspective under the credit survey for which Bank financing is recommended under the proposed Fruit and Vegetables Project, on which a memorandum was approved by the Loan Committee on April 15, 1971.

5. At present nitrogen is consumed in Turkey in larger quantities in the form of Ammonium Sulphate, Calcium Ammonium Nitrate, complex and compound fertilizer rather than urea. The consultants engaged by the Sponsors to study the project have concluded that urea is generally suitable under similar climatic and other conditions to those found in Turkey, particularly in the moister coastal regions and in irrigated areas. Agricultural Projects and Industrial Projects Departments consider that the total output of the proposed plant should technically be capable of being used efficiently provided there is more intensive research and promotion, through demonstration to farmers of the methods to be used in the application of urea. Nitrogen consumption in the form of urea could then expand as rapidly in Turkey as in other developing countries. Failure to accomplish these measures on the other hand will lead to variable results which could seriously retard the development of the urea market. The Sponsors of the project are drawing up proposals to incorporate a new marketing company to distribute urea, to provide credit facilities for this purpose and to initiate a research and promotional seeding program in cooperation with the Government extension services (see paras 5.11 - 5.16 of the Appraisal Report). It is proposed also to explore complementary arrangements during negotiations such as the possibility for the two main institutions now dealing with fertilizer (Donatim and the Agricultural Credit Cooperatives) to participate in the promotion and sale of urea, especially during the crucial period of market build-up based on imports before the project starts production. The marketing company, which is also expected to engage in the long run in the sale of other nutrients in addition to urea, should induce improvements in the present distribution system.

Pricing Policies

6. IGSAS plans to sell urea at $60 per ton and ammonia at $45 per ton, in which case the financial rate of return is estimated at 17.8 percent and debt service would be covered over two times after the second year of operation. Although the proposed urea price is 20 percent lower than the current price of domestic nitrogen fertilizer, it would still be 15 - 20 percent higher than the projected import price of urea in the mid 1970's. As set out in the Appraisal Report (paras 3.13 - 3.19), it would be possible, after the start up period to reduce the ex-factory selling price of urea to $50 per ton in line with the international price, and the Company would still show a satisfactory financial return. The Bank attaches considerable importance to reducing the prices of agricultural inputs as far as possible, whether in the export oriented coastal region or in the wheat producing areas which are still often at a subsistence level. However, the Government must undertake a

comprehensive review of its fertilizer pricing policy to ensure that the benefit of any price reductions at the factory level is passed on to the farmer and not used to reduce the losses of an inefficient distribution system that presently requires government subsidy. This matter will be discussed during negotiations.

Financial Plan

7. The total cost of the project is estimated at $57 million equivalent of which $23 million would be provided in the form of equity ($22 million from the Sponsors and $1 million from the Danish engineering firm, Haldor Topsoe), $23 million in loan funds from the Bank and $2 million in Danish Government credits. The Turkish Government has confirmed that it would be willing to provide the remaining $9 million ($6 million in local currency and $3 million in foreign exchange) through the State Investment Bank. (see paras. 7.05 - 7.09 of the Appraisal Report.)

8. In order to conserve Government foreign exchange resources, the Sponsors have been encouraged to seek alternative means of raising the balance of $3 million required. Among several potential lenders contacted by the Sponsors for financing this small amount, one possibility is the US Export Import Bank which responded favourably to preliminary enquiries. However, the Sponsors prefer to retain the option of negotiating suppliers credits following international competitive bidding, if satisfactory terms can be obtained. The Bank would wish to review the terms of any proposal to obtain suppliers credits for this project in light of Turkey's need to maintain a high proportion of its borrowing on as easy terms as possible.

9. The close association of Haldor Topsoe, who are the technical partners in the firm chosen to carry out the process design and offsite civil engineering work for the project, by means of a $1 million equity investment in IGSAS, would help to ensure the success of the project from the technical point of view. In the event that the Turkish Government would be reluctant to approve a small private investment in what is essentially a public concern, other methods of securing Topsoe's participation on a risk sharing basis will be discussed during negotiations.

10. The Appraisal Report (para 11.04) recommends that the Bank should finance $23 million out of the $32 million estimated as the foreign exchange cost of the project. In view of the risks inherent in the project (related chiefly to marketing) which make it appear prudent that the Bank should limit its exposure and finance no more than 40 percent of the total cost, the availability of Danish credits and foreign exchange funds at the disposal of the Sponsors, and the Turkish Government's undertaking (to be confirmed during negotiations) to provide the finance required to complete the project, I concur in this recommendation. The Bank loan would be made directly to IGSAS with the usual government guarantee. During negotiations the Bank proposes to seek agreement on a guarantee fee of about 2 percent (see para 7.08 of the Appraisal Report), and in addition will raise the question of having this fee placed in a special fund for fertilizer research and development.

Project Implementation

11. Management of the Company will be provided by IPRAS (one of the principal sponsors) under the terms of an administrative services agreement. However, much of the driving force behind the project has been provided by the Chairman and Managing Director of TPAO (the other principal sponsor, which is controlled by the Government and which holds, in turn, the majority ownership of IPRAS) who, following recent government changes in Turkey, may relinquish his position (see para. 6.28 of Appraisal Report). In view of this possibility the Bank intends, when inviting negotiations, to seek assurances from the new Government that it is determined to implement the project in the manner outlined.

Recommendation

12. I recommend that the Bank should invite the Turkish Government and representatives of Turkiye Petrolleri Anonim Ortakligi (TPAO) and Istanbul Petrol Rafinerisi Anonim Sirketi (IPRAS) to negotiate a loan of about \$23 million along the lines of the recommendations set forth in paragraphs 11.03 - 11.04 of the attached Appraisal Report and in this memorandum.

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

Attachment

Population: 35.7 million
Per Cap. Inc: $213

Attachment 1

TURKEY - ACTUAL AND PROPOSED LENDING THROUGH 1976

($ millions)

		Through	Fiscal Years													Total	Total	Total
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1964-68	1969-73	1972-76
Livestock I - Dairy	IDA									4.5								
" II -	IDA										15.0							
" III - Dairy	IDA											10.0						
" IV -	IDA													20.0				
Fruit-Vegetables I	IBRD									10.0								
" I	IDA									15.0								
" II	IDA											15.0						
" III	IDA													20.0				
Seyhan Irrigation I	IDA	20.0																
" II	IBRD							12.0										
" II	IDA							12.0										
Irrigation Rehabilitation I	IDA										10.0							
" " II Unident.	IDA												15.0					
" " III "	IDA														25.0			
Irrigation Ceyhan-Aslantas	IBRD										55.0							
Grain Silos	IBRD	3.9																
Agriculture Credit I Unident.	IBRD											15.0						
" II "	IBRD													20.0				
Agriculture Unidentified I	IDA												25.0					
" " II	IDA														30.0			
DFCs - TSKB I & II	IBRD	18.0																
" III	IDA	5.0																
" IV & V	IDA			15.0														
" VI	IBRD					10.0												
" VI	IDA					15.0												
" VII	IBRD							25.0										
" VIII	IBRD									40.0								
" IX	IBRD											40.0						
" X	IBRD													40.0				
- Second Company I	IBRD												15.0					
" " II	IBRD														15.0			
Education I - Vocational	IBRD									12.0								
" II - Agricultural	IBRD											10.0						
IGSAS Fertilizer	IBRD									23.0								
Eregli Steel	IBRD										65.0							
Paper Mill - Forestry	IBRD											20.0						
Industry & Mining - Unidentified I	IBRD												40.0					
" " " II	IBRD														25.0			
Power - Seyhan	IBRD	25.2																
- Keban Transmission	IBRD							25.0										
- TEK I	IBRD									24.0								
" II Unidentified	IBRD											35.0						
" III "	IBRD													35.0				
- Cukurova I	IDA	1.7																
" II	IDA			24.0														
" III	IBRD							11.5										
" IV	IBRD									6.5								
Urbanization I (incl. water & power)	IDA										15.0							
" II (incl. sewerage)	IDA											15.0						
" III	IDA													15.0				
Ports I & II	IBRD	16.3																
Tourism I	IBRD										5.0							
" Unidentified II	IBRD												15.0					
" " III	IBRD														20.0			
Railways I	IBRD										35.0							
" Unidentified II	IBRD												40.0					
" " III	IBRD														35.0			
Program Loan	IBRD											40.0						
Operations program	IBRD									115.5	160.0	160.0	110.0	95.0	95.0		509.0	620.0
	IDA									19.5	40.0	40.0	40.0	55.0	55.0		111.5	230.0
	Total									135.0	200.0	200.0	150.0	150.0	150.0		620.5	850.0
	No									7	7	9	6	6	6		27	34
Lending program	IBRD	63.4				10.0		73.5		86.0	130.0	130.0	80.0	65.0	65.0	10.0	419.5	470.0
	IDA	26.7		39.0		15.0		12.0		19.5	40.0	40.0	40.0	55.0	55.0	54.0	111.5	230.0
	Total	90.1		39.0		25.0		85.5		105.5	170.0	170.0	120.0	120.0	120.0	64.0	531.0	700.0
	No	9		2		1		4		5	6	8	5	5	5	3	23	29
IBRD o/s inc. undisbursed		41.2	37.2	32.9	29.2	36.0	32.4	102.5	100.0	181.8	307.1	431.7	505.9	564.2	622.1			
exc. undisbursed		41.2	37.2	32.9	29.2	28.8	29.9	33.1	42.0	57.9	87.2	164.8	239.0	330.3	427.2			
IBRD - gross disbursements		60.7	-	-	-	2.8	4.8	6.5	11.3	20.1	34.0	83.0	80.0	98.0	104.0			
- net disbursements		41.2	-3.9	-4.2	-3.7	-0.6	1.3	3.6	8.8	15.9	29.3	77.6	74.2	91.3	96.9			
- net transfer		21.2	-5.8	-5.2	-5.2	-1.9	0.1	2.1	6.4	12.6	23.6	67.1	58.4	79.6	79.0			
IBRD/IDA - gross disbursements		61.0	4.7	6.7	15.4	20.0	21.2	17.5	20.5	24.9	42.6	97.2	105.0	124.5	137.0			
- net disbursements		41.5	4.7	6.7	15.4	16.6	17.7	14.6	18.0	20.7	37.9	91.5	98.8	117.1	129.1			
- net transfer		21.5	1.1	1.5	10.1	15.0	16.1	12.7	15.1	16.8	31.6	80.2	82.1	88.3	99.8			
European Investment Bank - gross disbursements				0.2	6.6	22.5	30.3	35.0	24.0	26.0	30.0	35.0	40.0	45.0	45.0			

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Senegal - Proposed Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 26, 1971 from the Western Africa Department, entitled "Senegal - Proposed Education Project" (LC/O/71-68).

2. Comments, if any, should be sent to reach Mr. Meda (ext. 4737) by 4:00 p.m. on Wednesday, April 28.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/71-68

April 26, 1971

LOAN COMMITTEE

Memorandum from the Western Africa Department

Senegal - Proposed Education Project

Background

1. With the assistance of a UNESCO project preparation mission, the Government drew up an education project and requested Bank Group financial support in March 1970. The request stemmed from a reform program designed to improve the existing general education system based on the traditional French pattern and which tends to cater to the small minority who proceed to higher education while neglecting the more practical needs of the majority. Pending clarification of uncertainties within the Government regarding new educational policies and their implementation, consideration of the general educational aspects of the original project has been deferred. The present project, based on the findings of a September/October 1970 appraisal mission, deals exclusively with technical education and aims at: (i) rehabilitating existing training facilities for skilled manpower for industry, agriculture and fishing and (ii) providing expanded facilities needed to train upper-level technical and managerial staff.

2. The proposed credit of US$1.8 million would be the first Bank Group operation for education in Senegal. This project, in addition to its own value, should help to develop a dialogue with Senegal on its educational policies and if possible set the stage for a larger project when an agreement has been reached within the Government on educational reforms (para. 12).

The Economy

3. A report on the "Current Economic Situation and Prospects of Senegal" (AW-15a) was circulated to the Executive Directors on June 10, 1970. A memorandum to the Loan Committee on the Terres Neuves Project, dated February 9, 1971 gave a brief analysis of more recent economic developments and a justification for a high proportion of project financing. This part of the present memorandum is limited to aspects of the economy directly relevant to the proposed project, particularly manpower requirements.

4. The population of Senegal is about 3.8 million and is growing at about 2.2 percent per annum. It has become clear to a growing number of Senegalese that with the present population growth it would be almost impossible to achieve universal primary education in the foreseeable future. French is the language of instruction in schools. The literacy rate for the 14-plus age group is about 10 percent.

5. Industry - including groundnut processing - constitutes about 15 percent of GDP, while some 75 percent of the total labor force is engaged in the traditional sector of the economy (chiefly agriculture) that contributes only about one-third of GDP. This relatively high rate of industrialization is due to the central position Senegal had in former French West Africa. Industry relies heavily on expatriate management and skills; as many as half of the small industrial "family" enterprises (employing 10-20 people) are under expatriate ownership, while 90 percent of businesses employing more than 20 workers are foreign-owned. Because of the high costs of expatriate manpower, industrial investment has been capital-intensive, and employment in this sector grew only 3.7 percent annually between 1959 and 1968, reaching 18,000. Industry could effect substantial savings in its salary bill and hence improve its competitive strength if qualified Senegalese technicians were available progressively to replace expatriates, as well as to fill new positions as industry expands.

6. In agriculture, the training of Senegalese extension workers is a condition for improvement of the quality of services. Because the majority of farmers are illiterate, adequate oral presentation and demonstration are virtually the sole means of transmitting information on techniques to improve productivity. Progress has been slow, as the extension service is poorly coordinated and most technicians are inadequately trained. A reorganization of the extension service is being contemplated.

7. Output from Senegal's important fish resources has increased rapidly in recent years to reach about 185,000 tons with a value of CFAF 6.8 billion ($24.5 million) in 1968. Officer and mechanics positions in the industrial fishing fleet, now held by expatriates, could be filled by Senegalese if adequate training were provided.

8. There is an urgent need to make the school system more responsive to the country's economic and social requirements in relation to: (i) the continuous growth in rural migration which is causing increasingly difficult problems of employment and (ii) the skills required in the modern sector to replace expatriates progressively. The proposed project would rehabilitate existing facilities and replace obsolete equipment so that the quality of technician training for industry, agriculture and commercial fishing could be improved and foreign personnel be replaced.

9. The attached five-year lending program was reviewed in June, 1970. Five projects are being prepared for FY1972.

The Project

10. An appraisal report on the project (PE-30) is attached. It concludes that the US$2.3 million project is suitable for an IDA credit of US$1.8 million, subject to the satisfactory fulfillment of the conditions described in paragraphs 5.01 through 5.04 of the report.

11. The project consists in:

(a) Constructing and equipping a new Technology Institute with an enrollment capacity of 515 and a maximum annual output of 195.

(b) Equipping and rehabilitating two existing upper-secondary schools with an enrollment of 1,100-1,200 and 300-400 respectively.

(c) Equipping and rehabilitating an agricultural school with a capacity of 120 students.

(d) Equipping a Merchant Marine Training School, after an acceptable reorganization study.

12. The project originally also included nine lower-secondary schools and related teacher-training program, which were intended to be part of the above-mentioned (see paragraph 1) reform and reorganization of Senegal's general educational system. The appraisal mission found that the Government was not in full agreement on the reform program, and therefore the secondary education and teacher training items were deferred. Other project items, mainly in the rural sector, were reduced in size or eliminated, because of insufficient economic justification. The proposed project has been re-cast accordingly.

13. The foreign exchange component of about US$1.2 million equivalent, represents about 52 percent of the total project cost. An IDA credit of US$1.8 million equivalent would cover about 80 percent of the estimated project cost of US$2.3 million, excluding taxes. US$1.2 million (67 percent) of the credit would cover all foreign expenditures, and US$0.60 million (33 percent) of the credit would cover 55 percent of the local currency costs.

14. Contracts for civil works, furniture and equipment would be awarded on the basis of the Bank's guidelines for international competitive bidding, and domestic suppliers of furniture would be accorded a margin of preference of up to 15 percent of the c.i.f. price of competing imports.

15. The recurrent burden on the Government's budget of the present post-secondary training program of the two technical lycées and the school for agricultural technicians at Ziguinchor, is estimated at CFAF 245 million in 1969/70, equivalent to 3.5 percent of Government recurrent expenditures on education. By 1973/74 the recurrent charges on the Government of these three institutions, plus the reorganized Merchant Marine School, are expected to increase to about CFAF 230 million, and by 1976/77 to about CFAF 365 million, excluding the contributions from French technical assistance. The latter are expected to provide (i) the majority of teaching staff for all project institutions, and (ii) boarding facilities for the Technology Institute on a grant basis. These estimates have been included in the projections of overall governmental educational expenditures, which would rise to CFAF8.5 billion by 1976, representing an average annual increase over the period 1969/70 - 1975/76 of 3.2 million. As the total of the Government's budget is expected to increase by 2.5 percent to 3.0 percent per annum over the same period, a moderate increase in the proportion allocated for education would be feasible in view of the present low percentage of Senegalese resources (about 3.6 percent of GDP) devoted to education.

16. A project implementation unit would be established within the Ministry of Planning for the overall management of the project, coordination with the ministries involved in its implementation and liaison with the Association. The unit would include a full-time architect, who would act as project director, and a full-time accountant. The credit would cover the salaries of these two officers and the operational expenditures of the unit estimated at US$200,000 over the 4 years of implementation.

17. Agreement by the Association on the Technology Institute curricula would be a condition of disbursement for this project item. As a condition of disbursement of funds for the Merchant Marine School, the Government should adopt a training program acceptable to the Association. Appointment of the project director - architect and of an accountant, in consultation with the Association, would be a condition of effectiveness of the credit.

Recommendation

18. I recommend that the Association invite the Government of Senegal to negotiate a credit of US$1.8 million for the proposed education project. Negotiations would be in accord with conditions presented in paragraphs 5.01 through 5.04 of the appraisal report.

Attachment

Roger Chaufournier
Director

Population: 3.7 m
GNP Per Cap.: $190

IVa. SENEGAL - 5 YEAR OPERATIONS PROGRAM
(By Fiscal Year - Amounts in $ millions)

			1971	1972	1973	1974	1975	1976
7-SEN-AG-02	Agricultural Credit II	IDA			5.0			
7-SEN-AI-01	Rice Development I	IDA	3.7					
7-SEN-AI-02	Rice Development II - Delta	IDA			4.0			
7-SEN-AD-01	Agric. Devt. - Terres Neuves I	IDA	1.3					
7-SEN-AD-03	Land Settlement - Terres Neuves	IDA					5.0	
7-SEN-AL-01	Livestock	IDA			1.5			
7-SEN-AD-02	Vegetable Development	IDA					3.0	
7-SEN-CC-01	Communications	IDA		2.0				
7-SEN-DD-01	DFC	IDA						3.0
7-SEN-EE-01	Education I	IDA	1.8					
7-SEN-EE-02	Education II	IDA					5.0	
7-SEN-IL-01	Industrial Estate	IBRD				2.5		
7-SEN-PP-01	Power I	IBRD		6.0				
7-SEN-PP-02	Power II	IBRD					5.0	
7-SEN-TA-01	Airport	IBRD				4.0		
7-SEN-TH-02	Highways Maintenance	IDA			6.0			
7-SEN-TP-03	Port	IDA				2.0		
7-SEN-TP-02	Casamance River Navigation	IDA				2.0		
7-SEN-TR-03	Railways II	IBRD		6.1				
7-SEN-UU-01	Urban Development	IDA		5.0				
7-SEN-WW-01	Drainage & Sewerage - Dakar	IDA		3.0				

	Total 1964-68	1969-73	1972-76
IBRD	4.0	15.6	23.6
IDA	9.0	40.2	46.5
Total	13.0	55.8	70.1
No.	2	14	18

	1971	1972	1973	1974	1975	1976
IBRD		12.1		6.5	5.0	
IDA	6.8	10.0	16.5	4.0	13.0	3.0
Total	6.8	22.1	16.5	10.5	18.0	3.0
	3	5	4	4	4	1

FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

B/1106

April 23, 1971

LM/M/71-21

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider "Yugoslavia - Fifth Highway Project" held at 3:00 p.m. on Monday, March 29, 1971 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/71-21

April 23, 1971

Minutes of Special Loan Meeting to consider "Yugoslavia - Fifth Highway Project" held at 3:00 p.m. on Monday, March 29, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Benjenk, Chadenet, Gabriel, Knox, Nurick, Hartwich, Hardy, Horsley, Jaycox, Gregory, Kopp and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Europe, Middle East and North Africa Department's memorandum of March 24, 1971 to the Loan Committee entitled "Yugoslavia - Proposed $35 Million Loan for a Fifth Highway Project" (LC/O/71-42). The only issue for discussion was the timing of negotiations for the proposed highway loan in relation to Yugoslav measures to expedite execution of the 2nd Railway Project (395-YU). The Transportation Projects Department recommended that negotiations be delayed until receipt of a Letter of Agreement confirming the provision of local funds in 1971 for the railway modernization program (Loan 395-YU); the Europe, Middle East and North Africa Department, while agreeing that the Bank should continue to press the Yugoslavs, felt that delaying negotiations for the highway project would not facilitate a solution of railway problems and recommended that negotiators be invited forthwith.

3. Discussion: The meeting noted that:

(a) To date, about $12 million of the $70 million railway loan made in December, 1964 (395-YU) remained undisbursed. Project execution had been seriously delayed, initially owing to delays in engineering design and bidding and later owing to a shortage of local funds, and the Closing Date had recently been postponed a second time to March 31, 1973.

(b) In requesting the Bank to postpone the Closing Date, the Yugoslavs had agreed to provide by November 30 each year a financing plan guaranteeing timely project execution. While they had made some progress in 1970 in accordance with the agreed financing plan for that year, they had so far failed to submit a similar plan for 1971. In the circumstances, it was doubtful whether the Bank should support new investments in roads, involving large commitments of local funds, until local funds for existing investments in railways were assured.

(c) On the other hand, the failure to submit a 1971 railway financing plan was partly a function of political and economic decentralization reforms still in progress, not lack of cooperation. Moreover, given that the railways' problems would become the responsibility of the Republics, when the decentralization reforms had become effective, the overlap in beneficiaries (Slovenia and Macedonia) was insufficient to secure action by withholding assistance for roads, particularly so because the railway enterprises in these two Provinces did not weight heavily in the whole problem.

4. The meeting noted that the immediate issue was tactical: whether postponement of negotiations for the road loan would be more or less likely to ensure timely Yugoslav action on the railways. The Chairman suggested that negotiators be invited but that the invitation should make clear that presentation of the loan to the Directors would be held up until receipt of a satisfactory financial plan for the railways for 1971.

5. Decision: The Chairman approved the Europe, Middle East and North Africa Department's recommendation that negotiators be invited for the proposed loan on the basis indicated in para. 4 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp/Cope
Horsley
Jaycox

cc: Loan Committee
Participants

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/71-22

April 23, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Atrached for information are the Minutes of a Special Loan Meeting to consider "Yugoslavia - Bernardin Tourism Project" held at 4:00 p.m. on Wednesday, April 7, 1971 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/71-22

April 23, 1971

Minutes of Special Loan Meeting to consider "Yugoslavia - Bernardin Tourism Project" held at 4:00 p.m. on Wednesday, April 7, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Baum, Benjenk, Gabriel, A. Koch, Nurick, Glaessner, Hartwich, Horsley, Scarisbrick, Boyd, Gregory, Simmons and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Europe, Middle East and North Africa Department's memorandum of April 5, 1971 to the Loan Committee (LC/O/71-52), which recommended a $10 million loan to help finance a $24 million tourism project at Portoroz (Slovenia), near Trieste. The project and issue for discussion were similar to the Babin Kuk tourism project considered by the Committee on February 18, 1971 (cf. LC/M/71-4 dated March 15, 1971).

3. Discussion: The meeting noted that:

(a) The sponsor's $5.5 million "equity" contribution, about 22 per cent of total project cost, would be proportionately the same as in Babin Kuk. Most of this amount would originate with the Ljubljanska Banka, Ljublanja, which would also finance remaining local costs with a 30 year loan at an effective interest rate, taking into account Federal and Republic subsidies, of 2.5 per cent. The sponsor's creditors, including Ljubljanska Banka, would be subordinated to the Bank's loan.

(b) The project's internal economic return would be 9 per cent at the official exchange rate of Din. 15.0 to US$1.00 or from 11 per cent to more than 13 per cent on the basis of varying assumptions about occupancy rates, the project's starting date and the exchange rate. The project's five year construction period justified the use of an 18:1 shadow exchange rate for purposes of projecting a probable higher rate of return.

(c) Unlike Babin Kuk, the Bank's loan for the Bernardin project would qualify for a Republic of Slovenia subsidy of 2.5 per cent which, in view of the project's low financial, but satisfactory economic rate of return, was acceptable in this case. Many competing countries subsidized tourism, partly because of its high foreign exchange earning potential and, although interest rate subsidies might be among the least preferred means of stimulating tourism, it would be difficult to change this practice in the context of a loan to a single enterprise whose internal and external competitors were also benefitting from interest rate subsidies.

4. *Decision*: The Chairman approved the Europe, Middle East and North Africa Department's recommendation that negotiators be invited for the proposed loan.

David Pearce
Secretary

Cleared by: Messrs. Knapp/Cope
Baum
Glaessner
Horsley/Gregory

cc: Loan Committee
Participants