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Committee meeting minutes
1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 23, 1970

MEMORANDUM TO THE LOAN COMMITTEE

China - China Development Corporation

Attached for information is a memorandum from the Director of the East Asia and Pacific Department to the Deputy Chairman of the Committee, dated March 23, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan to the China Development Corporation.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

OFFICE MEMORANDUM

TO: Mr. S. R. Cope DATE: March 23, 1970

FROM: Raymond J. Goodman

SUBJECT: CHINA - Proposed Loan to CDC

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed $18.0 million loan to the China Development Corporation (CDC), together with copies of the draft Loan Agreement and the draft Guarantee Agreement. The Cabinet has cleared these documents and I intend to distribute them to the Executive Directors for consideration at the Meeting on April 7, 1970.

2. On February 16, 1970 an Appraisal Report (DB-63) was distributed to the Loan Committee. There have been no changes of any importance since it was considered by the Loan Committee. Accordingly, the grey cover Appraisal Report is not attached.

3. In addition to the draft Loan and Credit Agreements the following draft supplementary letters are also attached for your information:

(a) Representations
(b) Local Currency Resources and Accounting Procedures
(c) Eligibility of Withdrawal Applications
(d) Minimum Interest Rates which CDC will be allowed to charge
(e) The Government's acceptance of the foreign exchange risk where it is not assumed by a sub-borrower
(f) External Debt

As these letters raise no substantial new issues they will not be sent to the Executive Directors.

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

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

Attachments:

cc: Mr. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 20, 1970

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MEMORANDUM TO THE LOAN COMMITTEE

Senegal - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 20, 1970 from the Western Africa Department, entitled "Senegal - Proposed Highway Project" (LC/O/70-35).

2. Comments, if any, should be sent to reach Mr. Meda (ext. 4737) by 1:00 p.m. on Wednesday, March 25.

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 -

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Vice President (IFC)

Population: 3.6 m
Per Cap. Inc: $210

SENEGAL - Five-Year Lending Program 1/

($ millions)

		Fiscal Year 1969	1970	1971	1972	1973	1974	1975	Total 1964 -68	Total 1969 -73	Total 1971 -75
Agricultural Credit I	IBRD	3.5									
" "	IDA	6.0									
Agricultural Credit II	IDA				5.0						
Rice Development I	IDA			4.5							
Land Settlement-Terres Neuves	IDA			2.5							
Land Settlement-Terres Neuves II	IDA							5.0			
Livestock	IDA					1.5					
Fisheries	IDA				2.0						
Rice Development II (Delta)	IDA					4.0					
Rice & Tomatoes Bas Saloum	IDA						3.0				
Education I	IDA			5.0							
Education II	IDA						5.0				
Feeder Roads	IDA		2.1								
Railways II	IBRD				5.0						
Highways Maintenance	IDA					6.0					
Airport	IBRD					4.0					
Casamance River Navigation	IDA						2.0				
Communications	IDA			1.5							
Dakar Drainage & Sewerage	IDA				3.0						
Power	IBRD			6.0							
Industrial Estate	IBRD						2.5				
	IBRD	3.5	--	6.0	5.0	4.0	2.5	--	4.0	18.5	18.0
	IDA	6.0	2.1	13.5	10.0	10.0	10.0	5.0	9.0	43.6	50.0
	Total	9.5	2.1	19.5	15.0	14.0	12.5	5.0	13.0	62.1	68.0
	No.	1	1	5	4	4	4	1	2	15	18

Western Africa
March 2, 1970

1/ Extended lending program as proposed by Area Department.

LC/O/70-35
MARCH 20, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

SENEGAL: Proposed Highway Project

I. BACKGROUND

1. The basis for this project was laid by a mission from PMWA which visited Senegal in 1965 and identified a need for a better feeder road network in groundnut producing areas. Subsequently, the Government commissioned a Senegalese consulting firm, ORGATEC, to carry out feasibility studies for a number of feeder road projects. Additional work on economic questions requested by two subsequent Bank missions was completed by ORGATEC in early 1969.

2. The proposed credit of US $2.1 million would be the third Bank Group operation in the transport sector in Senegal since independence: the first (Credit 96-SE, 1966) was for US $9.0 million equivalent to finance the current rehabilitation and modernization program of the national railway and the second (Loan 493-SE, 1967) was for US $4.0 million equivalent to finance quay wall reconstruction, quay extensions and dredging in the Port of Dakar.

Two other operations have been financed to date. An agricultural credit project (IBRD loan of US $3.5 million (548-SE) and IDA credit of US $6.0 million (140-SE) combined) to promote productivity in groundnut and millet cultivation was financed in February 1969. In 1966, IFC invested US $3.5 million in SIES (Société Industrielle des Engrais du Sénégal).

II. THE ECONOMY

3. A report on "Current Economic Position and Prospects of Senegal" (AF-73a) dated February 29, 1968 was circulated to the Executive Directors on March 18, 1968.

4. Growth prospects in Senegal are limited and depend mainly on the success of agricultural policy, which focuses on increasing productivity for groundnuts and on accelerating diversification through the development of cotton, rice, vegetables and livestock. These efforts, however, are unlikely to yield quick results and economic growth over the coming 2-3 years is expected to be sluggish. Three successive drought years and declining groundnut prices have considerably worsened the country's economic situation. The financial position of the Government has deteriorated because of stagnating revenues and continuously rising current expenditures. If the present trend continues, the Government of Senegal will have great difficulty in meeting its financial obligations including the provision of adequate

counterpart funds for foreign financing of projects. The findings of an economic mission which visited Senegal in October/November 1969 will be used to reach an agreement with the Government on this question. With respect to the project under review, assurances to this effect will have to be obtained during negotiations.

5. Given the present outlook for slow economic growth, a net capital inflow will be required on a substantial scale for some years mainly to finance agricultural and related projects which should constitute the basis for renewed economic growth. The attached Five-Year Lending Program for Senegal reflects this need. If a substantial part of this financing were on conventional terms, there would be a heavy debt service burden by the mid-1970's. It is, therefore, desirable that Senegal continue to receive the major part of its external capital on concessionary terms and, in fact, this is confirmed by the tentative conclusions of the economi mission.

III. THE PROJECT

6. An appraisal report on the project (PTR-32) is attached. It concludes that the US $2.5 million project is economically justified and technically sound and that it constitutes a suitable basis for a US $2.1 million IDA credit, provided assurances are obtained from the Government on the matters listed in paragraph 6.01.- 6.03.

7. The project consists of:

(a) The construction of about 78 km of selected feeder roads serving groundnut-producing areas and the supervision of the construction by the Public Works Directorate (PWD);

(b) The purchase of road maintenance equipment and vehicles; and

(c) The services of consultants for a road improvement and maintenance study, with special emphasis on feeder roads.

8. The projects aims, in the first place, at improving the feeder road network in an area producing 40 percent of the groundnut crop and where roads have been relatively neglected during the past ten years. In addition, the project will lay the basis for a much broader four-year improvement and maintenance program, and provide urgently required maintenance equipment.

9. It would finance the foreign cost of the program estimated to be about 84 percent of the total and corresponding to approximately US $2.1 million equivalent.

10. A major issue has been whether the financing of the project should be linked with improved performance and compliance with the undertakings under a railway credit made in 1966. This problem was discussed during a Special Loan Committee meeting held on September 24, 1969 and also with the Senegalese delegation to the Annual Meeting. The Senegalese Government, in its reply dated November 27, indicated full agreement on all the points raised with one exception regarding the size of the capital budget for 1969/70 of the Régie on which the situation is still not clear. In order to break the existing deadlock on this issue, it is proposed that the Government be invited to send representatives authorized to discuss the matter during negotiations on the highway project. These discussions would have to satisfy the Bank with regard to the size of the Régie's capital budget for the fiscal year 1970-71, thereby providing adequate guaranties for a proper execution of the railway project. It is further proposed that a firm undertaking by the Government and the Régie on the agreement to be reached will be a prerequisite for submission to the Executive Directors of the highway project.

11. A minor issue concerns the construction standards for the 78 kilometers of selected feeder roads. Agreement on this issue should be reached during negotiations.

IV. RECOMMENDATION

12. I recommend that the Association invite the Government of Senegal to negotiate a credit of US $2.1 million for the proposed highway project. Negotiations would be in accord with conditions presented in paragraph 6.01 and 6.02 of the appraisal report.

Roger Chaufournier
Director

Attachments

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 20, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Senegal - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 20, 1970 from the Western Africa Department, entitled "Senegal - Proposed Highway Project" (LC/0/70-35).

2. Comments, if any, should be sent to reach Mr. Meda (ext. 4737) by 1:00 p.m. on Wednesday, March 25.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
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Western Africa
March 2, 1970

1/ Extended lending program as proposed by Area Department.

LC/0/70-35
MARCH 20, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

SENEGAL: Proposed Highway Project

I. BACKGROUND

1. The basis for this project was laid by a mission from PMWA which visited Senegal in 1965 and identified a need for a better feeder road network in groundnut producing areas. Subsequently, the Government commissioned a Senegalese consulting firm, ORGATEC, to carry out feasibility studies for a number of feeder road projects. Additional work on economic questions requested by two subsequent Bank missions was completed by ORGATEC in early 1969.

2. The proposed credit of US $2.1 million would be the third Bank Group operation in the transport sector in Senegal since independence: the first (Credit 96-SE, 1966) was for US $9.0 million equivalent to finance the current rehabilitation and modernization program of the national railway and the second (Loan 493-SE, 1967) was for US $4.0 million equivalent to finance quay wall reconstruction, quay extensions and dredging in the Port of Dakar.

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counterpart funds for foreign financing of projects. The findings of an economic mission which visited Senegal in October/November 1969 will be used to reach an agreement with the Government on this question. With respect to the project under review, assurances to this effect will have to be obtained during negotiations.

5. Given the present outlook for slow economic growth, a net capital inflow will be required on a substantial scale for some years mainly to finance agricultural and related projects which should constitute the basis for renewed economic growth. The attached Five-Year Lending Program for Senegal reflects this need. If a substantial part of this financing were on conventional terms, there would be a heavy debt service burden by the mid-1970's. It is, therefore, desirable that Senegal continue to receive the major part of its external capital on concessionary terms and, in fact, this is confirmed by the tentative conclusions of the economi mission.

III. THE PROJECT

6. An appraisal report on the project (PTR-32) is attached. It concludes that the US $2.5 million project is economically justified and technically sound and that it constitutes a suitable basis for a US $2.1 million IDA credit, provided assurances are obtained from the Government on the matters listed in paragraph 6.01.- 6.03.

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(c) The services of consultants for a road improvement and maintenance study, with special emphasis on feeder roads.

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9. It would finance the foreign cost of the program estimated to be about 84 percent of the total and corresponding to approximately US $2.1 million equivalent.

10. A major issue has been whether the financing of the project should be linked with improved performance and compliance with the undertakings under a railway credit made in 1966. This problem was discussed during a Special Loan Committee meeting held on September 24, 1969 and also with the Senegalese delegation to the Annual Meeting. The Senegalese Government, in its reply dated November 27, indicated full agreement on all the points raised with one exception regarding the size of the capital budget for 1969/70 of the Régie on which the situation is still not clear. In order to break the existing deadlock on this issue, it is proposed that the Government be invited to send representatives authorized to discuss the matter during negotiations on the highway project. These discussions would have to satisfy the Bank with regard to the size of the Régie's capital budget for the fiscal year 1970-71, thereby providing adequate guaranties for a proper execution of the railway project. It is further proposed that a firm undertaking by the Government and the Régie on the agreement to be reached will be a prerequisite for submission to the Executive Directors of the highway project.

11. A minor issue concerns the construction standards for the 78 kilometers of selected feeder roads. Agreement on this issue should be reached during negotiations.

IV. RECOMMENDATION

12. I recommend that the Association invite the Government of Senegal to negotiate a credit of US $2.1 million for the proposed highway project. Negotiations would be in accord with conditions presented in paragraph 6.01 and 6.02 of the appraisal report.

Roger Chaufournier
Director

Attachments

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 20, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Ecuador - Third Livestock Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 20, 1970 from the South America Department, entitled " Ecuador - Proposed IDA Credit to the Republic of Ecuador for a Third Livestock Development Project" (LC/O/70-37).

2. Comments, if any, should be sent to reach Mr. Luhman (ext. 4774) by 5:00 p.m. on Wednesday, March 25.

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:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Vice President (IFC)

CONFIDENTIAL

LC/O/70-37

March 20, 1970

LOAN COMMITTEE

Memorandum from the South America Department

ECUADOR: Proposed IDA Credit to the Republic of Ecuador for a Third Livestock Development Project

1. Attached is appraisal report PA-35 recommending an IDA credit of US$10.5 million to the Republic of Ecuador to assist in financing a third livestock development project. This project would expand the livestock program initiated with two projects financed by Loan 501-EC and Credit 173-EC, respectively.

2. The proposed credit would be the last of three operations for Ecuador scheduled for Bank/IDA consideration in FY 1970 (see attached Five-Year Lending Program). The next operation included in the program is a proposed loan of $5 million and credit of $5 million for expansion of the Port of Guayaquil which is expected to be ready for consideration by the Loan Committee in the second half of FY 1971.

The Economic Situation

3. The lending program for Ecuador is based on the assumption of relatively low public sector savings but reasonable fiscal balance and is concentrated on projects not dependent on government budgetary funds. As indicated in Mr. Wiese's memorandum of November 17, 1969 (LC/O/69-101), the program recognizes that part of the country's capital inflow should be on concessionary terms in response to economic policies appropriate to its requirements and capabilities.

4. Government fiscal management was not sufficiently rigorous in 1968 and the first half of 1969. Large budget deficits, financed largely by borrowing from the Central Bank, led to heavy losses of international reserves. In my memorandum to Mr. Cope of July 24, 1969, I indicated that the Government's policies would be watched closely to determine whether the economic situation and the Government's performance would be sufficiently satisfactory to warrant loan and credit consideration by the Bank/IDA.

5. As reported in Mr. Wiese's November 17 memorandum, monetary and fiscal management improved substantially in the second half of 1969. In addition, the Government received an $11 million payment from foreign oil companies upon signing of a contract to develop Ecuador's oil resources. Banana exports, which benefitted from hurricane damage to Central American crops, made a good recovery towards the end of 1969. The policy of domestic

credit restraint, coupled with an increase in advance deposit requirements, contributed to a decline in imports which had been rising rapidly for many months with the upsurge of government spending and bank credit expansion. As a result, net international reserves rose from a low of $19 million in mid-1969 to $51 million at year-end.

6. On the basis of this improved performance and the Government's plans to hold the line on budgetary expenditures in 1970, despite Congressional pressures for sharp increases, Mr. Wiese recommended in his memorandum of November 17 that work on projects included in the five-year lending program continue. He also noted that a Bank economic mission was then in Ecuador and that we would be reporting to the Loan Committee on the status of the economy and the Government's policies before any proposed operations were presented to the Executive Directors.

7. In brief, the mission found that, while there are many favorable forces which should have an effect over the medium and longer terms, short-term stability is again threatened by fiscal imbalances. The 1970 budget approved by Congress contains a substantial deficit. Unless the imbalance is corrected, banking system credit expansion implied by the necessity to finance the fiscal deficit would lead to a situation similar to that in the first half of 1969, only more acute. In light of the findings of the economic mission, and after consultation with the IMF, we informed the Government on January 16, 1970, that negotiations on the proposed loan for development finance companies would be deferred pending clarification of the fiscal situation.

8. We decided that, in the case of Ecuador, a program needed to be implemented which would not force a reduction of bank credit to the private sector. Both the proposed loan for development finance companies and the proposed third livestock credit would provide medium-term credit to industry and agriculture, respectively, and thereby assist in expanding the financial resources available to the private sector. We informed the Government that we were reluctant to extend such support if, at the same time, the fiscal and credit policies of the Government and the financial authorities would result in a contraction of bank credit to the private sector. We view our lending for these projects as a support for domestic efforts to expand financing to the private sector; we do not wish our lending to be a substitute for such domestic effort.

9. We took into account the fact that working capital is required from the commercial banks to complement the medium-term credit provided under the Bank and IDA projects. In addition, financing from the Central Bank has played a critical role in the expansion of the activities of one of the major credit intermediaries under the livestock program--the National Development Bank (NDB). Almost two thirds of the recent very large expansion in NDB's credits has been financed by drawing upon the Central Bank. In such circumstances, it is difficult to insulate, even if we wanted to, the execution of the project from the general monetary and credit situation.

10. During the week of February 23-27, a Government delegation headed by the Minister of Finance attended a special CIAP meeting in Washington to outline the Government's proposed measures to deal with the fiscal problem. During these meetings the Government representatives informed us that they had taken measures to reduce the expansion of budgetary expenditures for 1970. The Government is also considering new revenue-producing measures to limit financing requirements to manageable levels. However, the Government can not adopt the required revenue measures until after Congress takes the necessary action (the current session of Congress began on March 6).

11. On the basis of the measures already being taken to reduce the budget expenditure increases for 1970 and the commitment to adopt necessary revenue measures, we consulted with the Chairman of the Loan Committee, and he agreed that we invite negotiations for the proposed loan for the development finance companies. Accordingly, we informed the Government that we would invite negotiations but that the proposed loan would be presented to the Executive Directors only after revenue measures, designed to yield 750 million sucres, had been adopted. I recommend that we follow the same procedure in the case of the proposed IDA credit for the third livestock development project.

The Project

12. While the two previous projects supported beef livestock development in the Coast, the proposed project would include, in addition, a component for dairy livestock development in the Sierra. Approximately 300 beef ranchers in the Coast and about 200 dairy farmers in the Sierra are expected to participate. Financing would be provided for agricultural machinery and equipment, pasture improvements, fencing, water facilities, buildings, and livestock. The investment period for an individual beef ranch or dairy farm would be about 3 years.

13. In addition to financing ranch/farm development, funds would be provided for (a) pasture and beef cattle research and a beef ranch management training center within the National Agriculture Research Institute (INIAP), (b) a seed production and certification service in the Ministry of Agriculture and Livestock, (c) technical assistance to help modernize the lending operations of the NDB and (d) technical services for project implementation.

14. Two project commissions, one for beef cattle in the Coast and one for dairy cattle in the Sierra, would oversee project execution on the policy level. These commissions would be composed of representatives from the Ministry of Agriculture and Livestock, Ministry of Finance, National Planning Board, Central Bank, INIAP, participating banks, and the respective livestock producers' associations. Responsibility for operation of the project would continue to rest with a project director acceptable to IDA, but he would now be supported by two regional directors. Assistance to

ranchers/farmers in the formulation and execution of development plans would be provided by technicians employed by participating banks and seconded to the project director.

15. International competitive bidding procedures would not be appropriate under the proposed project because of the small size and varied timing of individual orders. Vehicles for technical services would be purchased on the basis of local competitive bidding, while materials for ranch/farm investments would be purchased through normal commercial channels.

16. The total cost of the project is estimated to be $19.0 million, of which $16.5 million would be for ranch/farm development; $1.1 million for the INIAP, Ministry of Agriculture and Livestock, and NDB programs; and $1.4 million for other technical services. The appraisal report recommends that IDA provide $10.5 million (55 percent of total project cost); participating banks, $4.1 million (22 percent); ranchers and farmers, $4.0 million (21 percent); and the Central Bank, $0.4 million (2 percent). The foreign exchange component would be approximately $5.3 million, or about 28 percent of total project cost and 50 percent of the proposed credit.

17. The local cost financing is necessary to assure the success of the project. We consider that 20 percent of on-ranch development cost is about the maximum that beef ranchers could provide, taking into consideration their contribution of substantial working capital in the form of herd build-up. (No local cost financing would be involved in the dairy livestock component.) Twenty percent is also believed to be the maximum which the participating banks could provide, since they would, in addition, supply significant amounts of short-term financing. IDA therefore would contribute 60 percent of on-ranch development costs for beef cattle, the balance of the funds required. As explained in the recent President's Report on the Interim Second Livestock Development Credit (P-734, paragraph 18), local cost financing is justified in view of the importance of this project to Ecuador's economic development in general and to the development of its agricultural sector in particular. It would have a nation-wide impact, with the beef cattle component in the Coast and the dairy cattle component in the Sierra; it would assist the country's effort to expand production of food products to meet rapidly-rising domestic demand; and it would help in the diversification of marginal banana-producing areas of the Coast.

18. The economic rate of return for the proposed project has been estimated at 24 percent. For a typical beef rancher, the financial rate of return would be about 21 percent and for a dairy farmer about 45 percent. (Dairy farmers, as a group, would be required to provide 35 percent of investment cost, in comparison with 20 percent for beef ranchers.)

19. Acting as fiscal agent for the Government, the Central Bank would on-lend funds to participating banks which would in turn extend loans to beef ranchers and dairy farmers. Loans for beef ranch development would

be 8-12 years including 3-5 years of grace while those for dairy development would be 7-9 years including 2-3 years of grace. An interest spread of 4 percent, sufficient to cover the increased cost of livestock technicians as well as normal operating costs, would accrue to the participating banks. The Central Bank would receive a 1 percent margin to cover project administration costs. Repayments of IDA funds to the Government would be based on repayments by the ranchers/farmers to the participating banks. The Government then would have unrestricted use of these funds until they were repaid to IDA. IDA funds for the INIAP research and training programs, Ministry of Agriculture seed improvements scheme, and NDB modernization would be transferred to the appropriate agencies on a grant basis by the Government. As in the case of the previous projects, the Government would carry the foreign exchange risk on the IDA credit.

Participation of Commercial Banks

20. While NDB (a public entity) and COFIEC (a private development finance company) are the only credit institutions participating in the first two projects, it is expected that about 40 percent of the lending for ranch/farm development would be carried out by private commercial banks under the proposed project. Several commercial banks already have expressed interest in participating.

21. Since NDB has branches throughout the country, the commercial banks would not provide broader coverage from a geographic viewpoint. However, the participation of these banks would expand promotion of the project, would mobilize additional long-term funds for livestock development, and would permit ranchers/farmers to continue established banking relationships.

22. Some of the lending by commercial banks probably will substitute for lending which would have been done by NDB (and COFIEC). Nevertheless, the principal effect of participation by commercial banks is expected to be additive since NDB is now considered sufficiently strong that the competition should have a beneficial, rather than adverse, effect on it.

23. At the present time, Ecuador's banking law would not permit commmercial banks to participate in the project since their lending terms are restricted to five years with a maximum grace period of 18 months. Preparations are now underway to amend the law in order to enable commercial banks to participate. Since the appraisal report was prepared it has been agreed between the Agriculture Projects Department and the South America Department that we would obtain assurances from the Government during negotiations that it would make every effort to amend the law, but that we would not insist upon such a change as a condition for lending. Until the necessary arrangements have been effected, the project would continue with NDB and COFIEC as the participants.

Interest Rate

24. The interest rate on sub-loans under the first two projects is 10 percent, and this rate was used in drafting the appraisal report for the proposed third project. Since the report was prepared, the Agriculture Projects Department and the South America Department have agreed that this rate of interest is too low, in view of current rates of interest in other sectors of Ecuador's economy. By resolution dated January 22, 1970, Ecuador's Monetary Board approved 12 percent as the new general maximum rate for industrial, agricultural, and commercial lending. Only the rate for NDB's lending in agriculture was maintained at 10 percent. We see no justification for such a differential. Therefore, we recommend that the Government be required to permit NDB to charge 12 percent on livestock loans supported by the Bank/IDA, and that such approval be made a condition of Board presentation.

25. Once NDB has been authorized to charge 12 percent on its livestock loans, we propose to change, in agreement with the Government, the loan documents for 501-EC (First Livestock) and the credit documents for 173-EC (Interim Second Livestock) to ensure that future commitments under all projects would be at the same interest rate of 12 percent. Furthermore, NDB would be required not to make loans for livestock development at more favorable terms and conditions (from other sources of funds) within the project areas.

Modification of Financing Plan

26. The appraisal report recommends that short-term financing of $1.0 million for feeder steers be provided from proceeds of the IDA credit. The Agriculture Projects Department believes that this financing should be included in the credit in view of the fact that some of the ranchers have been experiencing difficulties in obtaining the necessary short-term financing to complement their development programs. I do not feel there are extraordinary elements in this situation, different from those found in most other livestock projects the Bank/IDA finances, which would suggest a departure from IDA's policy of providing medium- and long-term credit for development projects. In fact, adherence to our usual practice is particularly appropriate in view of the care that we are taking in our current round of lending to Ecuador to avoid substituting external resources for domestic savings. Therefore, I recommend that the participating banks be required to provide the complementary short-term financing and that the IDA credit be reduced by $1.0 million.

27. The appraisal report also indicates that IDA funds would cover the total capital costs of the research and training programs in INIAP and the seed improvement program within the Ministry of Agriculture (about $400,000 in foreign exchange and $500,000 equivalent in local currency). The Agriculture Projects Department recommends this approach because it

feels that the introduction of these essential programs must be assured by making them independent of specific budgetary decisions and allocations which might not be forthcoming. I propose instead that we finance the foreign exchange cost or 50 percent, whichever is higher, of each of these programs. Thus, IDA would provide $0.3 million for the research and training programs and $0.2 million for the seed improvement scheme. The respective contributions of the Government would be $0.3 million and $0.1 million. I feel that it is especially inappropriate, in this case, for IDA to finance 100 percent of those particular components of a project which would otherwise depend on budgetary appropriations. As noted above, we have been pressing Ecuador to improve its fiscal performance and it would be inconsistent with this approach to depart from our usual policy of requiring the borrower to make a significant contribution to project costs.

28. The effect of the above changes would be to reduce the amount of the IDA credit from $10.5 million to $9.1 million, increase the contribution of participating banks from $4.1 million to $5.1 million, and introduce a Government contribution of $0.4 million.

Incentives to Livestock Producers

29. In discussions held between the Agriculture Projects Department and the South America Department since the appraisal report was prepared, it has been agreed that a supplemental letter, similar to that included in the documents for Loan 501-EC, would be added, confirming Ecuador's intention to

i) make all reasonable efforts to assure an adequate spread between the cost of production and the price of beef cattle,

ii) maintain free movement of cattle within Ecuador without restrictions in order to permit the price of cattle to respond to changes in demand and supply, and

iii) encourage the export of cattle and beef and consult with the Bank before instituting any restrictions or increases in duties and taxes with respect to exports of cattle and beef.

Recommendation

30. I propose that we invite negotiations for a credit of $9.1 million on the basis of the appraisal report suitably modified to reflect the points discussed in paragraphs 20 through 29. The credit would not be presented to the Executive Directors until revenue measures, satisfactory to the Bank, had been taken.

Gerald Alter
Director

Attachment

Population: 5.8 m.
Per Cap. GDP: $261

Attachment

ECUADOR - ACTUAL AND PROPOSED LENDING THROUGH FY 1975
($ millions)

		Through				Fiscal			Years						Total	Total	Total
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1964-68	1969-73	1971-75
Livestock I	IBRD					4.0											
Livestock II	IDA								1.5								
Livestock III	IDA								10.0								
Livestock IV	IDA											10.0					
Fisheries I	IBRD							5.3									
Fisheries II	IBRD												8.0				
Forestry	IBRD													5.0			
Irrigation	IBRD										2.0						
Education I	IDA						5.1										
Education II	IBRD											5.0					
Power	IBRD	10.0															
Highways	IBRD	22.0															
Highway II	IBRD		9.0														
	IDA		8.0														
Ports I	IBRD	13.0															
Ports II	IBRD									5.0							
	IDA									5.0							
DFC I	IBRD								8.0								
DFC II	IBRD										1.0						
	IDA										10.0						
DFC III	IBRD												2.0				
	IDA												10.0				
	IBRD	45.0	9.0			4.0		5.3	8.0	5.0	3.0	5.0	10.0	5.0	13.0	34.3	28.0
	IDA		8.0				5.1		11.5	5.0	10.0	10.0	10.0		13.1	28.5	35.0
	Total	45.0	17.0			4.0	5.1	5.3	19.5	10.0	13.0	15.0	20.0	5.0	26.1	62.8	63.0
	No.	5	1			1	1	1	3	1	2	2	2	1	3	9	8

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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March 20, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Burundi - Highway Engineering Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 20, 1970 from the Eastern Africa Department, entitled "Burundi - Proposed Credit for a Highway Engineering Project" (LC/0/70-36).

2. Comments, if any, should be sent to reach Mr. Lan (ext. 3615) by 1:00 p.m. on Wednesday, March 25.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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LC/O/70-36

March 20, 1970

LOAN COMMITTEE

Memorandum from Eastern Africa Department

BURUNDI - PROPOSED CREDIT FOR A HIGHWAY ENGINEERING PROJECT

Introduction

1. On the basis of the recommendations made by a Bank identification mission to Burundi and Tanzania in 1966, the United Nations Development Programme (UNDP) financed a feasibility study for an international road link between Bujumbura, the capital of Burundi, and Kigoma in Tanzania, lake port on Lake Tanganyika and railhead for the East African Railways line to Dar-es-Salaam. The study, for which the Bank was the Executing Agency, was carried out during 1968-1969 by the German consulting firm Dr. Ing. Walter Ingenieurberatung (DIWI) in association with the French firm Société Centrale pour l'Equipement Territoire-Coopération (SCET). It concluded that while the volume of international traffic was insufficient to warrant an improved international road link between Bujumbura and Kigoma in competition with traditional lake transport, improvement of the road between Bujumbura and Nyanza Lac on Lake Tanganyika within the territory of Burundi was economically justified. An IDA mission visited Burundi last December to appraise the suitability of the Bujumbura-Nyanza Lac road for an engineering credit and, at the Government's request, to review the organization of the highway administration and maintenance services and to consider the possibility of improving a road from Gitega in central Burundi running generally north-east to the Tanzanian border. The mission's report "Appraisal of a highway engineering project", (PTR-45) is attached. It includes a map at the end.

The Project

2. The proposed project would consist of:

(a) the detailed engineering for the reconstruction to bituminous paved standard of the Bujumbura-Mutambara road section (76 km);

(b) the detailed engineering for limited improvements to, and gravel surfacing of, the Mutambara-Nyanza Lac road section (45 km); and

(c) a study of requirements for the improvement of road maintenance and for selected betterment works on the Gitega-Cankuzo-Tanzania border road (164 km).

3. The total cost of the project is estimated at $340,000 equivalent, with an estimated foreign exchange element of $290,000 (about 85%). The appraisal report concludes that, subject to the conditions set out in paragraph 6.02, the proposed project is suitable for an engineering credit of $290,000 equivalent, for a term of 10 years including a 2-year grace period. The local expenditures would be provided by the Government of Burundi.

4. Burundi is a small, land-locked country in Central Africa, depending on neighboring countries for its access to the sea. All internal transport is by road. Import-export traffic is by lake from Bujumbura to Kigoma in Tanzania, and then by rail via the East African Railways to Dar-es-Salaam on the Indian Ocean. Both internal and external transport is costly. Furthermore, in the last few years, road maintenance has been inadequate, due to a lack of finance and technical skills, and the road network has rapidly deteriorated. It is therefore imperative for the Burundi Government to develop and maintain good internal transport links to lower transport costs to Bujumbura, and to reorganize and strengthen its highway department so that necessary maintenance works can be carried out.

5. The road construction project which should result from the proposed engineering studies is provisionally estimated to cost about $5.5 million equivalent. At present, the Bujumbura-Nyanza Lac road serves Burundi's three largest economic activities - coffee, cotton and banana. The road transports most of the banana and fish industry traffic, and about one-fifth of Burundi's coffee and cotton exports. The internal rate of return on the eventual reconstruction of this road is expected to be about 13%. The proposed highway maintenance study is expected to result in an economically justifiable highway maintenance and betterment program, the cost of which may amount to about $3 million.

6. The Ministry of Public Works, which will be responsible for the execution of the engineering project, proposes to retain DIWI to undertake the detailed engineering and the highway maintenance study. To ensure prompt implementation of the project, the consultants' draft of a proposed contract with the Government should be received by the Association prior to inviting loan negotiations so that the consultants could discuss this draft with the Government and the Association during negotiations. The signing of the contract would be a condition for the effectiveness of the proposed IDA credit.

7. Lending operations in the FY 1970-FY 1975 lending program for Burundi are summarized in the attached table. The program already provides $8 million in FY 1972 for the road projects expected to follow from the proposed studies.

8. The last economic report on the country, dated February 24, 1969, concluded that Burundi should be regarded as eligible for IDA assistance and that IDA should be prepared to finance an exceptionally high proportion of project cost. I am not raising the question of local cost financing in connection with the present engineering credit, but only because of the small amount involved. Financing the eventual construction of the road and road maintenance will certainly require a very substantial element of local expenditure financing.

Recommendation

9. I recommend that, subject to the condition expressed in paragraph 6 above, the Association should enter into negotiations with the Government of Burundi for a credit of $290,000 for a highway engineering project, substantially in accordance with the terms and conditions listed in paragraph 6.02 of the appraisal report. It is intended that the credit would be refinanced in any future credit by the Association for construction of the Bujumbura-Nyanza Lac road.

Michael L. Lejeune
Director

Attachment

Population: 3.3 m
Per Cap Inc: $50

IVa. BURUNDI - 5 YEAR LENDING PROGRAM

($ millions)

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Mosso Land Settlement	IDA			3.0					
Agriculture Unidentified	IDA						5.0		
Education	IDA				5.0				
Hydro Electric Project	IDA			5.0					
Road Engineering	IDA	0.3							
Road Construction	IDA			8.0					
Road Construction	IDA					5.0			
	IDA	0.3		16.0	5.0	5.0	5.0	1.1	23.1
	No.	1		3	1	1	1	1	6

P & B 2/16/70

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 20, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Palmira Water Supply and Sewerage Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 20, 1970 from the South America Department, entitled "Colombia - Palmira Water Supply and Sewerage Project" (LC/O/70-34).

2. Comments, if any, should be sent to reach Mr. Roessler (ext. 2192) by 5:00 p.m. on Tuesday, March 24.

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

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Committee:

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

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Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/0/70-34

March 20, 1970

LOAN COMMITTEE

Memorandum from the South America Department

COLOMBIA - Palmira Water Supply and Sewerage Project

1. Attached for your approval is the draft Appraisal Report No. PU-33 recommending a Bank loan of US$2.0 million to the Empresas Municipales de Palmira (the Empresas) to help finance the expansion and improvement of Palmira's water supply and sewerage system.

2. This would be the last of the eight loans in the Bank's FY 1970 lending program. This program, and Colombia's recent economic performance, are dealt with in paragraphs 2 and 3 of the Loan Committee Memorandum of March 6, 1970 for the Sixth Highway Loan (LC/0/70-23).

3. The proposed loan would be the fourth Bank loan in the water supply and sewerage sector in Colombia, the first Bank loan in this sector having been made in June 1968 to the Empresa de Acueducto y Alcantarillado de Bogota (Loan 536 CO) and the second and third being the proposed loans of US$18.5 million to the Establecimiento Publico Empresas Municipales de Cali and of US$7.0 million to the Corporacion de Defensa de la Meseta de Bucaramanga. The project will help to increase the population served directly by the water supply and sewerage systems of Palmira from about 130,000 at present to more than 200,000 in 1976. The water supply portion of the project includes new water supply treatment and distribution works. The sewerage portion of the project is relatively small; only the most urgent sewerage and drainage work will be constructed, including a section of box culvert for the Palmira River to eliminate the frequent flooding of low lying areas, which are occupied largely by slum housing.

4. Low tariffs are the main problem of the water and sewerage sector in Colombia. At the rate level of Col$0.50 per cubic meter of water presently prevailing in Palmira, the Empresas would earn a negative return in 1970, and would need an increase to Col$0.90 to break even. Paragraphs 7.05 - 7.06 of the Appraisal Report therefore recommend an initial increase to Col$1.00 as a condition of effectiveness of the proposed loan, to be followed in 1971 by an increase to Col$1.40, bringing the Empresas' rate of return to 5.5 percent. The Empresas would be committed to increase their rate of return by stages to 9 percent in 1976 and after, at which level the Empresas could cover all operating expenses, debt service, and have a small surplus for the continuing requirements of investment. This program of rate increases would still require a Government loan of Col$25 million to

complete the Empresas' financing plan during the construction period through 1972. While the rate of return target for 1976 is likely to be acceptable to the Empresas and the Government, it is possible that they may wish to have a more gradual program of rate adjustments during the construction period, on account of the political difficulties of making an initial 100 percent rate increase followed by another increase of 40 percent in 1971. Thus, during negotiations we may be asked to consider an alternative rate adjustment program, accompanied of course by a larger Government contribution to complete the financing plan during the construction period. I propose that while we should be ready to examine such alternative proposal on its merits, we should enter negotiations with the position recommended in the draft Appraisal Report.

5. The Empresas is also responsible for telecommunications, market places and slaughterhouses. Paragraphs 7.16 - 7.17 of the Appraisal Report recommend that the Empresas should maintain tariffs on the slaughterhouses and market places sufficient to cover operating expenses and depreciation, while on telecommunications service the Empresas would be required to earn a return on revalued assets sufficient to cover the substantial service on old debts and also a portion of the capital requirements of future expansion. The financial situation of the smaller telecommunications entities in Colombia is generally weak, and we are presently discussing with the Government the approach to dealing with this problem on a sector-wide basis, by mergers into larger and more economic units.

6. The Appraisal Report recommends a term of 23 years on project grounds. However, in response to a request by the Colombian Government the Bank has advised the Government of its intention to apply a minimum term of 25 years for the infrastructure projects in the FY 1970 lending program. I therefore recommend that the term be extended to 25 years. The Public Utilities Projects Department does not object to this recommendation.

7. The amount of the loan would represent about 45 percent of the project cost of about US$4.5 million equivalent; the foreign exchange cost of the project is estimated at 22 percent of total cost. Paragraph 8 of the Loan Committee Memorandum of March 5, 1970 for the Cali Water Supply and Sewerage Project (LC/O/70-20) explains our approach to local currency financing of water and sewerage projects in Colombia in the current fiscal year.

8. The appraisal mission reviewed the Empresas' investment program through the 1970's, selecting 1972 as the cut-off date for defining the proposed project in order to adjust to the financial limitations of the Empresas, but should project costs be less than estimated, it is recommended (in paragraph 5.08 of the draft Appraisal Report) that the Bank continue to finance part of the cost of related works presently scheduled for the period after 1972, either by advancing the works,

or extending the closing date of the proposed loan. This would be accomplished by a flexible description of the project in the Loan Agreement.

Recommendation

9. I recommend that the Bank commence negotiations of a loan of US$2.0 million to the Empresas Municipales de Palmira on the terms and conditions set forth in the draft Appraisal Report suitably modified to take into account the recommendation as to the term of the loan.

Gerald Alter
Director

Attachment

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-9

March 19, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Indonesia - PUSRI (Fertilizer Expansion and Gas) Project" held on March 10 and 11, 1970, in Conference Room B.

C.F. Owen
Acting Secretary
Loan Committee

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Committee:

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

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

LM/M/70-9

March 19, 1970

Minutes of Special Loan Meeting to discuss "Indonesia - PUSRI (Fertilizer Expansion and Gas) Project" held at 5:00 p.m. on March 10, 1970 and at 4:30 p.m. on March 11, 1970 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Baum, Fuchs, Goodman, Fontein, Kalmanoff, Sella, Tolbert, Cash, Cottrell, Kaupisch (first part only), Pigossi (second part only) and Owen (Acting Secretary).

2. Issues: The meeting had been called to resolve the questions raised by the changed AID position on procurement. An understanding had been reached whereby bids on U.S. equipment to be financed by AID could fundamentally follow IDA's international competitive procurement procedures, once some specific AID requirements had been added. AID now considered that this would create serious administrative difficulties; furthermore, with the 90% U.S. origin rule and requirement to ship not less than 50% of AID-financed goods on U.S. ships, American suppliers were likely to be less competitive to the extent that none or only few awards might go to the U.S. under international competitive bidding. AID therefore now proposed that goods and services financed with AID funds should be procured separately. If little of the AID funds could be used for procurement under international bidding, a situation could result where after all IDA funds were committed a high proportion of AID funds would be left and thus the likelihood of high-cost procurement in the U.S.

3. Financing sources presently envisaged for the proposed $68 million project were U.S. AID $25 million, IDA $25 million, Japan $8 million and the Asian Development Bank $10 million from its Special Funds (of which a major portion would come from Japan's contribution to ADB's Special Funds). Further complications were whether any special procurement procedures devised for the AID would be acceptable to Japan and consistent with ADB's procedures.

4. Discussion: Under the circumstances and with the proposed financing plan, implementation of the project would not be possible without a certain amount of preallocation. However, this should be minimized to ensure that the procurement be as economical as possible. The following possible arrangement was considered the most suitable out of various alternatives:

	US AID	Japan	ADB	IDA	Total
	($ millions)				
Financing Sources	25	8	10	25	68
Preallocation of general contractor to the U.S.	10	-	-	-	10
Preallocation of gas part of project to the U.S.	6	-	-	-	6
Preallocation of urea plant to Japan, including Toyo Process	-	5-8	-	-	5-8
International competitive bidding	4	3-0	10	25	42-39
Post-allocation to the U.S.	5	-	-	-	5
Total	25	8	10	25	68

Amount of funds subjected to international competitive bidding for hardware	39-42

Cost Penalty

10% on all preallocation (except Toyo Urea Process)

Preallocation:	General contractor	10	
	Gas part of project	6	
	Urea plant	4 - 7	
		20 - 23	x 10% = 2.0 - 2.3
20% on post-allocation		5	x 20% = 1.0
	Total cost penalty		$3.0 - 3.3 million

5. The preallocation of all, or the main part, of the urea plant to Japan and preallocation of the general contractor work and the major portion of the gas component of the project to the U.S. was expected to be acceptable to the other lenders but still needed to be confirmed. The allocation of funds ($39-42 million) subject to international competitive bidding for hardware would be satisfactory and the cost penalty (calculated at the most at between $3.0 and $3.3 million above expected costs if all foreign procurement were done on the basis of international competitive bidding) would be acceptable compared with that in alternative arrangements. As Japan was likely to be competitive for a number of items in the project, it was expected that Japan would obtain orders amounting at least to the total of its contribution to ADB's Special Funds and its direct contribution. The above figures were tentative and might need minor adjustments.

6. Decision: The Chairman said that this proposed financing plan seemed acceptable, subject to the views of the co-lenders. Bidding procedures would need to be clarified. Meanwhile, submission of the proposed credit to the Loan Committee should follow the usual procedure. At this time it was premature to consider fixing a date to invite negotiators.

C.F. Owen
Acting Secretary

Cleared by: Messrs. Cope
Goodman
Fuchs

cc: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 17, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Turkey - Intensive Dairy Production Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 17, 1970 from the Europe, Middle East and North Africa Department, entitled "Turkey - Proposed $4 million IDA Credit for Intensive Dairy Production Project" (LC/0/70-33).

2. Comments, if any, should be sent to reach Mr. Nijhof (ext. 4707) by 1:00 p.m. on Friday, March 20.

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

David Pearce
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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CONFIDENTIAL

LC/0/70-33

LOAN COMMITTEE

March 17, 1970

Memorandum from Europe, Middle East and North Africa Department

TURKEY - Proposed $4 million IDA Credit for Intensive Dairy Production Project

1. The appraisal report of an Intensive Dairy Production Project (PA-36), dated February 11, 1970, is attached for consideration by the Committee. The proposed credit would be the first Bank Group assistance for livestock in Turkey, and the only lending to Turkey in FY 1970. For 1971 eight projects are under consideration including a second livestock project. The Five-Year Lending Program 1971-75, which envisages total lending of $635 million, is attached. Its implementation is dependent upon major economic policy measures being undertaken by Turkey. A review of the Bank's posture towards the country is planned for June, as explained in paragraph 4.

The Economy

2. When the last Economic Report on Turkey (EMA-4a of February 13, 1969) was considered by the Economic Committee, the Committee felt that in view of the high actual and prospective external debt service obligations, Turkeys creditworthiness for the full amount of the lending then proposed for 1970-74 was uncertain and that the situation would have to be reviewed at appropriate times. The Committed also agreed that the Bank should inform the Turkish Government that any significant volume of new lending was likely to be dependent on changes in a wide range of economic policies. The policy changes which appear to be necessary to increase domestic efficiency, to establish a greater degree of international competitiveness and external viability in the foreseeable future, and to maintain a minimum rate of growth consistent with financial stability, have since been discussed at several occasions with officials of the Government. Mainly because of the November 1969 elections, the Government was for some time not in a position to consider taking major measures. Further discussions in early February indicated, however, that there was now a strong possibility of effective action being taken by the Government on a wide range of issues during the course of March and April.

3. In mid-February the Government resigned following an unexpected vote of no-confidence. The Prime Minister has been asked to form a new Government, but whether his attempts at winning a majority will be successful or whether new elections will be called is still uncertain. This will also determine to a considerable degree the extent and timing of measures in the economic policy field, where the need to take action on at least some key issues is rapidly increasing.

4. The Country Program Paper for Turkey, dated January 5, 1970, was reviewed by the Economic Committee on January 12. The Committee concluded that on the issues of economic performance and creditworthiness, no decision could be reached at this time and that the Committee should meet again after the forthcoming Bank economic mission, scheduled for April 1970, has reported. At the subsequent review meeting with Management, the Country Program Paper was approved only as a basis for proceeding with project preparation. It was agreed that decisions on the proposed Five-Year Program for 1971-75 should be deferred, pending further evidence on the hoped for adoption of new economic policies by Turkey and the conclusions of the economic mission. It was further agreed that we should meanwhile proceed on the proposed project work program to increase our leverage and to permit us to implement an increased lending program starting in FY 1971, if we should so decide. A further review meeting will take place in early June.

5. In view of the need to await further evidence on the Government's intention to adopt new economic policies, no decision has also been taken on Turkey's creditworthiness or on its eligibility for IDA. It should be noted, however, that Turkey has succeeded in maintaining an annual average growth rate of almost 7 percent throughout the period since 1963. Whilst much of this growth in domestic production has clearly been of a hot-house nature and a wide range of new industries has been developed behind a protective screen of import quotas, high tariffs and favorable monetary and credit policies, the Turkish economy has made substantial progress. The present difficulties are largely the result of the fact that having reached the present stage of development, a basic re-orientation of policy is required to permit further growth. Thus, in the light of the general economic performance, despite serious shortcomings, the present state of development and the still relatively low level of incomes ($310 per capita) Turkey can be considered eligible for some IDA lending, in particular for the proposed small credit which can make an important contribution in initiating new efforts towards developing Turkey's livestock resources. It is not proposed to finance any other projects until the economic mission has reported.

The Project

6. Agriculture plays a vital role in the economic life of Turkey and in any effort to further develop the economy. Although expenditure for agriculture has substantially increased, particularly through greatly extended irrigation and increased availability of inputs, the poor performance of agriculture and the under-utilization of agricultural resources have been major constraints on development. Efforts are now being made to develop a wider range of resources with particular emphasis on the export potential of fruit and vegetables and on utilizing more effectively, both for domestic and foreign demand, the available resources in livestock and forestry.

7. Turkey has resources suitable for livestock production and needs to increase the supply of fresh milk, milk products and meat to a growing urban population. There is the prospect, conservatively estimated, of a growth in the demand for food of some 4 percent per annum with the possibility of considerable changes in the structure of demand as higher levels of income are attained. This will call in particular for increases in supplies of cereals, meat and dairy products. The import of foodstuffs is almost impossible due to the extremely difficult balance of payments situation. Turkey exports live sheep and cattle and to a lesser degree mutton and beef to its Middle Eastern neighbours and hopes to develop meat exports to EEC countries. The growing tourist trade consumes beef and milk of the quality the proposed project would supply. While the project, which is one of several interrelated livestock projects in the country's Second Five-Year Plan, 1968-72, could not contribute significantly to export earnings, subsequent phases would benefit from the experience gained with this first project and could have potential for increasing foreign exchange revenue.

8. The Intensive Dairy Production Project is the first phase in the development of modern dairy farming and is centered around Turkey's four main milk consuming areas - Adana, Ankara, Istanbul and Izmir. Dairy production has been hampered so far by inadequate technical knowledge, especially of animal husbandry and forage production, lack of foreign exchange to import improved dairy stock and the absence of long term credit. The project is designed to overcome these difficulties. It would provide technical knowledge through the Intensive Dairy Production Division to be established in the Livestock Projects Development Department and to be assisted by two internationally recruted technical directors. Foreign exchange to purchase dairy cattle, essential farm machinery and other items, would be provided under a four-year program of lending by the Agricultural Bank of the Turkish Republic (ABT) for on-farm investment on selected irrigated commercial dairy farms. It is estimated 150 to 200 farmers would participate in the project.

9. The IDA credit of $4 million would finance the foreign exchange cost of the project and would be made to the Government. $3.4 million would be passed on to ABT for 15 years at 7 percent per year. ABT would lend to farmers at 9 percent for 12 years, including 4 years' grace. This is higher than the 7 percent at which ABT now lends for medium term, but acceptable to farmers because repayments terms are better than they now get. It compares with 9 percent charged by ABT for short term loans (mostly small amounts to numerous borrowers) and with up to 12 percent charged generally by commercial banks, few of whom lend for agriculture. The higher interest rate had not been finally accepted by ABT at the time of appraisal, but is supported by the State Planning Organization. Agreement on the rate should be reached during negotiations. The balance of the IDA credit, amounting to $0.6 million, would be used by the Government to meet the foreign exchange cost of technical services and studies.

10. There are a number of other issues on which agreement will have to be reached during negotiations. They are listed in paragraphs 6.01 to 6.04 of the appraisal report. In view of the importance of efficient project administration and technical services for the success of the project, it is essential that incentives are provided to attract staff of the right caliber to the Intensive Dairy Production Organization which, together with the Agricultural Bank, will be responsible for carrying out the project. We expect to receive from the Government before negotiations proposals for such incentives which will then have to be agreed upon. The appointment of a Project Manager and of two internationally recruited Technical Directors of IDPO, acceptable to the Association, would be a condition of effectiveness of the credit.

11. The following procedures are proposed with regard to procurement. Somewhat more than half of the IDA credit would finance the purchase of imported dairy cattle. Such purchase does not lend itself to international competitive bidding because the type and quality of cattle needed can be obtained only from relatively few countries specializing in their breeding. An element of competition would be introduced by requiring all applicants or their agents to obtain quotations from at least three countries, while remaining free to choose whichever source suited them best. Tractors are manufactured in Turkey and importation is prohibited; they would not be included in the proposed credit. Other agricultural machinery required for the project is not made in Turkey, and would be financed from the credit. The Ministry of Agriculture would advertise locally and inform the embassies of member countries of the intended procurement. Most international manufacturers of this type of machinery are represented in Turkey, and quotations for bulk supply would be obtained from those able to offer servicing and spare parts supply.

12. During appraisal, the possible effect of a devaluation of the Turkish lira on the project has been examined. Devaluation would be one of the measures essential to improve Turkey's economic performance. There is no certainty that such a step will be taken, or when and of what magnitude it might be, although there are indications that the Government will undertake basic economic reforms, including a significant devaluation this year. If a major devaluation were to occur before the proposed IDA credit had been disbursed, dairy farmers might hesitate to borrow because of the higher cost of imports and disbursement could be somewhat delayed. On the other hand, it can be expected that milk and meat prices would rise. The appraisal report concludes (paragraph 4.07) that the financial rate of return to the farmer could be expected to remain unaffected by devaluation. A shadow rate of exchange of TL 15 = US$1, compared with the present official rate of TL 9, has been used in calculating the rate of return of the economy (about 17 percent) in the appraisal report. I therefore conclude that it would be prudent to proceed with the financing of the project despite the uncertainties regarding the exchange rate.

Recommendation

13. I recommend that the Association invite the Government of Turkey to send representatives to negotiate a credit of $4 million on the lines indicated in paragraphs 6.01 through 6.04 of the appraisal report.

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

Population: 34.3 million
Per cap. GNP: $310

Attachment 1

TURKEY - ACTUAL AND PROPOSED LENDING THROUGH FY 1975

($ millions)

		Fiscal Years															
		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Irrigation - Seyhan I	IDA	20.0															
Irrigation - Seyhan II	IBRD							12.0									
" "	IDA							12.0									
Irrigation - Buyuk Menderes	IBRD										40.0						
" " "	IDA										10.0						
Irrigation - Cayhan Aslantas	IBRD											50.0					
Irrigation - Integ. farm dev't.	IBRD													10.0			
" " "	IDA													20.0			
Livestock I	IDA									15.0							
Livestock II	IDA										10.0						
Livestock III	IDA												10.0				
Forestry	IBRD										10.0						
Fruits and Vegetables I	IBRD									10.0							
Fruits and Vegetables II	IBRD											5.0					
" "	IDA											5.0					
Fruits and Vegetables III	IBRD													5.0			
" "	IDA													5.0			
Grain Silos	IBRD	3.9															
DFC - TSKB I and II	IBRD	18.0															
DFC - TSKB III	IDA	5.0															
DFC - TSKB IV and V	IDA			15.0													
DFC - TSKB VI	IBRD					10.0											
"	IDA					15.0											
DFC - TSKB VII	IBRD							25.0									
DFC - TSKB VIII	IBRD									30.0							
DFC - TSKB IX	IBRD											40.0					
DFC - TSKB X	IBRD													40.0			
New DFC I	IBRD										10.0						
New DFC II	IBRD													20.0			
Education I	IBRD									10.0							
"	IDA									5.0							
Education II	IDA											10.0					
Steel Mill	IBRD									60.0							
Pulp/Paper Mill	IBRD										15.0						
Power	IBRD	25.2															
Power - Cukurova I	IDA	1.7															
Power - Cukurova II	IDA			24.0													
Power - Cukurova III	IBRD							11.5									
Power - Keban Transmission	IBRD							25.0									
Power - Transmission	IBRD									20.0							
Power - Thermal/Hydro	IBRD										30.0						
Power - Unidentified	IBRD												25.0				
Tourism I	IDA									5.0							
Tourism II	IBRD										5.0						
"	IDA										5.0						
Tourism III	IBRD											10.0					
Tourism IV	IBRD													10.0			
Roads	IDA												10.0				
Railways I	IBRD										20.0						
Railways II	IBRD											10.0					
"	IDA											10.0					
Ports I and II	IBRD	16.3															
Water Supply	IBRD									10.0							
Sewerage	IBRD											10.0					
Unallocated	IBRD												5.0				
"	IDA												5.0				
	IBRD	63.4				10.0		73.5		140	130	125	30	85	10	468.5	510
	IDA	26.7		39.0		15.0		12.0		25	25	25	25	25	54	87	125
	Total	90.1		39.0		25.0		85.5		165	155	150	55	110	64	555.5	635
	No.	9		3		1		4		8	8	7	4	5	4	27	32
IBRD Loans Outstanding																	
- including undisbursed		41.2	37.2	32.9	29.2	36.0	32.4	102.5	99.3	235.1	360.4	480.4	504.6	583.5			
- excluding undisbursed		41.2	37.2	32.9	29.2	28.8	29.9	33.1	43.9	87.4	160.5	258.0	364.2	444.6			
IDA Credits Outstanding																	
- including undisbursed		6.7	26.7	55.7	65.7	80.5	80.5	92.4	92.4	117.4	142.4	167.1	191.7	216.0			
- excluding undisbursed		0.3	5.0	11.7	27.1	44.3	60.6	71.7	78.9	94.7	118.5	137.2	156.2	176.0			

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 17, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Congo - First Road Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 17, 1970 from the Western Africa Department, entitled "Congo (Brazzaville) - Proposed Credit for the First Road Project" (LC/O/70-32).

2. Comments, if any, should be sent to reach Mr. Thalwitz (ext. 4741) by 4:00 p.m. on Thursday, March 19.

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

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/70-32

March 17, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

CONGO (BRAZZAVILLE) - Proposed Credit for the First Road Project

Introduction

1. The Government of Congo (Brazzaville) has asked for IDA assistance in financing a highway improvement project, including consultants' services for the supervision of the proposed works. Improvement of the Pointe Noire-Bondi road (43 km) was identified as a possible project by a Bank Group mission in 1965. The feasibility study and the final engineering of this road were financed by an IDA highway engineering credit of US$630,000 made in May 1969. The project was appraised in November 1969.

2. The project would be the third Bank/IDA operation in Congo (B), and the only one proposed for FY 1970. The engineering credit of May 1969 also provided assistance for the feasibility study and the detailed engineering of the Sibiti-Zanaga road, and for the establishment of a maintenance program for the highway system in Congo (B). An IDA credit for the construction of the Sibiti-Zanaga road which would permit the intensive exploitation of a new forest area is scheduled for FY 1971. The current five-year lending program is attached.

The Project

3. The report "Appraisal of a Highway Improvement Project, Republic of Congo (February 27, 1970, PTR-43)" is attached. As described in the Appraisal Report, the project consists of:

(i) the improvement of 34.1 kilometers of road from Pointe Noire to Makola; and

(ii) consultants' services for supervision of construction.

Originally, it included the whole road from Pointe Noire to Bondi (43 km), but only the Pointe Noire-Makola section (34.1 km) was found economically justified, and the Makola-Bondi section was therefore deleted. The improvement of the road would consist of:

(i) the reconstruction of the first 4.6 km section, starting from Pointe Noire, which was paved 15 years ago, but is now in poor condition; and

(ii) the paving of the remaining 29.5 km section, presently a poor earth/gravel road.

The total cost is estimated at US$2.0 million equivalent, with a foreign exchange component, to be financed by IDA, of US$1.5 million or 75 percent; the remaining 25 percent is local costs, and will be borne by the Government.

4. The existing Pointe Noire-Makola road connects the port city of Pointe Noire with the rich agricultural area of the Lower Mayombe, and with the CPC potash mine and refinery at St. Paul. Present traffic amounts to about 300 vehicles per day, of which about 80 are heavy trucks and trailers. In addition to the steadily growing traffic of agricultural products, the project road supports timber traffic of about 25,000 tons per annum, and the transport of commuters and supplies to the CPC mine and refinery. Total traffic is estimated to grow at a rate of about 4 percent per annum. The economic benefits would consist in avoided capital cost for future road reconstruction and savings in vehicle operating costs, and would yield an internal rate of return of about 17 percent on the proposed investments for the project as a whole.

Execution of the Project

5. The Régie Nationale des Travaux Publics (RNTP), reinforced by French technical assistance, would be responsible for executing the project, and is able to do so. Consultants will be engaged under the project for construction supervision. RNTP's funds (mainly from a Road Fund fed by fuel taxes, and budget allocations) are adequate. The French consulting firm BCEOM, which carried out the engineering and maintenance studies under Credit S6-COB, will assist the Government in the pre-qualification of contractors and the evaluation of bids. The selection of consultants on terms and conditions satisfactory to IDA should be confirmed during negotiations. The signing of a consultants' contract for supervision of construction would be a condition of effectiveness of the proposed credit.

Road Maintenance

6. Highway maintenance is the responsibility of the RNTP. Although provided with adequate funds, the RNTP has not been able to maintain the highway network to satisfactory standards. Lack of qualified personnel and of proper organization appear to be the main reasons. A program for the improvement of highway maintenance is at present being prepared under Credit S6-COB. During negotiations, we will seek assurances that the Government will give due consideration to the recommendations of this highway maintenance study, due for late 1970. An appropriate maintenance program should be agreed in conjunction with the proposed Sibiti-Zanaga project for FY 1971.

The Economy

7. Congo (B) is reasonably well endowed with natural resources, particularly in relation to its population of slightly less than 1 million. The last economic report pointed out that in the period 1963-68, GDP probably grew in real terms at a rate of 4 percent per annum. Timber and timber pro-

ducts, supplemented by diamonds, have provided the bulk of export earnings. In the future, they will be increasingly supplemented by production and exports of potash for which the Bank has provided a loan. Although agriculture provides employment for 60 percent of the people, commercial agriculture is little developed, partly because the agricultural areas are for the most part rather remote, and partly because the most energetic people have abandoned the countryside for paid employment elsewhere. Nevertheless, the country exports considerable quantities of sugar to other francophone African countries, and also exports small quantities of coffee, cocoa and palm oil.

8. The last economic report (April 1969, AW-7a) indicated that the principal problems of the country are: (a) the excessive rate of urbanization which was due originally to the fact that Brazzaville was the capital of a much larger area, but which has since become even more acute, with its attendant socio-economic problems; (b) low public savings generated by the economy; and (c) the management of public enterprises by the socialist-oriented government. The scope of the latter problem may well have increased as the result of the recent nationalization in the transport sector.

9. The Western Africa Department intends to send a small economic mission to Congo (B) this spring in order to assess the most recent economic trends, and the progress or lack of progress that has been achieved in tackling the most critical problems, and to determine whether the performance of the government is sufficiently satisfactory to warrant continued lending. Meanwhile, we consider that internal budget constraints are the principal limiting factor in creditworthiness, and the principal justification for lending on IDA terms.

10. Discussions are underway between the Governments of France and Congo (B) about the future of French financial assistance. The outcome of these discussions may have a bearing on the ability of the Government of Congo (B) to finance and execute future development projects. We shall keep this situation under review, and expect a clarification before negotiations.

Legal Issues

11. The Government has followed a policy of nationalizing infrastructure facilities including a power company (UNELCO) and a river transport company (CGTAE), and has taken over the assets of an inter-governmental regional transport agency (ATEC). I propose that these issues should not delay our lending for the proposed road project and our acting as Executing Agency for a UNDP railway study. However, at negotiations we would urge the Government to find a solution to the outstanding issues of adequate compensation, particularly for UNELCO. Lack of progress towards a settlement could affect our future lending operations in all sectors of the economy.

Recommendation

12. I recommend that the Government of Congo (B) be invited to send representatives to Washington to negotiate a credit of $1.5 million on terms and conditions set forth in paragraphs 3.08, 4.09 and 4.10, which are summarized in paragraph 6.01 of the Appraisal Report.

Roger Chaufournier
Director

Attachments.

Pop.: 0.92 m
Per Cap. Inc.: $220

PEOPLE'S REPUBLIC OF THE CONGO
PAST LENDING OPERATIONS AND PROPOSED LENDING PROGRAM

(IDA, except when specified)
$ million

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 64/68	Total 69/73	Total 71/74*
Livestock									2.0							
Agriculture unidentified											6.0					
Education									4.5							
Power										2.0						
Road Sibiti-Zanaga									8.0							
Roads												6.0				
Highway Engineering							0.6									
Highway Pointe Noire-Bondi								1.2								
Railroad engineering (Bank)									1.5							
Railroad construction											25.0/1					
Industry (Bank)					30.0											
IDA							0.6	1.2	14.5	2.0	21.0	6.0			39.3	43.5
IBRD					30.0				1.5		10.0			30.0	11.5	11.5
Total	-	-	-	-	30.0	-	0.6	1.2	16.0	2.0	31.0	6.0	-	30.0	50.8	55.0
Number					1		1	1	4	1	2	1		1	9	8
Bank Loans Outstanding:																
- including undisbursed					30.0	30.0	30.0		31.5	31.5	41.5	41.5				
- excluding undisbursed					0.5	10.9	30.0		30.5	31.0	34.8	38.2	41.5			
IDA Credits Outstanding:																
- including undisbursed							0.6	1.8	16.3	18.3	39.3	45.3				
- excluding undisbursed							0.2	0.8	6.2	12.2	24.6	34.3	43.3	45.3		

/1 Of which: IDA 15.0
Bank 10.0

* 4 years.

January 1970.

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 17, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Greece - National Investment Bank for Industrial Development (NIBID II)

Attached for information is a memorandum from the Deputy Director of the Europe, Middle East and North Africa Department to the Deputy Chairman of the Committee, dated March 17, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan to the National Investment Bank for Industrial Development.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

O F F I C E   M E M O R A N D U M

To: Mr. S. R. Cope March 17, 1970

From: Dieter Hartwich

Subject: GREECE - $20 Million Loan to National Investment Bank for Industrial Development S. A. (NIBID II), Guaranteed by the Hellenic State

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed loan of $20 million to the National Investment Bank for Industrial Development S. A. (NIBID), guaranteed by the Hellenic State, together with copies of the draft Loan Agreement and the draft Guarantee Agreement. It is planned to distribute these documents to the Executive Directors for their consideration at a meeting on March 31, 1970. I also attach the Supplementary Letters, which are not intended to be circulated to the Executive Directors. They concern the Old Debt Clause, Section 2.03(c) of the Loan Agreement, Section 3.02(b) of the Guarantee Agreement, Currency of Repayment, Debt Representation Letter and the NIBID Representations Letter. Mr. Nijhof of the Europe, Middle East and North Africa Department will make the oral presentation to the Executive Directors and the theme will be the industrial sector in Greece and NIBID's role therein.

2. A memorandum from this Department (LC/O/70-6, dated January 23, 1970) and the Appraisal Report (DB-59 dated December 10, 1969) were distributed to the Loan Committee on January 23, 1970 and approved without meeting. Negotiations with representatives of NIBID and the Government took place in Washington from February 24 to March 9, 1970.

3. The appraisal report had forecast NIBID's needs for new funds for the two-year period ending December 31, 1971 as $40 million, including $25 million in foreign exchange. During negotiations NIBID submitted its latest business results and a revised forecast of operations, which are now expected to require $42 million, including $28 million in foreign exchange, during the 18 months period January 1, 1970 to June 30, 1971. This period was used as the basis for considering the proposed loan, and we have told NIBID that it cannot expect a further loan before early FY 1972. NIBID's revised forecast appears realistic, and in view of the increased level of operations, a somewhat larger loan than $15 million seemed justified. However, the Bank should not fully cover NIBID's foreign exchange expenditures in view of the need to cause NIBID to diversify its sources of foreign exchange, and because NIBID could convert local currency into foreign exchange to finance capital goods imports. A $20 million loan was considered appropriate in these circumstances and was agreed to by Mr. Knapp.

4. During negotiations NIBID raised the difficulty of having to make repayments to the Bank in currencies which are not known at the time sub-loans are made and, moreover, in an unspecified order. NIBID's sub-borrowers would not be prepared to assume the foreign exchange risk under such arrangements, and NIBID has therefore found it necessary to get the Government to assume the exchange risk. The Government, however, was equally concerned about taking what it considered a partly undefined risk and, exceptionally, the Bank has agreed (see supplementary letter No. 4) to limit the number of currencies for repayment to not more than six, namely, Deutsche marks, French francs, US dollars, Italian lire, Swedish kroner, and Japanese yen.

5. With regard to the debt representation letter, we have asked the Government to furnish us information concerning external public debt contracted from June 30, 1969, the date of the last regular debt submission, to February 1, 1970. Because we are presently changing the processing of external debt reporting, the Government was requested only last December not to prepare a report for the end of 1969 until it had received the new debt reporting forms which have not yet been forwarded. In view of the short notice given to the Government in these circumstances to prepare the updating debt information, this information will probably not yet be in our hands on March 19, when we expect to distribute the loan papers to the Executive Directors.

6. A memorandum on "Current Economic Position and Prospects of Greece" (EMA-21 dated March 12, 1970) will be distributed to the Executive Directors together with the loan papers. The Economic Committee will discuss this memorandum today. Mr. Thompson has cleared the Economic Section of the President's Report.

7. This memorandum and the papers mentioned herein have been cleared with the Working Party.

8. I would appreciate your giving your comments on these papers to Mr. Willem Nijhof, Ext. 4707, at your convenience.

Attachments

cc: Mr. Robert S. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

March 17, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Indonesia - Irrigation Rehabilitation II Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 17, 1970 from the East Asia and Pacific Department, entitled "Indonesia - Irrigation Rehabilitation II Project" (LC/0/70-31).

2. Comments, if any, should be sent to reach Mr. C.R. de Silva (ext. 4127) by 5:00 p.m. on Friday, March 20.

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 subject to the condition in Paragraph 13 of the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/70-31

March 17, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

INDONESIA - Irrigation Rehabilitation II Project

1. The Government of Indonesia has asked the Association for a credit of $20 million to help finance the rehabilitation and improvement of the Djatiluhur irrigation system as well as studies relating to extension of the system and optimum use of the reservoir. This proposed credit and another of $25 million for the PUSRI fertilizer project now under consideration, would be the sixth and seventh to be made by the Association to Indonesia, and would bring total lending to $111 million. A copy of the Appraisal Report entitled "Indonesia - Djatiluhur Irrigation Project" (PA-37) dated March 3, 1970 is attached.

The Economy

2. The last full report on the economic position and prospects of Indonesia (EAP-10a) was issued on November 14, 1969. As noted in that report and in the Country Program Paper of January 12, 1970, recent economic performance has been satisfactory and Government policies have fostered rehabilitation and development. Measures have been taken to remove controls and open the economy to market forces. A forcefully administered stabilization program had virtually halted inflation by mid-1969. There has been an impressive effort to expand the hitherto very low levels of public saving to provide domestic resources for the public sector.

3. Nevertheless, the process of repairing the damage, physical and institutional, caused by past mismanagement, hyper-inflation and unrest is still in its early stages. A mission which visited Indonesia last month to prepare a special report on investment activities in the public and private sectors during 1969 found that significant progress had been made within the framework of the first comprehensive annual program for rehabilitation and development, but confirmed the view that dramatic results should not be expected in this initial phase. Project aid has been committed in large amounts but is only now beginning to arrive and be utilized. Private foreign investment has been modest so far in terms of actual capital inflow, although the rate of inflow is rising. Provided that sound economic policies are maintained, that administrative capacity grows, and that the necessary volume of resources, both foreign and domestic, can be obtained, the prospects of establishing Indonesia on a path of modest growth seem good. A rate of growth of about 5% per annum is implicit in the Five-Year Plan (1969/74) and appears feasible.

4. Export income has been rising, partly because of favorable prices for some of the main commodity exports. Program aid has been substantial and a rapid increase in disbursements of project aid has

been projected. Because Indonesia's net foreign exchange reserve position is still negative however, and more of its overseas earnings will be needed in future to service old and new debts, balance-of-payments constraints on the development program are likely to remain serious. The need for continuing rice imports, partly commercial, until domestic production expands, is a further strain. Total rice imports in 1969/70 are expected to approach 900,000 tons, with perhaps 45% obtained on commercial terms and the rest under aid arrangements.

5. The Five-Year Plan gives highest priority to agriculture, both for domestic food production and export crops, with secondary emphasis on the rehabilitation of infrastructure and industry. The main target is a large increase in rice production. The performance of the economy continues to depend to a considerable extent on policies and administrative arrangements relating to this one major commodity. The maintenance of an effective rice price policy, and the establishment and support of effective programs to increase output, could be the largest single achievement of a development program for Indonesia.

6. The 1970/71 development program will be larger than the current year's and more of it will be financed from Indonesia's own resources. An increase of 36% in domestic revenues is planned, following a similar expansion during the current year, and will raise revenues to close to 10% of national income. Larger claims on the budget for deferred maintenance, basic adjustments to salaries and foreign debt service compete, however, with the rising requirements for development finance. So far, program aid has generated a substantial amount of counterpart funds, but as it cannot be expected to increase significantly, and may even decline, there will be increasing pressure on purely domestic resources as the development program expands. There is therefore a case for financing part of the local currency costs of appropriate projects.

IDA Lending for Agriculture

7. A copy of the Five-Year Lending Program is attached. The Lending Program will continue to give high priority to the agricultural sector. In the Government's program to achieve self-sufficiency in food. primarily rice, efforts to rehabilitate the existing irrigation systems plays a strategic role, along with the expansion of the PUSRI fertilizer plant. A project for production of improved rice seeds is proposed for fiscal 1971. The Lending Program will provide other assistance in the agricultural sector, including rehabilitation of additional rubber and oil-palm estates and possibly tea estates. Rehabilitation of infrastructure will continue to be a major focus of lending operations, with emphasis on highways, power and telecommunications.

Irrigation Rehabilitation

8. Most of Indonesia's irrigation systems, which have suffered from inadequate maintenance over many years, are no longer able to supply the required water to the areas they were designed to irrigate, with the result that rice yields have declined. These systems must be rehabilitated to provide a better regulated supply of water if previous yield levels are to

be regained and optimum benefits are to be obtained from the use of other inputs.

9. The proposed project would be the second irrigation rehabilitation project to be financed by IDA. The first project, for which a \$5 million credit (127-IND) was signed in September 1968, consisted of the rehabilitation of three existing irrigation schemes in Java and the completion of a new project, Way Seputih in Sumatra, covering a total area of about 200,000 ha. A problem has arisen about the use of some heavy equipment purchased under that credit. A proposal that the equipment which is under-utilized be used for other high priority rehabilitation works, including the present project, is now under consideration. The project had to be appraised without the benefit of a feasibility study; consultants subsequently retained under the project have now revised the cost estimates to a level three times the cost estimated during appraisal. For the time being budgetary allocations by Government are adequate. A proposal to extend a supplementary credit to assist the Government to complete the project is now being considered. Way Seputih would be excluded from the proposed supplementary financing because it lies in a resettlement scheme with very serious land tenure problems, where relations between the settlers and local residents are bad, and Government has thus far not taken satisfactory steps to solve these problems.

The Project

10. The proposed Djatiluhur project is situated in a major rice producing area in the province of West Java, with a population of about 3 million and a gross area of about 300,000 ha, of which about 253,000 ha could be commanded from the existing irrigation system after rehabilitation. The project consists of the rehabilitation of irrigation systems, including the improvement of drainage, flood protection and communication facilities for year-round rice cultivation of about 186,000 ha; investigations for construction of new irrigation facilities to serve about 67,000 ha in a subsequent stage; and studies for optimum utilization of the Djatiluhur Reservoir.

11. Funds from the Technical Assistance Credit (135-IND) signed in December 1968 have been used to engage a firm of consulting engineers, ILACO/Grontmij of Holland, for a one-year period commencing October 1969 to assist in detailed planning, design and implementation of the rehabilitation program for the entire irrigation system. The proposed credit would finance consultants to carry out further investigations and studies, prepare detailed designs and supervise all construction works, which would be executed over a six year period.

12. As a result of the proposed project, the marketable rice surplus of the area is expected to increase by about 390,000 tons per annum over its present level, enabling foreign exchange savings of about \$50 million annually at present prices. The additional rice production would help increase annual family incomes in the project area from \$147 to \$187, and, if other inputs are used, to \$254. The rate of return accruing from the project to the economy would be 21% without the use of other farm inputs, and 40% assuming their full utilization.

Local currency financing

13. It is estimated that total project cost would be $40 million equivalent. The proposed IDA credit of $20 million would cover 50% of the total cost including the full estimated foreign exchange cost and about 38% of local costs. The Government would finance the balance of local costs through its annual development budget. Provision has been made for local currency financing in the proposed credit for reasons noted in paragraph 6 above, and also because a credit limited to the direct foreign exchange cost of the project, which is only $7.4 million, would not have been large enough to give sufficient leverage to induce institutional and policy changes needed for efficient execution of the project. Important among these changes is the establishment by Government of a new project authority in a form satisfactory to IDA, with necessary budgetary resources, revenues, and powers to carry out the objectives of the project envisaged under the credit. Enactment of suitable legislation to enable this will be a condition of presentation of the proposed credit to the Executive Directors. The legal basis and responsibilities of the project authority and details of project organization have been agreed among the Ministries concerned and are incorporated in Annex 9 to the appraisal report. The invitation for negotiations would be issued only after draft legislation has been received and we find that it forms an acceptable basis for negotiations.

Recommendation

14. The amount of $20 million for the proposed project is included in the fiscal 1970 lending program. I concur in the findings of the appraisal that the project forms a suitable basis for an IDA credit of $20 million equivalent and recommend that, subject to the condition in paragraph 13 above, the Government of Indonesia be invited to send representatives to negotiate a $20 million IDA credit.

Raymond J. Goodman
Director
East Asia and Pacific Department

Attachments

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 16, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Indonesia - PUSRI Fertilizer Expansion Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 16, 1970 from the East Asia and Pacific Department, entitled "Indonesia - PUSRI Fertilizer Expansion Project" (LC/0/70-30).

2. Comments, if any, should be sent to reach Mr. Tolbert (ext. 4701) by 5:00 p.m. on Thursday, March 19.

3. It is planned then, if the Committee approves, to invite the Government to send representatives to Washington for joint negotiations with the Association and the Asian Development Bank for a proposed credit and loan respectively, on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

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Committee:

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

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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/O/70-
March 12, 1970 SEP 09 2014

WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the East Asia and Pacific Department

INDONESIA - PUSRI Fertilizer Expansion Project

1. The Government of Indonesia has asked the Assocation to take the lead, together with the Asian Development Bank (ADB), in arranging the financing of the foreign exchange cost of the expansion of the PUSRI urea fertilizer plant at Palembang in South Sumatra from 100,000 tons to 480,000 tons per year. The attached appraisal report (PI-3 of March 10) jointly prepared with ADB, recommends that IDA contribute $25 million and ADB $10 million to the financing of the Project. The United States and Japan have agreed to provide loans of $25 million and $8 million respectively.

2. The recent economic performance of Indonesia and the current position of the economy were reviewed in the economic report of November 14, 1969, and are summarized in the memorandum from this Department to the Loan Committee of today's date on the proposed Djatiluhur Irrigation Rehabilitation project. The IDA lending program for the agricultural sector is also described therein.

The Project

3. The total cost of a 380,000 ton urea plant with related gas conservation and transmission facilities is estimated at $84 million, of which $68 million is estimated to be the foreign exchange cost. IDA would lend $25 million for the project as part of its lending program for fiscal 1970, and ADB intends to provide a loan of $10 million from its Special Funds. USAID proposes to lend $25 million for the project and the Government of Japan has agreed to provide a loan of $8 million. If approved, the IDA credit would be the Bank Group's first lending for industry in Indonesia and would bring total lending in fiscal 1970 to $40 million. The appraisal report shows that the expanded plant, with capital and operating costs conservatively estimated, would be competitive with imports even if c.i.f. prices should fall appreciably below the present average price of $80 per ton. The plant would also put to use a valuable national asset, natural gas, whose production is incidental to the exploitation of oil fields and which is presently flared in the absence of an economic use for it.

4. There is no doubt that Indonesia needs over the next five years more fertilizer than the proposed plant and existing facilities can supply, if the country is to become self-sufficient in food. But the need, evidenced by growing rice imports, has not yet led to a corresponding increase in fertilizer sales. Urea sales, now at a level of perhaps 250,000 tons per year, have been rising very slowly in recent years. A reported recent increase in sales is not yet

supported by detailed data. The Government and we agree that the main causes have been deficiencies in distribution, extension services and credit facilities, and what is probably most important the absence of a stable incentive price for rice. The Government has now decided to establish floor and ceiling prices for rice and to support them through buying and selling in the market. We have informed the Government that the lenders expect to receive during negotiations a letter of intent describing how these prices will be determined and the institutional arrangements to be made for ensuring that the benefits of price support reach the farmer. The letter of intent would also cover marketing and distribution problems, extension and credit policy, and would serve as a basis for periodic review with the Government of the adequacy of measures taken to bring about the desired growth of the fertilizer market and of improvements that might be needed.

5. The measures will take time to be effective. However, it will be three-and-a-half years before urea from the new plant appears on the market in volume. Considering the Government's creditable performance in other fields of economic policy and its determination to solve the country's food problem, the risk inherent in going ahead with the project before an upward market trend becomes discernible is acceptable. The alternative of delaying the project until the effects of the Government's policy can be clearly seen by way of increasing fertilizer imports and rice production would impose too heavy a burden on the economy.

Specific conditions of the Credit

6. The present plant is well maintained and almost since start-up has been operated at close to capacity - since 1965 without outside assistance. Consultants to be employed under terms and conditions satisfactory to the lenders will act as technical adviser to PUSRI in project implementation and will arrange, in cooperation with the general contractor and the process vendors, for technical assistance during initial operations. PUSRI has recently been converted from a State enterprise into a State-owned limited liability company. The Government will have to satisfy the lenders that the new company will have adequate autonomy to conduct its affairs. Appointments to the management and to the board of directors would be made only after consultation with the lenders through the Association.

7. The proposed plant will depend for its gas supply on a gas conservation and transmission scheme which the State oil company, PERTAMINA, will install on oil and gas fields operated by it about 60 miles south-west of PUSRI. The proposed joint financing package includes the foreign exchange cost of the gas scheme. The Government will pass on the proceeds of its foreign borrowing and its own contribution to PUSRI and PERTAMINA on terms and conditions satisfactory to the lenders. While the gas facilities are to be financed entirely by loan the Government will finance the PUSRI expansion partly by loan and partly by an equity contribution. The Association has indicated that a 1:1 debt equity ratio for the company would be

acceptable. The Government would like a higher proportion of debt so as to ensure a return on the capital invested, as payment of dividends by State enterprises has been uncertain in the past. Since the creditor and shareholder in this instance are identical we should be prepared to accept a higher ratio, perhaps 60:40 on a consolidated basis.

8. The Government will shortly conclude a contract with consultants for a National Fertilizer Study to be financed from the Technical Assistance Credit (Credit No. 135-IND) and will undertake to implement those recommendations of the Study which it and the lenders agree as appropriate. Finally, the Government will consult with the lenders before setting up or agreeing to set up the next nitrogenous fertilizer plant in the country.

Procurement

9. All equipment and services financed from IDA and ADB funds will be procured under international competitive bidding. The ADB proposes to use its Special Funds, which it can lend on concessional terms, and these funds are subject to certain restrictions as to procurement; however, no difficulty is expected in using ADB's contribution after international bidding. However, the U.S. and Japanese bilateral contributions will be fully tied to procurement in those countries. Rather complicated USAID regulations will have to be applied to any contracts financed from U.S. funds; these would tend to make U.S. suppliers non-competitive in international bidding. Thus bidding carried out under IDA procedures would probably not result in a significant amount of awards to U.S. suppliers for which AID funds could be utilized. The likely outcome would be that other funds for the project would be utilized first, leaving a major portion of the AID funds to be used for financing remaining procurement - whether or not such procurement is for items in which the U.S. is even reasonably competitive.

10. The Japanese authorities, on the other hand, have proposed revisions in the procurement procedures, involving primarily the bidding of the urea and ammonia plants on a turnkey basis. For a number of reasons these proposals, while in principle quite suitable for a plant financed entirely from one source, do not meet the financial and other constraints under which this project must be carried out. We understand, however, that apart from project considerations the Japanese are also interested in seeing a Japanese urea process, that of Toyo Koatsu, chosen for this project and with respect to their tied funds do not wish to be treated less favorably than the U.S., the other bilateral lender. The Toyo Koatsu process is in any case one of the best proven processes for the technology involved, and the Japanese would be a strong contender in any selection.

11. In order to make the best use of the tied funds, in light of the above considerations, the following procedure is proposed for procurement. The general contractor, who would be responsible for the engineering and construction of the project, would be chosen by competitive bidding under USAID procurement rules limited to U.S. firms.

Recent experience, as for example with the Dawood Hercules fertilizer project in Pakistan (which was, however, under the Bank's rules for international competitive bidding), has shown that for this type of work U.S. firms can be expected to quote reasonably competitive prices. With the advice and assistance of the contractor and of the consultants acting as technical adviser for the project, additional items for which the U.S. and Japan can be identified as competitive sources of supply would be pre-allocated for competitive bidding within those countries. For example, the U.S. is generally competitive in most of the equipment (except pipe) required for the gas conservation and transmission project. Allocation of this, along with the general contractor's services, to U.S. competition would mean total estimated earmarking of at least $16 million to the U.S. Assuming the U.S. would in fact be able to win some awards in open international bidding, for which USAID funds could be utilized, the problem of economic utilization of the U.S. funds would be reduced to manageable proportions. In the case of Japan, it is proposed that the Toyo Koatsu urea process be selected and that $5-8 million of the Japanese contribution be earmarked for the purchase in Japan of requirements for the urea plant, including process design plus equipment.

12. It is consiered that the above plan would result in minimizing the cost of the project, given the fund availabilities. Procurement for the project is expected to stretch out over a period of 12-18 months. It is intended to hold in reserve a certain proportion of the IDA funds - about $5 million - which could be used as a safeguard in case of over-priced bids on items pre-allocated to Japan and the U.S. and would enable the rejection of such bids and the issuance of new tender invitations on the basis of international bidding.

Recommendation

13. It has been agreed that joint IDA/ADB negotiations for the credit should be held in Washington. I recommend that the Government of Indonesia be invited to send representatives to Washington to negotiate an IDA credit of $25 million and that ADB be asked to negotiate a loan of $10 million with the Government of Indonesia also in Washington at the same time.

Raymond J. Goodman
Director
East Asia and Pacific Department

Attachment

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 16, 1970

MEMORANDUM TO THE LOAN COMMITTEE

China - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 16, 1970 from the East Asia and Pacific Department, entitled "China - Proposed $12.0 million Loan for Education" (LC/O/70-29).

2. Comments, if any, should be sent to reach Mr. Kalim (ext. 2426) by 1:00 p.m. on Thursday, March 19.

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

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Committee:

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

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

CONFIDENTIAL

LC/O/70-29

March 16, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

CHINA - Proposed $12.0 million Loan for Education

1. Attached is an appraisal report (PE-15) dated March 6, 1970 on a proposed education project in China. The Government has requested a loan of $12.0 million to finance the foreign exchange expenditure which is expected to form 62% of the total estimated project cost of $19.4 million.

2. The Republic of China's remarkably good economic progress in recent years, based largely on the rapid development of a markedly export-oriented industrial sector, has been mentioned in two recent memoranda to the Loan Committee from this Department.1/ An economic mission is now in Taiwan to review its economic position and prospects. The country's ability to service additional debt is not in question and it is considered suitable for Bank financing. The debt service ratio is expected to reach the level of 7.2% in 1972 and a peak of 10% in the mid-70s.

3. The impressive performance of industry which grew at an average rate of about 16% p.a. in the last decade and doubled its share of a rapidly increasing volume of exports, has resulted in a fast-growing need for infrastructure facilities. The Bank's current five-year lending program (copy attached) seeks to assist the Government to rectify past deficiencies in public expenditure on power, transport and education.

4. The demand for skilled workers is expected to grow appreciably in the next few years as industry continues to expand and to enter more sophisticated lines of production (e.g. electronics and chemicals). If this demand is to be met it will require more systematic study of the labor market and greater emphasis on vocational education than in the past. The Government plans to

1/ LC/O/70-15 of February 16, 1970 on a proposed $18.0 million loan to the China Development Corporation; and LC/O/70-16 of February 18, 1970 on a proposed $44.5 million loan to the Taiwan Power Company.

fill the shortage of qualified technical personnel and instructors by improving the quality of vocational education at all levels and increasing the concentration on science and industrial subjects in secondary schools. Public expenditure on education is to be raised from about NT$6100 million ($152 million approx.) in 1968/69 to NT$7200 million ($180 million approx.) by 1971/72 and to NT$9600 million ($240 million approx.) by 1974.

5. The project aims at (i) the expansion and modernization of vocational educational facilities at the secondary and junior college levels, and (ii) the improvement and enlarging of facilities for teacher-training in science, industrial arts and vocational subjects. It will also provide expert assistance for educational planning.

6. The project is expected to take about 3½ years to implement. Upon completion, it will contribute about 22% of the country's annual requirements of vocationally educated recruits for industry and agriculture, and nearly 27% of the teachers of industrial arts, science and vocational subjects needed yearly. The responsibility for the implementation of the project will lie with a special unit to be set up in the Ministry of Education. The establishment of such a unit and its staffing by qualified persons will be a condition for effectiveness of the proposed loan.

7. The project will benefit educational institutions falling under the jurisdiction of the National Government, the Province of Taiwan and the Municipality of Taipei. Schools administered by the Provincial and Municipal authorities would receive their portion of the loan proceeds from the National Government on the same terms and conditions. The conclusion of subsidiary loan agreements, acceptable to the Bank, between the National Government on the one hand and the Provincial and Municipal Governments respectively on the other will be a condition for effectiveness of the proposed loan.

8. The Chinese authorities will require some technical assistance to carry out the project. Ten man-years of advice from specialists in vocational, industrial and agricultural education and the use of audio-visual aids are to be provided. The services of educational and architectural specialists, amounting to five man-years equivalent, will be needed to assist the project unit, since the Ministry of Education does not have the requisite experience in project co-ordination and execution. Further, the improvement of an existing educational planning unit in the Ministry of Education will absorb the equivalent of three man-years of technical assistance.

9. The Government wished the Bank to consider the financing of fishery training and educational television as part of the project, but they were found to be insufficiently prepared for appraisal. Accordingly, funds have been provided in the loan to complete the preparation of these items, for which a separate loan will be proposed in due course.

10. Contracts under the present project will be let on the basis of international competitive bidding. It is expected that construction contracts will be won by Chinese firms since the local construction industry is fairly competitive. Assuming this, the direct and indirect foreign exchange costs of the project will amount to some US $12.0 million or 62% of the total estimated expenditure of US $19.4 million. The Bank loan will cover only the estimated foreign exchange expenditures.

11. I agree with the recommendations of the appraisal report and recommend that the Government be invited to send representatives to Washington to negotiate a loan of $12.0 million for a 25-year term with a grace period of 10 years.

Raymond J. Goodman
Director

Attachments

Population: 13.1 m
Per Cap GNP: $250

CHINA - 5 YEAR LENDING PROGRAM

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

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Costa Rica - Siquirres-Limon Highway Project

Attached for information is a memorandum from the Director of the Central America and Caribbean Department to the Deputy Chairman of the Committee, dated March 13, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for the Siquirres-Limon Highway Project.

Henry G. Hilken
Secretary's Department

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

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

OFFICE MEMORANDUM

To: Mr. Raymond Cope

March ~~12~~ 13, 1970

From: Edgar Gutierrez

Subject: COSTA RICA - Proposed $15.7 Million Bank Loan for the Siquirres-Limon Highway Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan of $15.7 to the Republic of Costa Rica for its second highway project, which forms part of our lending program approved last year. Also attached is the draft Loan Agreement and a draft Economic Memorandum, which is presently being reviewed by the Economic Committee. We hope to be able to distribute the President's Report, the Economic Memorandum and the Loan Agreement to the Executive Directors for consideration on March 31. Early consideration is particularly desirable in view of the out-going Government's wish to have the Loan Agreement ratified by the present Assembly, which concludes its final session on April 30.

2. In a memorandum dated January 24, 1969 (LC/O/69-10), the Western Hemisphere Department requested the approval of the Loan Committee for the proposed Siquirres-Limon highway project, but recommended that we did not invite negotiations for the loan until additional fiscal measures were taken. This recommendation was accepted. On December 24, 1969, Mr. Alter recommended to the Chairman of the Loan Committee that, since the fiscal situation in Costa Rica had greatly improved, we should proceed with the negotiations of the proposed loan. This recommendation was approved, and a reappraisal of the project was made to bring the technical data up to date. The new data are included in the revised green cover Appraisal Report, attached. The drafting of the grey cover Appraisal Report has not yet been completed to insure conformity with the findings of a port appraisal mission, which returns to the Bank from Costa Rica on Monday, but the only changes of substance relate to the points mentioned below.

3. During negotiations it was agreed that the Project Revolving Fund should be kept at a level sufficient to cover one month of construction work instead of three months, and that this level would be in accordance with schedules to be submitted regularly to the Bank. The reduction in the size of the Project Revolving Fund was accepted as being realistic from the points of view both of the needs of the project and of the commitment of government resources to a blocked account.

4. The Government has not yet acquired the right-of-way for the last 4 km at the Limon end of the proposed highway. A right-of-way clause has accordingly been introduced into the Loan Agreement stating that all rights-of-way and other property rights which

may be required for the project shall be acquired before any construction contracts are awarded.

5. You will note that the grace period has been increased from 5 to 6 years. This is in line with the agreement reached during negotiations to set the Closing Date of the loan at the end of December 1975 to allow for retention payments to be withheld for one year after the completion of construction.

6. This memorandum and the documents mentioned herein (except for the memorandum on recent economic development and prospects) have been cleared with the other relevant Departments.

7. I would appreciate your giving your comments on this paper to Mr. Rassmuson, Ext. 3860, as soon as possible.

Attachments

cc: Mr. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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SEP 09 2014

WBG ARCHIVES

March 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Bucaramanga Sewerage and Erosion Control Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 13, 1970 from the South America Department, entitled "Colombia - Proposed Loan for Bucaramanga Sewerage and Erosion Control Project" (LC/O/70-28).

2. Comments, if any, should be sent to reach Mr. Roessler (ext. 2192) by 10:00 a.m. on Wednesday, March 18.

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

Henry G. Hilken
Secretary's Department

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/0/70-28

March 13, 1970

LOAN COMMITTEE

Memorandum from South America Department

COLOMBIA: Proposed Loan for Bucaramanga Sewerage and Erosion Control Project

1. Attached for your approval is the draft Appraisal Report No. PU-32 recommending a Bank loan of US$7.0 million equivalent to the Corporation de Defensa de la Meseta de Bucaramanga (the Corporation) to help finance sewerage and storm drainage works in the city of Bucaramanga.

2. The Bank's current lending program and Colombia's recent economic performance are dealt with in paragraphs 2 and 3 of the Loan Committee Memorandum of March 6, 1970 for the Sixth Highway Loan (LC/0/70-23).

3. The proposed loan would be the third Bank loan in the water supply and sewerage sector in Colombia, the first Bank loan in this sector having been made in June 1968 to the Empresa de Acueducto y Alcantarillado de Bogota (Loan 536 CO) and the second being the proposed US$18.5 million loan to the Establecimiento Publico Empresas Municipales de Cali. A fourth loan of US$2.0 million will be proposed shortly for the Empresas Municipales de Palmira. The project is for improvements to the sewerage and storm drainage system of Bucaramanga, with the primary purpose of protecting the plateau on which the city stands from serious erosion resulting from the inadequately controlled run-off of sanitary wastes and storm water. The need for the project is created by the peculiar environment of the city. The meseta, or plateau, on which it stands is composed of sedimentary formations subject to erosion. The annual rainfall of about 40 inches is not exceptionally high, but is concentrated in brief but heavy storms. Storm water is collected by the city's paved surfaces and sewerage system and discharged through outlets in the wall of the plateau, where the heavy run-off is causing serious erosion.

4. The project is of key importance to the city's development. As explained in paragraphs 2.01 through 2.08 of the draft Appraisal Report, the city of Bucaramanga has a significant role in the Government's urban development policy. This is also reflected in the special character of the Corporation as a national agency created for the exclusive purpose of dealing with the erosion problem of this particular city.

5. The project is justified by the direct and indirect economic benefits resulting from the elimination of erosion and flooding. A calculation of the quantifiable benefits (associated with improvements in urban land values, sanitary conditions, traffic flows and flood control) produces a rate of return of 10 percent. However, as explained in paragraph 5.03 of the Appraisal Report, this rate of return is only a minimum estimate because it does not include benefits which cannot be readily quantified.

6. Sewerage in Colombia is usually combined with water supply as functions of the same public enterprise, and paid for partly from real estate taxes associated with sewerage as such, and partly out of the proceeds of water rates. However, Bucaramanga is the unique case in Colombia of a city where the water supply company is privately owned, and does not operate the sewerage system. In these circumstances, the normal Bank requirement of a financial return on combined water and sewerage service cannot be applied. Instead, we are requiring that the Municipality of Bucaramanga raise tax revenues sufficient to cover debt service on the proposed Bank loan, and also make a contribution of Col$52.5 million to the costs of the project during the construction period. The financing plan requires that the present erosion tax of 2 per thousand be increased to 5 per thousand (regarded as the maximum increase that is politically feasible at this time) and that a land improvement tax be levied to recover the cost of the scarp protection works. These tax measures would bring the per capita incidence of municipal taxes in Bucaramanga close to that of Bogota, where per capita income is about twice as high. The main local source of financing, covering 31 percent of project costs, is the Col$86 million unused portion of a Col$100 million Government grant to the Corporation, approved by the Colombian Congress in 1967. It was quite exceptional for the Congress to make so large a grant for the benefit of one particular city and there is no expectation that the grant could be increased. The Bank loan, equivalent to 55 percent of project costs, is the residual contribution needed to complete the financing plan after taking account of the government grant and the increases in municipal taxation discussed above. The foreign exchange cost of the project is estimated at 25 percent of total costs including interest during construction. Paragraph 8 of the Loan Committee Memorandum of March 5, 1970 for the Cali Water Supply and Sewerage Project (LC/O/70-20) explains our approach to local currency financing of projects in the water supply and sewerage sector in Colombia in the current fiscal year.

<u>Recommendation</u>

7. I recommend that the Bank commence negotiations of a loan of US$7.0 million to the Corporation on the terms and conditions set forth in the draft Appraisal Report.

Gerald Alter
Director

Attachment

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 13, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Brazil - Second Highway Construction Project

Attached for information is a memorandum from the Director of the South America Department to the Deputy Chairman of the Committee, dated March 13, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a second highway construction project.

Henry G. Hilken
Secretary's Department

\- DISTRIBUTION -

Committee:

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

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope DATE: March 13, 1970

FROM: Gerald Alter

SUBJECT: BRAZIL - Loan for Second Highway Construction Project

1. Attached for your approval is a copy of the Draft Report and Recommendation of the President on a proposed loan equivalent to US$100 million to Brazil for the Second Highway Construction Project, together with copies of the draft Loan Agreement and draft Project Agreements. We propose to distribute these documents to the Executive Directors for their consideration at a meeting on March 31, 1970. The Brazil Economic Report was distributed to the Executive Directors on December 31, 1969.

2. On January 21, 1970 the South America Department distributed to the Loan Committee a memorandum entitled "Brazil - Proposed Bank Loan for Second Highway Project" (LC/O/70/4) for consideration without a meeting. The Committee authorized negotiations on terms and conditions set forth in the Appraisal Report (PTR-36). Subsequently on January 26, 1970 a special Loan Committee meeting was held (LM/M/70-4) to discuss proposed loan disbursement procedures (see para. 4 below). Negotiations were held February 18-20, 1970.

3. A project mission visited Brazil in late January to obtain final cost estimates for certain project roads and to review those feasibility studies that were not available at the time of appraisal. As a result of this mission construction cost estimates were revised and some 776 km. of roads were deleted from the list of roads proposed for detailed engineering and some 186 km. of roads were deleted from the list proposed for feasibility studies under the project. Estimated total project cost has accordingly been changed from $256.5 million to $255.1 million. The proposed loan amount of $100 million, however, has not been changed.

4. Regarding Bank disbursements for civil works, the formula adopted for Loan 567BR will also be used for this loan. As for consulting services, which are all paid by DNER in cruzeiros, it was agreed within the Bank before negotiations that disbursements be made at an agreed percentage of the total cruzeiro cost. The agreed percentages would represent 40 percent of the cost of local consultants and the equivalent of the foreign exchange component for foreign consultants.

5. The agreements reached during negotiations and reflected in the draft Loan documents differ in substance from the arrangements proposed in the Appraisal Report and approved by the Loan Committee only in the following respect.

6. Instead of requiring DNER to open the Revolving Fund with an initial deposit of NCr $80 million and thereafter at all times keep enough funds to cover three months of forward project cost, the Bank agreed to lower its requirements to an initial deposit by DNER of NCr $12 million and thereafter deposits on the first day of every month so that the amount of the fund would reach a level sufficient to meet payments of total project expenditures for that month. DNER was able during negotiations to demonstrate that their cash flow was such that the proposed scheme would be workable and gave the Bank the assurance that project payments could be made promptly.

7. The Appraisal Report is being revised for presentation to the Executive Directors to reflect these changes.

8. The President's Report has been cleared by departments concerned.

9. I propose that at the meeting of the Executive Directors, one oral presentation be made by the South America Department on the Bank's role in the transport sector in Brazil.

10. It is suggested that comments on the attached documents be made to Mr. Dosik (ext. 2770) at your earliest convenience.

Attachments

c.c. Mr. McNamara
Loan Committee (without attachments)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 12, 1970

MEMORANDUM TO THE LOAN COMMITTEE

The Ivory Coast - Education Project

Attached for information is a memorandum from the Deputy Director of the Western Africa Department to the Deputy Chairman of the Committee, dated March 12, 1970, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for an education project.

Henry G. Hilken
Secretary's Department

- DISTRIBUTION -

Committee:

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

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

OFFICE MEMORANDUM

TO: Mr. S. R. Cope March 12, 1970

FROM: Bruce M. Cheek

SUBJECT: REPUBLIC OF THE IVORY COAST - Proposed Loan for an Education Project

1. I attach herewith for your approval a copy of the draft Report and Recommendation of the President to the Executive Directors on a proposed loan of US$11.0 million to the Republic of the Ivory Coast to assist in the financing of an education project. Also attached is a copy of a draft Loan Agreement together with a copy of a special letter defining the educational objectives to be pursued by the Government of the Ivory Coast.

2. The Appraisal Report (PE-7) was distributed to the Loan Committee on August 25, 1969, together with a covering memorandum from the Western Africa Department (LC/O/69-82). No significant change had to be made as a result of the negotiations at the end of September. However, it was felt that the signing of the contracts between the Government and both the architect-consultants and the management-consultants should be a condition of signing of the Loan Agreement. The delegation of the Ivory Coast made no objection to this proposal. In fact, we understood that the process of signing of the two contracts was at an advanced stage and that we could expect formal signing to take place in time for consideration of the proposed Loan Agreement by the Executive Directors on December 2, 1969.

3. Owing, however, to serious differences of opinion between the Consultants and the Government, mainly on the question of fees, it was not until last week that complete agreement was reached with the architect-consultants. As regards the other contract with the management-consultants, a final draft was received on March 10. It is considered generally satisfactory and we are cabling our approval, conditional upon minor changes. It may be, however, that formal signing of both contracts between the Government and the consultants could not take place in time to allow signing between the Ivory Coast and the Bank to occur shortly after Board approval. I nevertheless propose that we circulate the documents to the Executive Directors for consideration on March 24, 1970.

4. As instructed by you before the negotiations, interest and other charges during construction were included in the proposed loan which now amounts to US$11.0 instead of US$9.7 as stated in the green cover appraisal report.

5. At a meeting in Abidjan on March 25, 1969, the Ford Foundation had indicated interest in the financing of the pedagogical evaluation of the ITV scheme. On March 5, 1970 we were informed that Ford had finally decided against participation. The Foundation explained that reason for this change lies in the difficulties encountered with several of the potential consultants it was considering for the evaluation work.

6. Ford's withdrawal is not expected materially to affect implementation of the project. The Government of the Ivory Coast is committed to the Bank to perform a continuous pedagogical and technical evaluation of the scheme and provision of $100,000 is made in the proposed Bank loan to finance the technical part of the evaluation. The grey cover appraisal report has been revised to take account of the changes mentioned in paragraphs 2, 4 and 5 above.

7. In addition to the Loan Agreement and the special letter, the loan documentation includes only a supplementary letter on external debt which I propose not to circulate to the Executive Directors.

8. This memorandum and the papers mentioned therein have been cleared with the Departments concerned. The economic section of the draft President's Report was cleared by Mr. de Wilde.

9. I suggest that presentation be made by this Department with emphasis on the role of education in the economic development of Ivory Coast.

10. I would be grateful if you could give your comments to Mr. Bazin (Ext. 4756) so that the documents can be distributed to the Executive Directors as recommended in Para. 3 above.

cc: Mr. Robert S. McNamara
Mr. J. Burke Knapp
Loan Committee (no attachments)

<u>Attachments</u>

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

March 11, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Colombia - Chivor Hydroelectric Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 11, 1970 from the South America Department, entitled "Colombia - Proposed Loan for Chivor Hydroelectric Project" (LC/O/70-27).

2. Comments, if any, should be sent to reach Mr. Roessler (ext. 2192) by 10:00 a.m. on Friday, March 13.

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

Henry G. Hilken
Secretary's Department

- DISTRIBUTION -

Committee:

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

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

CONFIDENTIAL

LC/O/70-27

March 11, 1970

LOAN COMMITTEE

Memorandum from South America Department

COLOMBIA: Proposed Loan for Chivor Hydroelectric Project

1. Attached for your approval is the draft Appraisal Report No. PU-31 recommending a Bank loan of US$52.3 million to Interconexion Electrica S.A. (ISA) for the construction of the first phase of the Chivor Hydroelectric plant and a 180 km 230 kv line to connect the plant to ISA's interconnection network.

2. The Bank's current lending program and Colombia's recent economic performance are dealt with in paragraphs 2 and 3 of the Loan Committee Memorandum for the Sixth Highway Loan.

3. The proposed loan would be the Bank's seventeenth for the power sector in Colombia and the second to ISA, the first having been made in December 1968 (Loan 575 CO) for a project to construct transmission lines and associated facilities to interconnect the power systems of Bogota, Medellin, Cali and Manizales. This project is presently under construction and expected to be completed by mid-1971. The purpose of the new loan proposed for the Chivor Project is to help finance an increase of 500 MW in Colombia's present installed generating capacity of about 2,000 MW in order to keep up with the growing demand for power. The project includes a rockfill-type dam creating a regulating water reservoir on the Bata River from which the water will be conducted by two pressure tunnels and penstocks to the powerhouse.

4. The total project cost is about US$114.2 million equivalent of which about US$80.0 million are foreign exchange requirements. The local currency component will be financed as provided for in ISA's Charter by the issue of stock and bonds to the sponsors. For the foreign exchange component of the project the Bank has proposed to the members of the Consultative Group and Sweden a parallel financing arrangement according to which the Bank would provide US$52.3 million representing the foreign costs of the civil works contracts, minor equipment, and engineering, with supplier countries financing US$22.8 million representing the foreign cost of major equipment (see IBRD document JF 70-1 of January 29, 1970, entitled "Draft Memorandum of Understanding on Parallel Financing of the Chivor Project in Colombia"). Should this proposal not be agreed by potential lenders, alternative arrangements acceptable to the Bank would be made for the bilateral financing of the major equipment.

5. The attention of the Loan Committee is drawn to the absence of a rate covenant, and to the recommendation, in paragraph 6.06 of the draft Appraisal Report, that the rate of return requirement in Loan 575 CO be eliminated, because the rate of return can be manipulated by the sponsors and also, as indicated in paragraph 3.04, ISA's Statutes include a rate of return requirement. However, in discussions between South America, Legal, and Public Utilities Projects Departments, it has been agreed that the manipulation of ISA's rate of return to meet the requirement under Loan 575 CO would not necessarily be easy, and that the rate covenant in ISA's Statutes is technically not superior to the rate covenant required by the Bank because the Statutes provide for a rate of return on assets at historic cost rather than at current values. In view of this, it is now agreed that we should not proceed with the recommendation in paragraph 6.06 regarding the elimination of the rate covenant in Loan 575 CO unless information develops during negotiations showing that a rate covenant is either superfluous or meaningless.

6. The Colombian Government has requested that preference be granted to domestic suppliers of minor equipment (with a total foreign cost of up to US$2.8 million) to be financed by the proposed Bank loan, at the rate of 15 percent or the existing duty, whichever is less. Paragraph 5.11 of the Appraisal Report expresses some doubts whether the Bank should grant this request, because imports by public enterprises in Colombia are exempt from duty. However, I propose that we accede to the Government's request, as Bank policy in this situation is usually to regard as relevant the generally applicable tariff and to disregard exemptions granted to avoid cumbersome fiscal transfers within the public sector.

Recommendation

7. I recommend that the Bank commence negotiations of a loan of US$52.3 million to Interconexion Electrica S.A., on the terms and conditions set forth in the draft Appraisal Report suitably modified to take into account the recommendations made above.

Gerald Alter
Director

Attachment

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 11, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Spain - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 11, 1970 from the Europe, Middle East and North Africa Department, entitled "Spain - Proposed Loan for Education" (LC/0/70-26).

2. Comments, if any, should be sent to reach Mr. Guillot-Lageat (ext. 4720) by 3:00 p.m. on Friday, March 13.

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

Henry G. Hilken
Secretary's Department

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL

LC/O/70-26

March 11, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

SPAIN - Proposed Loan for Education

1. The attached appraisal report (PE-14) of an Education Project recommends a Bank loan of $11.8 million to Spain. If approved, this would be the first Bank loan in Spain for Education.

2. Spain, so far, has received five Bank loans for a total amount of $213 million. These loans were for Transportation, including Roads, Ports and Railways, and lately Agriculture. The most recent loan, for Livestock Development and the first one for Agriculture, was made in July 1969 and amounted to $25 million.

The Economy

3. An economic mission visited Spain last year; its report was presented to the Economic Committee on November 10, 1969. The mission was of the opinion that Spain has a good potential for further economic growth, but if this potential is to be utilized, Spain is likely to need more external capital than in the past. Because of its unused debt servicing capacity (the debt service ratio was 2.3 percent in 1969), Spain is in a position to borrow externally in substantial amounts. However, even after a reasonable recourse to international markets, future capital requirements are likely to be of a magnitude that would justify continued Bank lending.

4. The Bank's strategy in Spain is to introduce and support much needed structural and policy reforms. Because of the relatively large size of the economy, the necessary leverage can be best obtained by concentrating lending on selected sectors; the lending program for FY 1971-75 (attached) therefore envisages projects in agriculture, education and industry in addition to further loans for transportation. Education is expected to receive about 17 percent of the total program.

The Project

5. The need for reforms in the education sector was first pointed out in the 1966 economic report. Enrollment growth over the past few years as a result of economic development has been considerable but has taken place within obsolete and inefficient educational and administrative structures. The present system is excessively rigid and does not favor equalization of educational and economic opportunity. High wastage rates are frequent especially in the last four grades of primary education. Among the various streams available to students at

secondary education level, the general education stream remains the largest although it provides an exclusively academic training, which ill-prepares students for those further opportunities which require studies of a more technical or vocational character or training on the job. Vocational and technical training appears like an appendage to the general education system with overlapping courses and dead-end streams which reflect past haphazard attempts to meet the needs of the economy for this type of training. Higher education suffers from lack of coordination between universities and engineering schools; also, its efficiency remains poor with a low ratio of graduates to enrollment partly because there are no intermediate degrees.

6. The deficiencies of the present situation were analyzed in a White Paper, published last year by the Government, which proposed an ambitious reform program now embodied in a Bill approved by the Council of Ministers. It aims at increasing the efficiency of the education system at all levels by generalizing and upgrading primary education, improving and reorienting secondary education and rechannelling students through intermediate degrees in higher education. The detailed measures to be taken under the reform program are described in paragraphs 2.07 to 2.14 of the appraisal report.

7. A major element in the reform is teacher training, in particular for the new basic General Schools, and the revision of teaching methods and curricula. Institutes of education, within each university, would train secondary and higher level teachers and undertake educational research under the auspices of the coordinating body, the National Center for Educational Research. The Institutes would test and demonstrate the reform principles in a number of demonstration schools to be attached to them. The structural reforms require an elaborate planning for the utilization of existing and the construction of new facilities. It is proposed to decentralize the administration of education and to establish provincial offices with delegated powers from the Ministry; the central administration itself would undergo a major overhaul to increase efficiency.

8. Within the framework of this reform, the Government of Spain has requested the Bank's financial assistance for a project involving a total cost of $23.6 million. The project would consist of the construction of 19 common basic schools, 20 secondary schools, 8 higher teacher training and education research institutions, and the provision of related technical assistance; it would also include equipment for the National Center for Educational Research. The project would be a pilot scheme to assist in achieving the objectives of the reform. It would directly add only 0.4 percent enrollment capacity at the basic level and 7 percent at the secondary level, but the new facilities would have a much larger effect by permitting the Spanish authorities to test and demonstrate the principles of the reform program. The project would also contribute 64 percent of the teacher training needs and provide technical assistance to promote curriculum development, programming of the reform plan, establishment of norms and standards and the training of education planners, administrators and supervisors.

9. The proposed Bank loan of $11.8 million would finance 50 percent of the total cost of the project, estimated at $23.6 million. The foreign exchange component of the project is estimated at $3.86 million, or about 32 percent of the proposed loan; in addition, the Bank loan would finance a part of local expenditures amounting to about $7.9 million, or about 68 percent of the loan. If interest during construction and other charges on the Bank loan, which are not included in the project cost, are taken into account, the foreign exchange requirements for the project would be about $5 million. The appraisal report proposes on project grounds that the loan be for 25 years including ten years of grace. I recommend on country grounds to make the loan for 20 years with a grace period of 5 years. This would be the same terms as proposed in the memorandum on an Education project in Greece, which has just been circulated to the Committee. The Education Projects Department agrees with this recommendation.

Primary Education Financing

10. The proposed loan would be the first lending by the Bank group for primary education. The general purpose of the project is to upgrade the quality and efficiency of the educational system, resulting in a better allocation of human resources and contributing to a higher productivity of the labor force. A key element for implementing these objectives is the modification of the structure of primary education, which would absorb 34 percent of the proceeds of the loan.

11. Primary education, which today channels students into secondary education after completion of Grade 4, will be replaced by basic general education extending over the entire compulsory school period (Grades 1-8) and providing a reformed curriculum emphasizing mathematics, sciences and practical subjects. This should give students a well balanced general education before they must choose between further schooling and vocational training. Primary teacher training is to be upgraded and its curriculum is already being revised to meet the demands of the new system. The project schools for primary education will be designed and equipped to serve as pilot and experimental schools and also are part of a general program to rationalize school building location, size and organization. The part of the project concerned with primary education, therefore, is an essential element of the Spanish reform program for education and meets the Bank's objective of supporting reforms designed to achieve a more practice-oriented and efficient education system.

Local Currency Financing and Procurement

12. Spain is a country which has achieved a considerable degree of development in manufacturing and construction industry with the result that many projects have a low foreign exchange component. This is particularly the case in agriculture and education. The Bank has a positive interest in concentrating its efforts in these sectors since they have great strategic importance in Spain's development program and the Bank can in them exercise significant influence in achieving urgent sectoral reforms. In these circumstances, financing part of the local expenditures of projects in these high priority sectors appears fully justified.

13. All contracts for the supply of equipment and furniture and for construction of schools would be awarded under international competitive bidding. Domestic manufacturers of furniture and equipment would be accorded a margin of preference for purposes of bid comparison which would be the existing rate of customs duty applicable to competing imports or 15 percent of the c.i.f. landed cost, whichever is the lower.

Implementation of Legislation

14. The reform described in paragraph 6 has been proposed by the Government in a Bill to be examined by the Cortes (National Assembly). Before negotiations the Bank would have to be assured that any amendments to the Bill by the Cortes do not entail obstacles to the enactment of a satisfactory Law. The enactment of the Law would be a condition for presenting the proposed loan to the Executive Directors.

Recommendation

15. I recommend that the Bank invite the Government of Spain to send representatives to negotiate a loan of $11.8 million equivalent, for a period of 20 years including a five year grace period.

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

Annex 1

Population: 32.5 m
Per Cap. Inc. $740

SPAIN - FIVE-YEAR LENDING PROGRAM

(PROPOSED)

		($ millions) Fiscal Years						Totals	
		1970	1971	1972	1973	1974	1975	1964-1968	1969-1973
Livestock Development	IBRD	25							
Livestock II	IBRD			25					
Livestock III	IBRD					25			
Agricultural Education and Research	IBRD		12						
Irrigation/Drainage	IBRD			15					
Agriculture -Unident.	IBRD				25				
Agriculture -Unident.	IBRD						20		
Education I	IBRD	12							
Education II	IBRD			25					
Education III	IBRD					25			
Railways III (RENFE)	IBRD		50						
Ports II	IBRD		40						
Industry - Unident.	IBRD				50				
Industry - Unident.	IBRD						50		
	IBRD	37	102	65	75	50	70	188	279
	Total	37	102	65	75	50	70	188	279
	No.	2	3	3	2	2	2	4	10
IBRD Loans outstanding									
-including undisbursed		214.7	309.9	366.1	431.0	470.4	527.4		
-excluding undisbursed		159.5	184.5	229.4	291.8	347.7	396.2		

November 14, 1969

Annex II

SPAIN - PAST LENDING OPERATIONS

($ million)

		Through 1963	1964	1965	1966	1967	1968	1969	Jan.31 1970
			Fiscal Years						
Highways	IBRD		33.0						
Railways (RENFE I)	IBRD			65.0					
Railways (RENFE II)	IBRD						50.0		
Ports	IBRD				40.0				
Agriculture	IBRD							25.0	
	IBRD		33.0	65.0	40.0		50.0		
	No.		1	1	1		1	1	
IBRD Loans Outstanding									
-including undisbursed			31.3	95.2	135.2	135.2	185.1	198.7	201.1
-excluding undisbursed			0	0	22.6	66.7	94.1	138.1	138.2

January 31, 1970

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

March 9, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Greece - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of March 9, 1970 from the Europe, Middle East and North Africa Department, entitled "Greece - Proposed $11.7 million Loan for an Education Project" (LC/O/70-25).

2. Comments, if any, should be sent to reach Mr. Nijhof (ext. 4707) by 5:00 p.m. on Wednesday, March 11.

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

Henry G. Hilken
Secretary's Department

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director, Projects Department
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CONFIDENTIAL

LC/O/70-25

March 9, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Greece - Proposed $11.7 million Loan for an Education Project

1. The appraisal report of an education project (PE-13) dated January 13, 1970, is attached hereto for consideration by the Committee. The proposed loan would be the first for education in Greece, and the third Bank operation in Greece. The Bank is at present negotiating a second loan ($20 million) to the National Investment Bank for Industrial Development (NIBID) which received a first loan ($12.5 million) in 1968. The NIBID loan and the proposed education project are the only operations under consideration in FY 1970. For FY 1971 a road project is scheduled. The Bank's Five Year Lending Program 1971-75 for Greece (attached) envisages total lending of about $160 million.

Introduction

2. The main objectives of the Government's Economic Development Plan for 1968-1972 are to reduce production costs through modernization and re-structuring of the economy and to improve competitiveness, especially in industry. Other important objectives are to develop tourism and agriculture. These objectives are dependent upon an increased supply of properly trained technical manpower.

3. Although the education system in Greece has many positive features such as high enrolment and ample numbers of qualified students and academically qualified teachers at all levels, an inordinate concern of the system to preserve the nation's cultural heritage has resulted in an over-emphasis on classical education and a resistance to adapting the system to the needs of a changing economy and society. Consequently, education concepts and practices have not been modified significantly since World War II.

4. Enrolment in the academic secondary schools and in universities has increased disproportionately during the past ten years in comparison with those in technical education. A few private technical schools, inadequately staffed and equipped, have attempted to fill the void created by insufficiently financed public technical education, but they have not been able to meet the country's needs. The technical post-

secondary level of education has consequently become a critical bottleneck, seriously restricting the numbers and quality of sub-professional personnel.

The Project

5. This project would be the first major step in a program conceived by the Greek Government to make its education system a more effective instrument for economic development and would consist of the construction and equipment of five Higher Technical Education Centers, as well as provisions for technical assistance. The proposed Centers would be the forerunners of an expanded system of sub-professional training. They would produce trained personnel capable of performing sub-professional duties in agriculture, business, engineering, food processing and health. The number of departments corresponding to the above fields which would be established in each Center and the variety of specialized options to be offered within each department have been planned in accordance with regional needs. The duration of the specialized programs would be either two or three years. The Centers would have a combined enrolment of 6,150 students and would turn out about 2,130 technicians annually.

6. The Project would introduce into Greece the multi-disclipined, post-secondary technical institution, which pools the requirements of students in a variety of study programs and thereby achieves economies of scale and more efficient use of specialized teachers, equipment and space. Because administrative or teaching experience in this type of institution is almost non-existent in Greece, a relatively large technical assistance component is recommended to provide overseas training in similar institutions to a number of the teaching and administrative staff, and to provide a team of specialists in administration and teacher training which would provide guidance to the Centers during their initial years.

7. The variety of specialized programs originally requested by the Government was reduced to ensure that the program of each Center during its initial years would not exceed manageable limits. Similarly, enrolments have been determined on the basis of the administrative capacity of the Centers during their initial years, rather than to attempt to meet manpower requirements fully. Consequently, in each field, the combined output from the Centers would be well below the total required by the economy and in some instances would represent only a small fraction of the required numbers.

8. The project Centers, to be established in Athens, Patras, Saloniki, Larissa and Iraklion, have been located in accordance with national and regional development objectives. A Project Implementation Unit would be established within the Ministry of Education to provide overall supervision of the project. The buildings would be designed by consultant architects. Contracts for civil works and for furniture and equipment supply would be awarded in accordance with the Bank's guidelines on international competitive bidding.

9. Legislation required to establish the new Centers would prescribe their objectives, staffing, administration, terms and conditions of staff appointments, curricula, entrance requirements, and status of graduates. The Bank's suggestions for the content of the draft bill are now under review by the Greek authorities. Enactment of such legislation, satisfactory to the Bank, would be a condition of presenting the loan to the Executive Directors.

10. The project is estimated to cost a total of $21.8 million and would be completed within four years. The proposed loan of $11.7 million would cover the foreign exchange cost of the project. Subsequent to the completion of the green cover appraisal report, it was decided not to include in the loan interest and other charges during construction (about $1.3 million), since a loan of $11.7 million would already contribute about 57 per cent of project cost and there are no particular reasons to increase the amount. The Education Projects Department agrees and the appraisal report, which still proposes a loan of $13.0 million, will be amended accordingly.

11. Subject to the provision of paragraphs 5.01 through 5.03 of the appraisal report, the proposed project is suitable for a Bank loan of $11.7 million. The appraisal report proposes on project grounds that the loan be for 25 years including a grace period of ten years. I recommend, and the Education Projects Department agrees, that these terms be changed to 20 years including a grace period of five years on country grounds.

Political Background

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

The Economy

13. The last report "Current Economic Position and Prospects of Greece", (EMA-9a) was circulated to the Executive Directors on June 25, 1969. The Economic Committee (EC/M/69-16) in reviewing this report, concluded that notwithstanding problems in performance Greece could be considered creditworthy for the limited amount of Bank lending proposed in 1970 and 1971 (about $40 million for NIBID, education and roads). An updating economic mission was in Greece in January 1970 and its views are reflected in this memorandum. An economic memorandum entitled "Current Economic Position and Prospects of Greece" is now being prepared and will be available at the time the proposed loan would be presented to the Executive Directors. The main difficulties in the Greek economy are structural. Much production is high cost and not internationally competitive and economic reforms as well as additional capital are necessary to improve the

long-term outlook. However, the latest estimates show that in 1969 GNP in fixed prices increased by more than 8 per cent and investment by about 18 per cent. Industrial and agricultural production are estimated to have risen by 10 per cent and 8 per cent respectively during the same period. Thus Greece has fully pulled out of the recessionary period which started in the second half of 1966. Some progress has also been made in the preparation and implementation of the investment program of the central Government and in rationalizing agricultural policies, and some effort seems to have been made to increase public savings by economizing in public expenditures. Foreign exchange reserves have only slightly declined in 1969. To some extent, however, this conceals greater reliance on suppliers' credits and medium term commercial loans.

14. In spite of the recent increase in external public debt, debt service in 1969 has not amounted to more than 7 per cent of export and invisibles earnings. The debt service burden should remain manageable despite recent borrowing on relatively unfavorable terms; it will probably not exceed 15 per cent of current receipts by the mid-seventies. The major concern in lending to Greece at present stems from the possibility of an uncautious over-reaction on the part of the Government to criticism in Europe, and the reluctance on the part of external investors to make sufficient long-term finance available. Greece is a country where the elements affecting economic performance and creditworthiness are deeply intertwined and developments in this connection will therefore need to be kept under review. Greece, as a Part II country, has agreed to release its outstanding 90 per cent subscription to IDA as of July 1, 1970.

15. Until 1966, Bank lending to Greece was precluded because of unsettled external pre-World War II debts. For the reasons mentioned in the Memorandum to the Loan Committee on NIBID II (LC/O/70/-6), dated January 23, 1970, we believe the matter of pre-war debts is no longer an obstacle to lending to Greece.

Recommendation

16. I recommend that the Bank invite the Government of Greece to send representatives to negotiate a loan of $11.7 million for the establishment of five Higher Technical Education Centers on the lines indicated in paragraphs 5.01 through 5.03 of the appraisal report, with loan terms of 20 years including a grace period of 5 years.

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

Attachment

IVa. GREECE - 5 YEAR LENDING PROGRAM

Population: 8.8 m.
Per Cap Inc: $800

($ millions)

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Agriculture Unidentified	IBRD						15.0			
Irrigation I	IBRD			15.0						
Irrigation II	IBRD					20.0				
DFC-NIBID II	IBRD	20.0								
DFC-NIBID III	IBRD			15.0						
DFC-NIBID IV	IBRD					20.0				
DFC-HIDB I	IBRD				10.0					
DFC-HIDB II	IBRD						15.0			
Education I	IBRD	11.7								
Education II	IBRD				10.0					
Education III	IBRD						10.0			
Roads I	IBRD		15.0							
Roads II	IBRD				10.0					
	IBRD	31.7	15.0	30.0	30.0	40.0	40.0	12.5	106.7	161.7
	No.	2	1	2	3	2	3	1	8	11

IBRD Loans Outstanding	1970	1971	1972	1973	1974	1975
-including undisbursed	43.9	58.2	86.1	113.0	149.7	182.7
-excluding undisbursed	24.3	43.6	70.2	95.1	123.8	151.8

February 25, 1970