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1818 H Street NW

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A1995-291 Other #: 9 Box # 213548B

Special Loan Committee Meeting - Minutes and Memos - 1970 - (April - May)

Special Loan Committee Meeting minutes  
and memos (April - May)



30043656

A1995-291 Other #: 9 213548B

Special Loan Committee Meeting - Minutes and Memos - 1970 - (April - May)

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# LOAN COMMITTEE

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LM/M/70-19

May 4, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Second Water Supply Project" held on April 30, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

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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)

LM/M/70-19

May 4, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Second Water Supply Project" held at 10:00 a.m. on April 30, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Brochas, Benjenk, Chadenet, Weiner, Hittmair, Rovani, El-Fishawy, Morse, Siebeck and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Europe, Middle East and North Africa Department's memorandum to the Loan Committee of April 22, 1970 (LC/0/70-66) and the accompanying revised appraisal report (PU-37 dated March 31, 1970). The main issue for discussion was whether potential savings under an earlier Bank loan (581-TUN) to the same borrower for the first water supply project should, if realized, be applied to the proposed second water supply project for which a \$10.5 million credit was envisaged (both projects comprised parts of the Tunisian National Water Supply Program 1968-73); in this event, the balance of the proposed credit would be cancelled by a corresponding amount.

3. Discussion: The meeting noted that the only real advantage of substituting potential savings (currently expected to be about \$3 million) in Loan 581-TUN for part of the proposed \$10.5 million credit for the second water supply project was that this would release an equivalent amount of scarce IDA resources for other purposes. On the other hand, there were several disadvantages in proceeding on this basis, including:

- (a) while current prospects for savings in the Bank loan were good, it was quite possible that they would not be realized, and this would not be known for some time;
- (b) the original Bank loan agreement (581-TUN) would have to be amended and approval of the amendment sought from the Executive Directors;
- (c) Tunisia's creditworthiness for Bank loans was already being stretched, requiring an increase in the concessionary component of Bank/IDA assistance.

4. Decision: The Chairman decided that negotiations for the proposed second water supply project should proceed on the basis of a \$10.5 million credit; if savings in Loan 581-TUN in fact materialized, their disposition (cancellation or allocation to future project purposes) could be decided at the appropriate time.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Benjenk  
Weiner  
El-Fishawy

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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MEMORANDUM TO THE LOAN COMMITTEE

LM/M/70-18

May 4, 1970

Attached for information are the Minutes of a Special Loan Meeting to discuss "Indonesia - Fisheries Project," held on April 24, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/70-18

May 4, 1970

Minutes of Special Loan Meeting to discuss "Indonesia - Fisheries Project,"  
held at 3:00 p.m. on April 24, 1970 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Cope, Baum, Evans, Sella, Street, Asser, C.R. de Silva, Helmers, Pohland and Pearce (Secretary).

2. Issues: The Chairman had called the meeting to clarify a number of points in the appraisal report (PA-50) and memorandum of April 22, 1970 from the East Asia and Pacific Department (LC/0/70-64) which recommended negotiation of a proposed \$3 million credit to help finance the expansion of the fishing industry in North Sulawesi.

3. Discussion:

(a) Fishing vessels: The Chairman, drawing attention to paragraph 7.02(d) of the appraisal report, noted that it was proposed to cancel the amount of the proposed credit earmarked for 15 private fishing vessels if no private interests emerged, in which case the Government would be required to finance out of its own resources the purchase of 15 additional vessels for operation by the project unit. While agreeing that IDA should insist on a total of 30 vessels for the project to ensure full utilization of shore facilities, the Chairman asked why 15 vessels were to be operated by the project unit and 15 by private entrepreneurs; he suggested that IDA should be prepared to finance any number of vessels purchased by private entrepreneurs within the total with the Government underwriting the balance. The Agriculture Projects Department replied that it was important, in order to demonstrate the project's viability, that the Government project unit initiate operations with 15 vessels; hopefully, this would stimulate private sector interest in skip-jack fishing, a potentially significant source of foreign exchange earnings. While accepting this point, the Chairman did not consider it reasonable to deny the Government the use of the balance of the credit if, despite its best efforts, private entrepreneurs were not prepared to acquire and operate 15 fishing vessels. It was agreed to revise the proposal to meet this point.

(b) Selection of private sub-borrowers (Appraisal Report, para. 7.02(i): The Chairman inquired whether it was really necessary for IDA to approve the selection of private sub-borrowers (private purchasers of fishing vessels). The Agriculture Projects Department, which considered IDA's approval necessary to ensure selection of suitable applicants, said that little staff work was involved because not more than 6 applications were expected.

4. Decision: The Chairman agreed that negotiators be invited for the proposed credit in accordance with the recommendations contained in the East Asia and Pacific Department's memorandum and the appraisal report, as modified by paragraph 3(a) above.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Street/de Silva  
Baum  
Helmerts  
Sella

cc: Participants  
Loan Committee

# LOAN COMMITTEE

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LM/M/70-17

SEP 02 2014

May 4, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Brazil - Mineracoes Brasileiras Reunidas (MBR)" held on April 17, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

May 4, 1970

Minutes of Special Loan Meeting to discuss "Brazil - Mineracoes Brasileiras Reunidas (MBR)" held at 3:00 p.m. on April 17, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Gaud (IFC), Cope, Alter, Baum, Fuchs, Paterson (IFC), Sir Gordon MacKay, S.S. Husain and Pearce (Secretary).
2. Issue: The meeting had been called to consider Mr. Alter's memoranda to the Chairman of April 14 and 17, 1970 concerning the proposed Mineracoes Brasileiras Reunidas (MBR) project to exploit large iron ore reserves in central Brazil. The current estimated total cost of the project was about \$135 million, of which it had been contemplated in 1968 that Bank Group assistance should be limited to about \$50 million, comprising a Bank loan of \$30 million and an IFC loan/investment of \$20 million. The main issue for discussion was Mr. Alter's recommendation that the MBR and a related railway project be prepared and appraised for loans of up to \$50 million and \$35 million respectively in FY 1971; a related question was the possible size of Bank assistance for the proposed MBR project in view of possible IFC participation.
3. Discussion: In response to a question concerning IFC's interest in a possible equity participation in the proposed MBR project, IFC representatives said that the criterion for its participation would be diversification of MBR's ownership in Brazil. If an equity investment could help achieve this objective, IFC would be prepared to consider making a commitment. On the other hand, IFC representatives suggested that loan funds should be provided entirely by the Bank on the grounds that, since the Government could charge the sponsors a guarantee fee over and above the current Bank interest rate of 7 per cent, the cost of a Bank loan to the sponsors would not be significantly lower than that of an IFC loan.
4. The Chairman asked how far the Bank Group should insist on the diversification of MBR's ownership as a condition for its assistance. The South America Department replied that the main issue in this respect was the absorptive capacity of the Brazilian capital market. The Chairman suggested that this question should be taken up with the Government and the project's sponsors.
5. The meeting considered the related railway project which would require investment of about \$60-70 million in the construction of spurs, line improvement and purchase of locomotives and ore cars. The Transportation Projects Department stated that prospects for appraisal of the project in time for loan approval in FY 1971 would become clearer after current discussions concerning a program of reform and rehabilitation of the Brazilian railway sector in general had been completed. The South America Department proposed that the MBR-related railway project be appraised and used as a lever with respect to the overall railway program; a loan for this project could be made conditional upon the Brazilian railways formulating a program, acceptable to the Bank, which would permit the operating ratios of the Central, Southern and South Central systems to be reduced to about 100 by the middle of the decade. If the Brazilians' performance was unsatisfactory, Bank financing could be limited to the

mining project and the Government would have to finance the MBR-related railway itself. The Chairman, noting that the railway project was an integral part of the mining venture and essential to its success, and that therefore the Bank would need to be satisfied about arrangements for the shipment of iron ore from the mines, said that the Bank might be prepared to compromise somewhat with respect to general railway performance conditions.

6. Decision: The Chairman approved the South America Department's recommendation that the MBR and railway projects be prepared for Bank Group financing in FY 1971. It was agreed that a joint IBRD/IFC team be established for this purpose.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Alter/Husain  
Baum  
Fuchs  
MacKay

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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LC/A/70-4

SEP 02 2014

May 1, 1970

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NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Tuesday, May 5, 1970 at 4:00 p.m. in the Board Room.

AGENDA

Kenya

The Committee will consider the attached memorandum of May 1, 1970 from the Eastern Africa Department entitled "Kenya - Nairobi Water Supply Project" (LC/0/70-72).

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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Executive Vice President (IFC)  
Vice President (IFC)

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LC/0/70-72

SEP 02 2014

LOAN COMMITTEE

May 1, 1970

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Memorandum from the Eastern Africa Department

KENYA: Nairobi Water Supply Project

I. INTRODUCTION

1. In March 1967, we received a request from the Nairobi City Council (NCC) for assistance in financing a project for increasing the water supply to Nairobi, at an estimated cost of about \$25 million. The Government of Kenya endorsed the application and agreed to guarantee the loan. Bank missions visited Nairobi in May 1967 and September 1968 to review the status of preparation and scope of the project. The latter mission recommended that consultants, retained by the NCC, study alternative sources and methods of supply for meeting Nairobi's needs. This led to the preparation of the proposed project which increases capacity at a substantially lower cost than the original proposal. The project was put in its present form and appraised in October-November 1969.

2. The proposed financing would be the fifth Bank loan to Kenya. Previous Bank lending amounts to \$40.1 million. In addition, there have been nine IDA credits totaling \$42.6 million, and a proposed IDA credit of \$6.0 million to finance a Second Education Project is expected to be presented to Executive Directors shortly. The FY 1971-75 Lending Program for Kenya is attached. Other operations expected to be concluded in FY 1971 are a proposed loan of \$20 million for a hydro-electric project and a credit of up to \$12 million for road maintenance equipment. Appraisals of both projects have been recently completed.

II. THE PROJECT

3. Attached is a report entitled "Appraisal of the Nairobi Water Supply Project" (No. PU-40).

4. The proposed project, which is expected to increase the capacity of the Nairobi Water Supply System by 10 million imperial gallons per day (from 20 IMgd to 30 IMgd), consists of the construction of an intake on the Chania River, a raw water pumping station, a water treatment plant, a 24 mile-long transmission main to Nairobi, a terminal reservoir, strengthening and expansion of the distribution system including provision of water meters and necessary consulting services.

5. The project is estimated to cost about \$13.4 million equivalent including interest during construction of about \$1.3 million. The report recommends a loan of US\$8.3 million to the NCC, guaranteed by the Government, to cover the entire foreign exchange cost of the project

including interest during construction. The balance of the cost of the project, for local currency expenditures, would be financed out of NCC's internally generated funds.

6. The existing water supply facilities are almost fully utilized. The minor improvement and expansion schemes currently underway will not meet the expected demand beyond 1973-74. The population of Nairobi is already about 475,000, increasing at an average annual rate of 8 percent. The city is not only the capital of Kenya but is the focal point of industrial, commercial and tourism activities of the country and, in some respects, of the rest of East Africa as well. It is considered essential that the water supply keep abreast of the growth in population, commerce, tourism and industry. The proposed project, based on the assumption that water consumption will increase at an average annual rate of 6½ percent, would provide a reliable new source to meet demand through 1980.

7. The incremental financial rate of return for the project is estimated between 10 and 15 percent; the economic return is expected to be considerably higher.

8. The NCC has been operating the present water supply system satisfactorily for many years and has the administrative capacity to undertake the proposed project. Following recommendations of the Bank's appraisal mission, the NCC is consolidating all responsibility for activities related to water supply and sewerage in a new Water and Sewerage Department (WSD) which would execute and administer the proposed project. The city as a whole is well managed, but many key financial and technical positions are filled by expatriate staff. Pressure to replace them with Kenya citizens is understandably strong, and there is some danger that qualified staff, important to the success of the project, will be replaced prematurely. The appraisal report recommends that we should require that the WSD be headed by a manager acceptable to the Bank, that we should obtain assurances that adequate numbers of qualified technical staff should be retained in the WSD, and that we should receive regular reports on the staffing position of the department. I concur with these recommendation except that I wish to see our approval directed to the qualifications and experience of the person appointed to post of Manager.

9. At the same time I believe it essential that we recognize, and be seen to recognize, the aspirations of Kenyans to take over the management of their own capital, and the political importance of their being able to do so as soon as is practicable in the life of the proposed project. I recommend, therefore, that particular attention be paid during negotiations to the need for adequate programs for the technical and other professional training of Kenyans to serve initially as understudies, and later as replacements, for expatriate staff.

### III. HIGHLIGHTS AND MAIN ISSUES

#### The Borrower

10. The appraisal report reflects the strong preference of the NCC, supported by the Government, for borrowing directly from the Bank. We have not, I believe, hitherto lent directly to a municipality, which raises certain problems that do not arise in lending to statutory corporations and would be avoided or attenuated if we were to lend to the Government in the first instance. An intermediate solution would be to require that the city establish an autonomous authority for water supply and sewerage. That solution does not recommend itself because of the legislative problems that it would generate and because it would require the duplication of certain common services already provided by the NCC, for instance accounting and financial management, and would thereby aggravate the problems of maintaining an adequate level of qualified staff. A separate authority would be simpler to deal with than NCC as a borrower, but is not required in order to implement and administer the project for which the WSD would be sufficiently competent. Accordingly I support the proposal to lend directly to the NCC itself.

11. In lending to the NCC we would satisfy the criterion of establishing a direct relationship with the beneficiary of our lending. In the longer run I believe that our understanding of urban problems and their possible solutions would be enhanced by the opportunity for close contact with an important municipality.

12. The NCC would be a creditworthy borrower. In the 20 years since its incorporation as a local authority in 1950, the NCC has acquired a reputation for considerable independence and sound management. It is an established borrower in the local and U.K. financial markets. Loans outstanding as at December 31, 1969, including loans from USAID and the Commonwealth Development Corporation, totalled about US\$36.4 million equivalent. Those loans have been raised on the general credit of the city without specific security, and without restrictions on further borrowing. NCC is not permitted, by regulation, to grant a preferred position to any creditor. The Bank would rank pari passu with other lenders and we would, of course, protect that position by a negative pledge clause.

13. The problems in lending to a municipality, as distinct from a typical statutory corporation, arise in the area of financial and performance covenants because of the wide range of functions that a municipality performs. In the case of Nairobi these include housing, education, public health and police. The city borrows to meet capital expenditures over the whole field of its activities, and both the city and the Government would strongly resist any attempt to restrict future

borrowings. We would be hard put to devise a meaningful formula to gauge the city's financial performance in view of our limited expertise in municipal finance and administration, and our limited knowledge of what are reasonable standards for municipal expenditures. Within limits we can, however, protect ourselves and the project by covenants applying to the Water and Sewerage Department. The appraisal report recommends that we obtain a debt limitation covenant applying to debts incurred by the city on behalf of the WSD. We would also seek an assurance that the funds generated by the WSD, after providing for servicing of debt incurred by the NCC for financing water supply facilities, would be used in the first instance to finance further water supply and sewerage expansion. The latter provision would serve to insulate the finances of WSD from the other operations of the NCC as long as the city itself remains financially viable. Should that not be the case at some future time, we would have to look to Kenya as guarantor.

#### Rate Covenant

14. The NCC keeps its accounts in accordance with British municipal accounting practice and fixed assets are maintained at historical cost (paragraphs 3.20 and 3.22 of the appraisal report). A rate of return formula based on operating income after providing for depreciation as a percentage of net fixed assets could be applied to the water supply assets of WSD (adjusted annually to reasonable present value.) However, this would mean a fixed rate of return requirement applied to a gradually diminishing asset base and hence an uneven cash flow. Cash requirements for activities like water supply are lumpy because large investments are made at infrequent intervals. The appraisal report, therefore, recommends a rate of return covenant based on a cash flow return of  $7\frac{1}{2}\%$  of reasonably valued water supply assets which would mean that the return would be calculated on the basis of operating income before depreciation as a percentage of gross fixed assets adjusted annually to reasonable present value. This formula would ensure sufficient cash generation to cover interest payments on borrowings, to meet periodic repayments on long-term indebtedness, to produce reserves sufficient to finance the normal year to year extensions of the water supply system, and to provide a reasonable portion of the cost of future major expansions of such system. This formula would moreover be compatible with the NCC's present accounting system.

#### Procurement and Disbursement

15. The procurement of goods and the letting of construction contracts would be in accordance with the Bank's normal international bidding procedures. Local manufacturers are expected to compete, probably successfully, for the supply of a few items such as small diameter PVC pipes for the distribution system, and a margin of preference for domestic manufacturers of 15 percent or actual customs duty, whichever is lower, has been requested. It is recommended that we grant such preference.

16. Disbursement of the loan would be against the actual foreign exchange cost of goods and services and the foreign exchange component of construction contracts and locally procured goods.

17. The NCC has requested that the Bank agree to reimburse the foreign exchange cost of consulting services after January 1, 1970 as it has already instructed its consultants to begin detailed engineering in order to minimize possible delays in the preparation of tender documents. The consultants retained are acceptable to Bank and the detailed design of project components and tender documents, to be prepared subsequently, would be subject to our approval. I recommend that we agree to the request, which will involve retroactive financing of about \$50,000.

#### IV. THE ECONOMY

18. An economic report entitled "Economic Development Prospects in Kenya" (Report No. AE 6a, in two parts) was distributed on October 31, 1969. Since then, the Kenya Government has published its 1970-74 Development Plan, which is essentially the same as the draft plan examined by the economic mission which visited Kenya in April/May 1969. The mission found the Plan to be realistic and concluded that, on the basis of the past performance of the country and the generally sound financial and economic policies of the Government, Kenya would continue to warrant substantial external assistance. A somewhat larger proportion of assistance could be on conventional terms than in the past.

#### V. RECOMMENDATION

19. I recommend that the Bank invite representatives of the Republic of Kenya and the Nairobi City Council to negotiate a loan of US\$8.3 million equivalent substantially on terms and conditions set forth in paragraphs 7.01 and 7.02 of the Appraisal Report, subject to the comments made in paragraphs 8 and 9 above.

J. H. Williams  
Deputy Director  
Eastern Africa Department

Attachment : Kenya Past and Proposed Lending Program Through 1975

Population (1969): 10.43 million  
 GNP per head (1963): \$117

**KENYA - PAST AND PROPOSED LENDING PROGRAM THROUGH 1975\***  
 Fiscal Years - \$ Million

		Thru 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Land Settlement	IBRD	8.4															
Agriculture and Roads	IBRD	5.6															
Agricultural Roads	IDA					5.3											
Tea Development I	IDA			2.8													
Tea Development II	IDA						2.1										
Tea Development III	IDA										3.0						
Tea Roads	IDA			3.0													
Agricultural Credit I	IDA					3.6											
Agricultural Credit II	IDA											6.0					
Livestock I	IDA							3.6									
Livestock II	IDA											8.0					
Grass Development I	IDA											3.0					
Grass Development II	IDA												3.0				
Apiculture	IDA													5.0			
Agriculture Unidentified	IDA													6.0			
Rural Development	IDA												4.0				
Forest Plantations	IBRD								2.6								
Education I	IDA					7.0											
Education II	IDA								5.9								
Education III	IDA										7.0						
Education IV	IDA												10.0				
Nairobi Electric Power	IBRD									20.0							
Highways I	IDA		4.5														
Highways II	IDA						10.7										
Highways III	IBRD								23.5								
Highways IV	IBRD										10.0						
Highways IV)	IDA										10.0						
Highways V)	IBRD													10.0			
Highways V)	IDA													10.0			
Post Maintenance Equipment	IDA									8.0							
Forest Development	IBRD									8.0							
Nairobi Water Supply	IBRD									8.5							
	IBRD												4.0				
	IBRD	14.0	--	--	--	--	--	--	26.1	36.5	10.0	4.0	--	10.0	--	76.6	60.5
	IDA	--	--	10.3	--	15.9	12.8	3.6	5.9	8.0	20.0	17.0	17.0	21.0	39.0	54.5	43.0
	TOTAL	14.0	--	10.3	--	15.9	12.8	3.6	32.0	44.5	30.0	21.0	17.0	31.0	39.0	131.1	103.5
	NO.	2	--	3	--	3	2	1	3	4	3	4	3	3	3	15	1
IBRD Loans Outstanding:																	
Including Undisbursed		10.8	10.8	9.7	9.7	5.9	5.8	4.8	28.9	65.0	74.8	78.5	78.2	87.9			
Excluding Undisbursed		1.6	2.4	2.0	2.4	3.4	3.6	3.9	4.8	13.9	33.2	57.9	67.6	72.8			
IDA Credits Outstanding:																	
Including Undisbursed		--	--	10.3	10.3	26.2	39.0	42.6	48.5	56.5	76.5	93.5	110.5	131.4			
Excluding Undisbursed		--	--	0.1	1.5	5.5	9.6	20.7	27.0	37.5	49.5	62.0	78.0	91.0			

This program does not include past or proposed loans made to the East African Community, although Kenya benefits directly from the loans made to the Community for the expansion of common services. The proposed Community lending program also provides for loans to financial intermediaries some of which might be national development agencies such as the Industrial and Commercial Development Corporation of Kenya. Legally, however, all three member states of the Community are jointly and severally responsible for all loans made to the Community (See Attachment 3).

# LOAN COMMITTEE

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SEP 02 2014

April 30, 1970

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## MEMORANDUM TO THE LOAN COMMITTEE

### Singapore - Third Power Generation Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 30, 1970 from the East Asia and Pacific Department, entitled "Singapore - Third Power Generation Project" (LC/0/70-71).
2. Comments, if any, should be sent to reach Mr. Sandberg (ext. 2271) by 1:00 p.m. on Tuesday, May 5.
3. It is planned then, if the Committee approves, to inform the Government and the Public Utilities Board 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:

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

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LC/0/70-71

April 30, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

SINGAPORE - Third Power Generation Project

1. There is attached for the consideration of the Committee an Appraisal Report "Singapore - Appraisal of the Public Utilities Board Third Power Generation Project" (PU-35) dated March 20, 1970. The report recommends that a Bank loan of up to \$10 million equivalent be made to the Public Utilities Board (PUB) to cover part of the foreign exchange costs of the second stage of the Jurong Power Station. The project would comprise the installation of two 120 MW generating units and necessary 66 KV facilities, supervisory control and ancillary equipment.

Background

2. The proposed loan would be the Bank's eleventh loan to Singapore and the sixth loan for power and water supply projects executed by the PUB. The other loans were made for port, telecommunications, sewerage and, most recently, industrial finance. As of February 28, 1970 the amount of Bank loans to Singapore held by the Bank, net of cancellations, sales and repayments was US\$106.6 million. All projects for which loans have been granted are expected to be completed on schedule and the loans are expected to be fully disbursed by the existing Closing Dates, except Part I (Power) of Loan 503-SI. The Closing Date for this loan may have to be postponed by a few months to permit disbursement for delayed deliveries of equipment. However, the construction of the project is proceeding satisfactorily and is on schedule.

The Economy

3. A report (EPA-9a) on the current economic position and prospects of Singapore was distributed to the Executive Directors on October 21, 1969 (R69-205). The economy continued to grow rapidly in 1969. After an increase of 12 percent in 1968, GNP further increased by 15½ percent in 1969, reflecting continuing development in manufacturing industries, tourism and entrepot trade activities. The balance of payments position remained strong. The continuing transformation of Singapore's essentially merchant economy into an export-oriented industrial society has inspired confidence in Singapore's viability as a city state. Good prospects for manufacturing development have reduced considerably the immediate threat of a set-back to the economy arising from the withdrawal of British forces by 1972. The Government will continue to play an important role in the 1970's, especially in meeting the demand of

the growing industrial sector for social overhead capital, ranging from expanded technology-oriented education and increased supply of power to conversion of the British naval bases into commercial and industrial uses. Singapore is creditworthy for additional borrowing from the Bank. The present debt-service ratio (in relation to domestic and net entrepot exports) is about 1/2 of 1 percent.

#### The Lending Program

4. The latest tabulation of the five-year lending program is attached as Annex I. The lending program and the country program paper were reviewed and approved in December 1969. The proposed project is a significant part of the Bank's efforts to assist the Government in providing the infrastructure needed to maintain the current high rate of development in the private sector, particularly in manufacturing. Other projects in the lending program, including those for telecommunications and industrial finance already signed in the current fiscal year, are part of the same effort.

#### The Project

5. The third power generation project, which would consist of the installation of two 120 MW thermal generating units in the Jurong Power Station and associated facilities, would help meet the rapid growth of power consumption, mainly for commercial and industrial uses, which is estimated at 12 percent per annum in the next three years and expected to increase to about 14.5 percent in the subsequent three years. The appraisal report indicates that the proposed project is the cheapest way of providing the additional generating capacity needed.

6. In considering the proposed loan the following two major issues have to be discussed with the Borrower and resolved: (i) the size of the Bank loan and the items to be included in the loan, and (ii) the actions to be taken by PUB to strengthen its management and the appropriate division of responsibilities between the General Manager and the Board of PUB.

#### Issue I - Amount of Loan

7. The total cost of the third power generation project is estimated at US\$31.5 million excluding interest during construction, of which about US\$22 million is in foreign exchange. The PUB applied for a loan to cover the full foreign exchange component of the project. Because we thought PUB would be able to obtain suppliers' credits on reasonable terms for major equipment purchases and in view of the size of our existing and proposed commitments in Singapore, we proposed, and PUB agreed, that the loan be limited to that portion of the foreign exchange cost of the project which could not be financed by suppliers' credits on reasonable terms or US\$10 million, whichever was lower.

8. It was agreed that the amount of the Bank loan would be left open until the bids on major items had been received and evaluated; bids would be submitted on both a cash and a credit basis and evaluated to show the most favorable price/credit combination and, after evaluation of the bids by PUB's consultants, it would be decided jointly by PUB and the Bank which items would be financed by suppliers' credits and which items it would ask the Bank to finance. It was recognized that credit offers might be so favorable that only miscellaneous items of equipment would have to be financed by the Bank, in which case the Bank loan would be considerably smaller than US\$10 million. For purposes of the appraisal report it had been assumed arbitrarily that the proposed Bank loan would finance the turbo alternators (US\$8.3 million) and interest during construction (US\$1.7 million).

9. Based on the consultants' evaluation PUB has now decided to finance the contracts for turbo alternators and boilers by suppliers' credits which would be on more favorable terms than a Bank loan, while steelworks would be financed under UK Special AID. In view of PUB's present and projected financial position there is no need to include interest during construction in the proposed loan. PUB and the Bank have therefore agreed that the Bank loan would finance miscellaneous items of equipment and some contingencies. The amount of the Bank loan would be US\$6 million.

10. The Bank loan, while limited in size, would still be of considerable importance to PUB in view of the drawdown of its cash reserves which is expected to occur in the next few years. Furthermore, in making the loan the Bank would be carrying out its part of the arrangements made when PUB requested the Bank loan. In fact the major objective of the loan, namely to induce PUB to seek other and possibly more advantageous sources of finance than the Bank, has been achieved.

#### Issue II - Management

11. The report indicates that PUB is operating in a satisfactory manner. However, failure to appoint a General Manager has led to poor coordination between departments. The present Acting General Manager, an expatriate who will retire in about three years, is performing well in his post and the Bank has indicated that it would have no objection if he were appointed General Manager, but that at the same time a suitable Deputy General Manager should be appointed to support him, who would be groomed for the post of General Manager.

12. The present generally satisfactory management of the PUB, and performance of the Acting General Manager are, however, largely due to the personality of the Chairman of the PUB, who has taken an active interest in its day-to-day operations ever since the establishment of the PUB. If PUB is not to be dependent on his continued presence as Chairman, it is important to strengthen the staff of PUB, as recommended in paragraphs 3.08, 3.09, 3.12 and 3.13 of the report, particularly by appointing as soon as possible a General Manager and certain key officials,

including a Deputy General Manager. Once this has been done it will be possible, and appropriate, for the Board, i.e. its Chairman, to delegate responsibility for day-to-day operations to the General Manager. However, if the PUB decides to appoint the present Acting General Manager to the post of General Manager, his tenure is likely to be relatively short because he reaches retirement age in about three years; similarly an expatriate appointee would probably have a contract for only two or three years. It is therefore my view that the process by which the Board divests itself of the functions of day-to-day management should be a gradual one so that it will not endanger the present reasonably satisfactory operation of PUB. An appropriate target for completion of the process of transferring authority would be the time a long-term appointment to the post of General Manager is made which should be no later than 1973. On this basis I accept the recommendation made in paragraph 3.14 of the appraisal report.

Recommendation

13. Subject to paragraph 12 above I agree with the conclusions and recommendations of the appraisal report and recommend that we invite representatives of the PUB and of the Government of Singapore to Washington for negotiations of a loan of US\$6 million for the third power generation project.

Douglas J. Fontein  
Deputy Director

Attachments

ANNEX I

Population: 2.0 million  
GNP Per Cap: \$600

SINGAPORE - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
STB Telecommunications II	IBRD	11.0							
STB Telecommunications III	IBRD				8.0				
DFC - DBS I	IBRD	5.0							
DFC - DBS II	IBRD			10.0					
DFC - DBS III	IBRD					10.0			
Education - Higher Technical	IBRD			5.0					
Power V	IBRD		10.0						
Power VI - PUB				12.0					
Rapid Transport	IBRD				15.0				
Sewerage II	IBRD				5.0				

	<u>16.0</u>	<u>10.0</u>	<u>27.0</u>	<u>28.0</u>	<u>10.0</u>	<u>57.8</u>	<u>107.5</u>
IBRD	2	1	3	3	1	5	11
No.							

# LOAN COMMITTEE

DECLASSIFIED

April 30, 1970

SEP 02 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

## Pakistan - Tubewells Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 30, 1970 from the South Asia Department, entitled "Pakistan - Development Credit for East Pakistan Tubewells Irrigation Project" (LC/0/70-70).
2. Comments, if any, should be sent to reach Mr. Feldman (ext. 2433) by 4:00 p.m. on Monday, May 4.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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

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SEP 02 2014

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LC/0/70-70

April 30, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

PAKISTAN: Development Credit for East Pakistan  
Tubewells Irrigation Project

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Introduction

1. Attached for the consideration of the Committee is an Appraisal Report "East Pakistan Tubewells Project" (PA-49), dated April 20, 1970. The report recommends a project suitable for foreign financing of US \$23 million equivalent to assist the East Pakistan Agricultural Development Corporation (EPADC) in the construction of 3,000 tubewells for irrigation. As the Appraisal Report indicates this would be made jointly with Sweden. Since the Appraisal Report was issued agreement in principle has been reached for parallel financing by the Canadian Government up to US \$6 million equivalent. I therefore propose to reduce the proposed IDA Credit to US \$12 million equivalent. The Swedish Government has agreed to provide an amount of US \$6 million equivalent, which together with the Canadian Government contribution and IDA financing would provide approximately 62 percent of the total project cost (US \$39 million).
2. To date, IDA has made twenty-nine credits to Pakistan totalling about US \$399 million equivalent (net of cancellations) including US \$20 million for IDBP and US \$800,000 for Dacca Southwest Engineering in the current fiscal year. Two credits amounting to US \$14 million equivalent (Chandpur II Irrigation and Karachi Port Engineering) have been approved by the Executive Directors and will be signed shortly. Three credits amounting to US \$20.5 million equivalent (Karnaphuli and Muhuri Irrigation Engineering, US \$2.5 million; East Pakistan Small Industries, US \$3 million; and Telecommunications, US \$15 million) have been negotiated and will be presented to the Executive Directors in the near future. Provision for the proposed tubewell project has been included in the Country Program Paper (Attachment 1). Other credits being prepared for presentation before the end of the current fiscal year are WAPDA Transmission (US \$22.4 million) and West Pakistan Engineering Colleges (US \$8 million). If these are processed as scheduled, the total amount ready for financing would be nearly US \$98 million which is substantially in excess of the US \$74 million presently earmarked for IDA lending to Pakistan in FY 1970. The Bank has made thirty loans to Pakistan for a total amount of about US \$614 million, net of cancellations, and we have a loan of US \$19.2 million to Sui Northern Gas scheduled for negotiations next month.

### Background

3. The Association has made three credits for the construction of water development projects in East Pakistan: Credit No. 11-PAK (US \$1 million equivalent) for the Dacca-Demra Project in 1961, Credit No. 39-PAK (US \$5 million equivalent) for the Brahmaputra Embankment Project in 1963, and Credit No. 40-PAK (US \$5.25 million equivalent, after cancellations) for the first Chandpur Project in 1963. A credit of US \$13 million equivalent to complete the Chandpur project was approved by the Executive Directors on April 14 and will be signed shortly. The Association has also made two credits to help finance consultants in the field of agriculture, Credit No. 136-PAK (US \$2 million equivalent) in January 1969 to the East Pakistan Water and Power Development Authority (EPWAPDA), and Credit No. S-8 PAK (US \$800,000 equivalent) in December 1969 for engineering services for the Dacca Southwest Irrigation Project.

### The Project

4. The project consists of the construction by EPADC, assisted by expatriate consultants, of 3,000 two-cusec tubewells and related field channel irrigation distribution systems, to serve a total area of about 180,000 acres. Concurrently with the installation of the tubewells, the Department of Agriculture, also assisted by consultants, will provide an agricultural support program which will include three field trial and demonstration farms and the installation of experimental tubewells of different capacities together with improved distribution systems. Included in the consultants' terms of reference will be the preparation of feasibility studies for future stages of the project and for a seed multiplication, processing and distribution project. An additional output of about 216,000 long tons of rice is expected as a result of the project, thereby reducing imports, resulting in a saving of about US \$22 million equivalent per annum in foreign exchange. The estimated return to the economy as a result of this project would be approximately 36 percent.

### Parallel Financing

5. The project has been considered for some time in cooperation with Sweden. Recently, the Government of Canada, through CIDA, has indicated a willingness to provide, under a parallel loan agreement with the Government of Pakistan, up to US \$6 million equivalent for this project (repayment over 50 years, no interest or service charge). According to existing Government legislation, Canadian foreign assistance is restricted to procurement within Canada. Of the various items required for this project, fiberglass screens and casings are most suitable for Canadian suppliers; there will be competitive bidding among six to eight manufacturers, and their prices appear to be substantially lower than the estimates appearing in the Appraisal Report, which were based on recent experience in West Pakistan. As a result the foreign exchange cost of the project might be reduced by US \$2 million equivalent. Subject to Cabinet approval, Canada is prepared to finance the shipping cost of Canadian financed equipment (estimated at about US \$500,000) irrespective of the flag under which shipments would be made.

6. The proposed IDA credit of US \$12 million equivalent together with the Swedish credit of US \$6 million equivalent would cover the balance of

any foreign exchange expenditures. As in previous cases of joint financing with SIDA, procedures for the utilization of IDA and SIDA funds would be identical, with prorated disbursements.

8. Contracts for well construction and the supply of pumps, motors, vehicles and other supplies and equipment totalling about US \$27 million equivalent would be awarded on the basis of international competitive bidding. Pakistan drilling contractors and pump manufacturers will participate in the bidding; the latter will receive a margin of preference of 15 percent (or the prevailing customs duty, whichever is lower). Local contractors are likely to win contracts for the drilling of about 900 wells (about US \$5 million equivalent), and local pump manufacturers contracts for the supply of all pumps (about US \$3 million equivalent). Disbursements will be 100 percent of the C & F cost of all imported goods and expatriate consultants and 100 per cent of any contract awarded to a Pakistani supplier who has been successful in international competitive bidding.<sup>1/</sup> All construction contracts whether Pakistani or foreign will be on a percentage reimbursement basis presently estimated at about 52 percent. In paragraph 4.29 the Appraisal Report further recommends that if project costs are less than presently estimated the percentage for disbursement should be increased to insure full disbursement of the IDA credit. I agree with this proposal.

9. The operating and maintenance costs of each tubewell will be recovered from each irrigation group through an annual "rental" charge. Initially this charge will be Rs. 300 rising to Rs. 2,100 in the sixth year. In the sixth year and thereafter, this charge would be sufficient to cover the full annual operation and maintenance costs, exclusive of the fuel which is paid directly by the farmers. This recovery rate will be reviewed by the Province in consultation with IDA after a study by the consultants of farm family incomes and prevailing conditions in the project area, with a view to the recovery of capital costs.

10. The Appraisal Report requires as a condition of effectiveness that the Government of East Pakistan open two special revolving accounts for the Project Director EPADC and the Project Director, Department of Agriculture. This is similar to the proposal agreed to in the recently negotiated Chandpur Irrigation Project; therefore I anticipate no difficulty with this point in the proposed tubewell project.

#### Relending

11. The proceeds of the IDA/Swedish credits would be relent by the Government of Pakistan to the Government of East Pakistan on the same terms as those of the IDA/Swedish credits. The Canadian credit would probably be relent to the Government of East Pakistan on the terms of the Canadian credit. The IDA/Swedish credits would be negotiated together. The Canadian credit requires CIDA Board and Canadian Cabinet approval, but these

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<sup>1/</sup> Paragraph 4.28 of the Appraisal Report recommends 35 percent. It has subsequently been agreed to recommend reimbursement of 100 percent.

approvals are expected to be obtained prior to the presentation of this Credit to the Executive Directors (scheduled for June 16). The effectiveness of all three credits will be conditional upon each other.

Recommendation

12. I agree with the conclusions of the Appraisal Report and recommend that we invite the Government of Pakistan, the Government of East Pakistan and the East Pakistan Agricultural Development Corporation to send representatives to Washington to negotiate a Credit of US \$12 million equivalent.

I.P.M. Cargill  
Director

Attachments

Population: 120 m  
GNP Per Cap: \$90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

(\$ millions)							
		Fiscal Year				Total	Total
1970	1971	1972	1973	1974	1975	1964-68	1969-73

Tubewells - ADC	IDA	17.0					
Irrigation - Chandpur	IDA	13.0					
Irrigation - Dacca Southwest	IDA	0.8					
Irrigation - Project Eng.	IDA	2.5					
Irrigation - Dacca Southwest	IDA		30.0				
Irrigation - Karnaphuli	IDA		10.0				
Irrigation - Muhuri	IDA			7.0			
Irrigation - Belkuchi	IDA			5.0			
Irrigation - Chandpur North	IDA			10.0			
Irrigation - Little Feni	IDA				10.0		
Irrigation - Barisal I	IDA				20.0		
Irrigation - Pabna	IDA					18.0	
Irrigation - Comilla	IDA					15.0	
Tea Machinery & Irrigation	IDA		5.0				
Tubewells EPWAPDA I	IDA		8.0				
Tubewells EPWAPDA II	IDA			25.0			
Chandpur North Engineering	IDA		1.0				
Barisal I Engineering	IDA		2.0				
EPWAPDA Consultants II	IDA						
EPWAPDA Consultants III	IDA			2.0			
EPWAPDA Consultants IV	IDA					2.0	
EP Education Unidentified	IDA		7.0				
EP Small Industries I	IDA	3.0					
EP Highways II	IDA		12.5				
EP Highways III	IDA			13.5			
EP Railways	IDA	8.0					

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

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
SCARP V	IDA			5.0					
SCARP VI	IDA				12.0				
Tubewells - Dipalpur	IDA					15.0			
WP Education - Eng. Colleges	IDA	8.0							
WP Education Unidentified I	IDA				8.0				
WP Education Unidentified II	IDA						5.0		
WP Fertilizer Plant II	IBRD		30.0						
WAPDA Power Distribution	IDA	22.4							
WP Highways III	IDA		10.0						
WP Highways IV	IDA			20.0					
WP Highways V	IDA					20.0			
Port Eng. - Karachi	IDA	1.0							
Port Constr. III - Karachi	IDA		15.0						
Port Constr. IV - Karachi	IDA					20.0			
Sui Northern Gas III	IBRD	17.0							
Sui Northern Gas IV	IBRD			5.0					
Sui Northern Gas V	IBRD					5.0			
Water Supply II - Lahore	IDA		5.0						

IBRD	17.0	30.0	5.0		5.0				166.5
IDA	31.4	30.0	25.0	20.0	55.0	5.0			106.4
Total	<u>48.4</u>	<u>60.0</u>	<u>30.0</u>	<u>20.0</u>	<u>60.0</u>	<u>5.0</u>	<u>84.3</u>		<u>272.9</u>
No.	4	4	3	2	4	1	6		18

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

(\$ millions)							
Fiscal Year						Total	Total
1970	1971	1972	1973	1974	1975	1964-68	1969-73

Agric. Development Bank IV	IDA	15.0					
Agric. Development Bank V	IDA		30.0				
Agric. Development Bank VI	IDA				30.0		
	EP	<u>7.0</u>	<u>15.0</u>		<u>15.0</u>		
	WP	<u>8.0</u>	<u>15.0</u>		<u>15.0</u>		

Telecommunications II	IDA	<u>15.0</u>					
	EP	<u>3.0</u>					
	WP	<u>12.0</u>					

DFC - PICIC IX	IBRD	10.0					
DFC - PICIC X	IBRD		40.0				
DFC - PICIC XI	IBRD				40.0		
DFC - IDBP I	IDA	20.0					
DFC - IDBP II	IDA		10.0				
DFC - IDBP III	IDA				20.0		
	EP	<u>10.0</u>	<u>5.0</u>	<u>5.0</u>	<u>22.0</u>	<u>30.0</u>	
	WP	<u>10.0</u>	<u>5.0</u>	<u>5.0</u>	<u>18.0</u>	<u>30.0</u>	

East & West -	IBRD	10.0		40.0		40.0		90.0
	IDA	35.0	15.0	10.0	30.0	50.0		136.0
	Total	<u>35.0</u>	<u>25.0</u>	<u>10.0</u>	<u>70.0</u>	<u>90.0</u>	<u>314.7</u>	<u>226.0</u>
	No.	2	2	1	2	3	13	10

IBRD	20.0	40.0	5.0	40.0	5.0	40.0	162.0	259.5
IDA	99.7	90.0	75.5	87.5	110.0	90.0	332.3	400.7
Total	<u>119.7</u>	<u>130.0</u>	<u>80.5</u>	<u>127.5</u>	<u>115.0</u>	<u>130.0</u>	<u>494.3</u>	<u>660.2</u>
No.	11	10	10	9	7	7	25	49

P & B 4/10/70

\* Note: the IDA lending program  
is to be reduced to --  
the IBRD lending program  
is to be reduced to --

74.0	60.0	70.0	70.0	70.0	70.0
30.0	-----	120.0	-----		

# LOAN COMMITTEE

April 30, 1970

MEMORANDUM TO THE LOAN COMMITTEE

DECLASSIFIED

SEP 02 2014

WBG ARCHIVES

Indonesia - Second Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated April 30, 1971 from the East Asia and Pacific Department, entitled "Indonesia - Second Highway Project" (LC/0/71-75).
2. Comments, if any, should be sent to reach Mr. Alisbah (ext. 4704) by 5:00 p.m. on Tuesday, May 4.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

~~CONFIDENTIAL~~

DECLASSIFIED

LC/0/71-75

SEP 02 2014

April 30, 1971

WBG ARCHIVES

LOAN COMMITTEE

Memorandum from the East Asia and Pacific Department

INDONESIA: Second Highway Project

1. There is attached for the consideration of the Committee an Appraisal Report "Indonesia - Highways II Project" (PTR-87) dated April 29, 1971. The report recommends that an IDA credit of US\$33 million equivalent be made to Indonesia to finance the foreign exchange cost of a second highway project.

The Economy

2. A special Economic Report (EAP-22), on longer-term growth perspectives for the Indonesian economy, dated March 25, 1971 was distributed on April 1, 1971. This report supplements the information on improvements in the economic situation described in greater detail in the last full economic report on the position and prospects of Indonesia (EAP-19a) which was issued on November 27, 1970.

The Lending Program

3. Since the Association started operations in Indonesia it has made thirteen credits for a total of \$170.9 million. Of this, \$39.4 million represents credits made thus far in FY 1971. The proposed highway credit is included in the FY 1971 lending program and is scheduled for Board presentation on June 29, 1971. Two additional projects - one for the development and distribution of rice seeds and another for the rehabilitation of tea estates - have been negotiated and are presently scheduled for Board presentations in May. However, the tea estates project may be slipped into FY 1972 if sufficient IDA funds cannot be made available this year. The most recent Lending Program as approved in January 1971 is annexed.

The Transport Sector

4. Marine transport serves as the major trunk system in Indonesia while roads and railways link the interiors of islands with their ports, and connect surplus and deficit areas within islands. Air transport volume is still very small. As is generally the case in Indonesia, few data on transport exist, but this is being remedied.

5. After a long period of neglect, the transport system requires extensive rehabilitation and improvements in operation and maintenance. Funds have been inadequate and the lack of managerial capacity has resulted in mismanagement of maintenance funds, haphazard investment planning and highly inefficient operations. However, the urgent requirements of project identification and preparation are being met by technical assistance from the Association, the UNDP and bilateral sources.

#### Highways

6. The public highway system totals 82,000 km, of which about 15,000 km are paved. Roads are classified into "national", "provincial" and "district" roads depending on which tier of government is responsible for their construction and maintenance. However, the central Government finances some provincial roads. Expenditure by the central Government is estimated to rise from US\$28 million equivalent in 1969-70 to US\$47 million in 1971-72. Of these amounts, the maintenance allocation will grow from US\$0.5 million to US\$12 million in the same period.

7. The capacity for planning and engineering is severely limited by the scarcity of professional and technical staff, which reflects the inability of the Directorate-General of Highways to attract qualified staff because of the very low salaries it can offer to the limited supply of engineering graduates. The problem of low Government salaries, however, is a general one which extends beyond the scope of this project and forms part of our continuing dialogue with the Government on basic policy issues. Construction is normally carried out by departmental forces, assisted by small contractors.

8. During the many years of economic stagnation, maintenance was neglected and the highway system deteriorated seriously. Some paved lengths degenerated into gravel or stone surfaced roads and many unpaved roads became little more than dry season tracks. Due to lack of maintenance, some steel bridges have collapsed and others are dangerously corroded.

9. Based on recommendations from a UNDP-financed study, a comprehensive road and bridge rehabilitation program has begun and maintenance standards are slowly improving. In 1969, the Association made a credit of US\$28 million (154-IND) for a project consisting of:

- i) rehabilitation of about 3,000 km of roads in five provinces;
- ii) improvement of routine and periodic road maintenance in twenty provinces;
- iii) rehabilitation of workshops in twenty provinces;

- iv) introduction of pilot training and experimental programs;
- v) implementation of inventory and costing techniques; and
- vi) technical assistance to support these operations.

10. Progress in executing the project has been satisfactory and the major items of equipment are now being delivered, after some delays to unfamiliarity with the Association's procurement procedures. Disbursements, which on March 31, 1971 stood at US\$1.41 million, are much lower than forecast at appraisal. However, it is expected that the project will be completed before the closing date of December 31, 1973.

11. A third highway project has been included in the lending program for FY 1972. The project, to cost about US\$60 million with a foreign exchange component of US\$40 million, would include the construction of roads and bridges in Sulawesi and Sumatra.

#### The Project

12. The proposed project represents the first stage of a program to reconstruct and improve the trunk road linking Medan at the northern end of Sumatra with Telekbetung at the southern end. (See map included as Annex of Appraisal Report.) Included in the project are:

- i) Construction to two-lane, paved standards of the highway between Sawatambang and Muarabungo (200 km);
- ii) detailed engineering of the portion between Muarabungo and Lubuklinggau (300 km);
- iii) detailed engineering of the portion between Medan and Padang (700 km) and some 500 km of related feeder roads; and
- iv) a regional study of the area served by the Sawatambang-Muarabungo-Lubuklinggau highway and subsequent detailed engineering of about 500 km of feeder roads in that area.

Detailed engineering for the Sawatambang-Muarabungo section will have been completed by June under Credit 216-IND (Second Technical Assistance Project) following a UNDP-financed feasibility study. Originally the detailed engineering of the portion between Muarabungo and Lubuklinggau was also to have been financed under Credit 216-IND, but has now been included in this project in order to conserve Credit 216-IND funds for other high priority studies. Arrangements are being made to have the feasibility study for the

Medan-Padang portion financed out of unutilized funds in the UNDP Highway Assistance and Transport Coordination Studies - a project designed to assist the Government in planning the country's transport sector - with any cost overruns to be financed by Credit 216-IND.

13. The total cost of the project is estimated at about US\$48 million, including a foreign exchange component of US\$33 million (approximately 70 per cent of the total cost) which would be financed by the proposed credit. Approximately US\$27 million of the total foreign exchange cost is for construction, including construction supervision by consultants. The balance represents consultants' costs in carrying out the studies in items ii - iv of paragraph 12 above. Bidding for construction contracts will be in accordance with the Association's guidelines. Funds from the credit will be disbursed on the basis of 65% of the cost of highway construction, equal to the estimated foreign exchange component thereof, and the actual foreign exchange cost of consultants' services.

14. In addition to the standard assurances sought by the Association in all highway projects, the following assurances will be sought from the Government during negotiations:

- i) undertaking of a study of highway user charges and continuation of efforts to establish a data base for the formulation of a comprehensive transport policy;
- ii) expansion of the current program of traffic counting;
- iii) enforcement of vehicle weight and dimension regulations;
- iv) introduction of measures to enable the central Government to more effectively control the use of its funds for highway construction in the provinces; and
- v) implementation of the recommendations of the regional development study in consultation with the Association and in the light of other demands on resources.

None of these assurances is expected to cause serious difficulty in negotiations.

15. The Directorate-General of Highways, assisted by qualified consultants would be responsible for project execution. The Directorate is also responsible for execution of the highway rehabilitation project financed under 154-IND and hence is familiar with the Association's procedures. Consequently, the delays experienced with that project are not expected in this project. To date Indonesia's construction industry has not had proper opportunity to develop, hence it consists of small contractors. The construction portion of the project is a major undertaking

requiring considerable skill, experience and resources. It does not, therefore, lend itself to participation of small contractors. During negotiations, however, we propose to discuss the manner in which local contractors can participate in future Bank group projects which will include considerable feeder road construction.

16. The construction portion of the project and the detailed engineering of the Muarabung-Lubuklinggau section were identified by the UNDP consultants as having high priority and representing a major step in the development of Sumatra. This finding is also supported by our Resident Staff who attach equal importance to the remainder of the project. The area where actual construction is to take place was relatively well developed before World War II but has now been reduced to scattered subsistence farming, mainly as a result of the continued deterioration of the road network. With the new road, a rehabilitation of primary production should be possible through the opening up of new areas for agriculture and forestry and the lowering of transport costs for the region's exports. While the construction portion of the proposed project is fully justified on the basis of immediately identifiable benefits, the regional study is expected to serve as a guide to maximizing the highway's impact upon the region.

17. The immediately identifiable benefits from the highway construction are: a) savings in transport costs; b) value added (less other inputs) for the generated production of rubber, rice and timber. Using these benefits, the most likely rate of return is 19%. Sensitivity analysis suggests that even with the worst possible combination of consequences the rate of return does not fall below 12% and could under more favorable assumptions be as high as 26%. None of these calculations makes allowance for the increased benefits that would be realized through implementation of the findings of the regional development plan for which financing is provided in the proposed credit.

#### Recommendation

18. I agree with the Conclusion and Recommendations of the Appraisal Report and recommend that we invite the Government of Indonesia to send representatives here to negotiate an IDA credit equivalent to US\$33 million.

Raymond J. Goodman  
Director  
East Asia and Pacific Department

#### Attachment

Population: 121.1 m  
Per Cap Inc: \$80

INDONESIA - ACTUAL AND PROPOSED LENDING THROUGH FY 1976

Attachment 1

		(\$ millions)																	
		Through	Fiscal Years										Totals			Totals		Totals	
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1964-1968	1969-1973	1972-1976	
Irrigation Rehabilitation I	IDA							5.0											
Irrigation Rehabilitation II (Djatiluhur)	IDA								18.5										
Irrigation Rehabilitation III	IDA									14.5									
Irrigation Rehabilitation IV	IDA										15.0								
Irrigation Rehabilitation V (Djatiluhur Ext)	IDA											15.0							
Estates I	IDA							16.0											
Estates II	IDA								17.0										
Estates III (Tea)	IDA									15.0									
Estates IV (Rubber & Oil Palm)	IDA										12.0								
Estates V	IDA											10.0							
Fisheries	IDA									3.5									
Rice Seeds Production	IDA									5.1									
Smallholder Rubber	IDA										4.0								
Livestock	IDA											5.0							
Sugar Industry Rehabilitation	IDA											5.0							
Forestry	IDA											5.0							
Agriculture Unidentified I	IDA											10.0							
Agriculture Unidentified II	IDA												35.0						
Agriculture Unidentified III	IDA													35.0					
Agriculture Unidentified IV	IDA														35.0				
Telecommunications I	IDA								12.8										
Telecommunications II	IDA										10.0								
Telecommunications III	IDA														10.0				
DFC I	IDA										10.0								
DFC II	IDA											10.0							
DFC III	IDA													20.0					
Education - Technical	IDA									4.6									
Education - Agricultural	IDA										7.0								
Education Unidentified I	IDA											5.0							
Education Unidentified II	IDA												10.0						
FUSRI Fertilizer Project	IDA								30.0										
Industry - Ombilin Coal Project	IDA											20.0							
Industry Unidentified I	IDA													30.0					
Industry Unidentified II	IDA														30.0				
Industrial Estates I	IDA										5.0								
Industrial Estates II	IDA											5.0							
Industrial Estates III	IDA														5.0				
Family Planning I	IDA										3.0								
Family Planning II	IDA												5.0						
Family Planning III	IDA														5.0				
Djakarta Power Distribution	IDA								15.0										
West Java Thermal Power Plant	IDA										30.0								
Power - Asahan	IDA											25.0							
Power Unidentified I	IDA											25.0							
Power Unidentified II	IDA														25.0				
Tourism - Bali	IDA										5.0								
Tourism Unidentified I	IDA												5.0						
Tourism Unidentified II	IDA														5.0				
Highways I	IDA							28.0											
Highways II	IDA								29.0										
Highways III	IDA									40.0									
Highways IV	IDA										25.0								
Highways V	IDA													25.0					
Marine Transport I	IDA										15.0								
Marine Transport II	IDA												30.0						
Transportation Unidentified I	IDA													20.0					
Transportation Unidentified II	IDA														45.0				
Water Supply I	IDA											5.0							
Water Supply II	IDA													5.0					
Technical Assistance I	IDA							2.0											
Technical Assistance II	IDA								4.0										
Technical Assistance III	IDA									4.0									
Technical Assistance IV	IDA												4.0						
Program Aid	IDA										20.0	20.0	20.0	20.0	15.0				
Gross Total (all IDA)									88.5	170.0	145.0	154.0	165.0	175.0	--	535.0	809.0		
No.									8	13	13	9*	8*	9*		42*	53*		
Net Total								51.0	80.5	60.0	90.0	90.0	90.0	126.0	126.0	371.5	522.0		
No.								4	4	6	8	8	7	7	7	30	37		
IDA Credits Outstanding								51.0	131.5	191.5	281.5	371.5	461.5	587.5	713.5	* Will increase depending on project split-up of unidentified items			
- including undisbursed								0.3	2.9	38.0	150.0	225.0	318.0	411.0	506.0				
- excluding undisbursed																			
AD3								-	-	13.4	23.0	25.0	n.a.	n.a.	n.a.				

## LOAN COMMITTEE

April 28, 1970

### MEMORANDUM TO THE LOAN COMMITTEE

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SEP 02 2014

WBG ARCHIVES

#### Tunisia - Second Water Supply Project

1. Further to my memorandum of April 23, 1970 on this subject, the Committee's attention is drawn to the attached revised version of the appraisal report "Appraisal of the Second Water Supply Project Tunisia" (PU-37 dated March 31, 1970). The revisions pertain only to the main section of the original report (Summary and Conclusions and pages 1-22) and the annexes, charts and map, which remain unchanged, are therefore not attached.
2. The Committee is requested to resume consideration, without meeting, of the memorandum from the Europe, Middle East and North Africa Department distributed on April 22, 1970 (LC/O/70-66) on the basis of the attached revised appraisal report.
3. Comments, if any, should be sent to reach Mr. Siebeck (ext. 4805) by 4:00 p.m. on Thursday, April 30.

David Pearce  
Secretary  
Loan Committee

#### - DISTRIBUTION -

##### Committee:

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

# LOAN COMMITTEE

LC/A/70-3

April 28, 1970

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## NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Thursday, April 30, 1970 at 11:00 a.m. in the Board Room.

## AGENDA

### Jamaica

The Committee will consider the attached memorandum of April 28, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/0/70-69).

David Pearce  
Secretary  
Loan Committee

## - DISTRIBUTION -

### Committee:

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

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LC/O/70-69

April 28, 1970

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

JAMAICA - Proposed Loan for Population Project

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SEP 02 2014

WBG ARCHIVES

Introduction

1. Attached for consideration by the Loan Committee is Report No. PP-2, entitled "Appraisal of A Population Project, Jamaica", recommending a Bank loan of \$2 million to the Government of Jamaica to help finance a population project.
2. To date, the Bank has made five loans to Jamaica for a total of \$42 million equivalent, net of cancellations: \$5.5 million for highways (1965), \$22.0 million for power (1966), \$9.5 million for education (1966), and \$5 million for water supply (1969). The power project is nearing completion, the work on the road - after a long initial delay - and on the education project is well advanced and that on the recent water supply project has been commenced.
3. The proposed loan is the only lending operation included in FY 1970 for Jamaica. Four projects are, however, under preparation which should lead to lending operations in FY 1971 for agricultural credit, education, sewerage facilities and development finance corporation. The Five-Year Lending Program (FY 1970-75) is attached.

Economic Situation

4. The economic report (No. WH-187a) which was circulated to the Board in December 1968, concluded that economic developments in recent years were satisfactory, that there were favorable prospects for continued rapid growth over the next few years and that Jamaica was creditworthy for further external borrowing on conventional terms. The report also highlighted that despite rapid economic growth, Jamaica continued to face a substantial unemployment problem, attributable in a significant measure to a high population growth rate and to sluggish growth in agriculture.
5. Recent trends confirm the economic mission's conclusions regarding Jamaica's overall growth and prospects. Government policies have continued to stimulate private sector activities and, as a result, industry, bauxite mining and tourism have remained the leading growth sectors. In comparison, agriculture continues to lag. However, an important problem in this sector, a controversy between the Government and sugar producers on the mechanization of the industry has been resolved recently in a way which should result in increased efficiency in the

industry. The balance of payments has remained strong, mainly as a result of continued vigorous expansion of bauxite and tourism.

6. The fiscal performance on the whole has been satisfactory, with public savings continuing at high levels. Partly because of low salary levels and partly because of a high degree of centralization of decision making in Government, capable technicians and administrators have moved from the public into the private sector. This is being felt as a serious constraint in many public sector activities.

7. An economic mission is scheduled to review Jamaica's economic situation and prospects, in late summer. A Country Program Paper, the first for Jamaica, will be prepared for discussion during the first quarter of 1971.

#### The Project

8. The project appraised in the attached report, is the first population project being proposed for financing by the Bank Group. Besides providing maternity facilities where post-partum motivation for family planning can take place, the project aims at strengthening the institutional and management components of the national family planning program and maintaining and improving the evaluation and supervision of that program over the next few years.

9. A Bank mission visited Jamaica in early 1969 in response to a request for Bank assistance to Jamaica's family planning efforts. Recognizing a favorable climate for family planning and the feasibility of significantly reducing the Jamaican birth rate through a well-conceived and administered program, the mission tentatively identified a population project consisting mainly of an expansion of the country's leading maternity hospital - the Victoria Jubilee Hospital (VJH) - parish hospitals and health centers. On a very preliminary basis, its cost was estimated at US\$700,000.

10. The mission's report was considered at two Loan Committee meetings on March 24 and 26, 1969, together with a recommendation of Projects and Area Department that in view of the relatively small capital outlays involved, the Bank should finance a higher percentage than usual, say 90 percent, of the cost of the project facilities. Alternatively, Bank lending should not be limited to capital outlays, but cover a portion of current expenditures as well. During a subsequent discussion between the Chairman of the Loan Committee and the President (LC/M/69-6), the President expressed doubts about the desirability in general of using Bank loans to finance recurrent expenditures on family planning programs and felt, that so far as Jamaica was concerned, there would be no justification for this approach. In the light of this, we informed Jamaica that the Bank was prepared to consider a loan which would finance about 70 percent of the cost of the facilities identified by the mission.

11. The subsequent project preparation work required substantial assistance by Bank staff in formulating the exact nature and extent of the needed facilities. Assistance has also been provided to help the Jamaican authorities in the preparation of legislation for the National Family Planning Board.

12. The components now included in the project proposed for Bank financing differ slightly from those included in the tentatively identified proposal, discussed by the Loan Committee a year ago. The project continues to put primary emphasis on the post-partum program in maternity facilities. After mothers have delivered, or undergone surgery for maternity purposes, they are especially receptive to family planning motivation programs, which can be done in groups, and relatively inexpensively, in the delivering hospitals themselves. They have confidence in the hospital personnel. This is an ideal time at which mothers can be exposed to family planning. Jamaica has the advantage that through the VJH in Kingston, close to one-fourth of all the country's child-bearing women can be reached.

13. The proposed project consists of:

- (a) construction and equipment of a new 175-bed wing, including space for midwifery training, at the VJH and remodeling of the present structure;
- (b) construction and equipment of ten rural maternity centers (RMC), each with an initial capacity of four to eight beds;
- (c) consultancy services for design and supervision of construction;
- (d) Training Advisor to assist in planning and programming training for family planning personnel and an external review team for annual evaluation of the national program's effectiveness;
- (e) studies for determining arrangements for an optimum use of health clinics in Kingston for family planning purposes and for the most economic utilization of medical, paramedical and non-medical personnel in family planning clinics.

14. On the basis of the methodology used by the appraisal mission, and reflected in the attached report, the economic value of the project to Jamaica has been estimated by comparing project costs with benefits expressed in terms of increases in per capita income, accruing from a lower birth rate which would result from the project. A benefit/cost analysis yields, for the main VJH component alone, ratios varying

between 6:1 and 43:1 depending on whether benefits are taken over 10 years, or more realistically, over 30 years. These high ratios are attained with a 15 percent discount rate, which is probably well above the opportunity cost of capital in Jamaica. For the RMCs, the ratios would be lower, but still much above ratios encountered in alternative investment opportunities. These benefits do not take into account the benefits of improved maternal and child health, training, and other non-measurable gains. In broad national terms, by the year 2000 the project should result in the Jamaican population being about 3 percent less, the labor force about 2 percent smaller and the per capita income about 3.5 percent larger than they would be without the project. These are the gains that can be attributed directly to the additional post-partum program made possible in the proposed VJH and RMC facilities. The project will provide a nucleus and momentum for Jamaica's overall family planning program, which should lead to the averting of some three to four times the number of birth averted through the components forming part of the Bank project.

15. Some questions relating to the methodology to be used for an economic analysis of population projects are still being discussed between the Projects Department and Economics Department, despite the finalization of the green cover report. The Projects Department has confirmed that the solution of these questions will not affect the basic conclusion that the project is a highly beneficial use of resources, nor the proposed negotiation position of the Bank, and that the grey cover report will fully reflect any change in methodology.

16. The costs of the project facilities are higher since last year's reconnaissance mission, mainly because of the decision to expand the VJH more fully with the addition of a new wing rather than by adding only two floors to the existing facility, and taking all cost factors into account. The cost of the project facilities and the study and technical assistance component is now estimated at US\$3.0 million. The direct and indirect foreign exchange component thereof is estimated at US\$1.60 million or about 55 percent, on the assumption that the main construction contract for the VJH goes to a foreign contractor and the remaining civil works to local contractors. With the proposed financing of interest during the construction period (which was not contemplated earlier) and rounding off, the Bank loan would amount to US\$2.0 million or about two-thirds of the cost of the project facilities. This is US\$0.1 million less than if the Bank were to cover 70 percent of the cost of the project facilities, as indicated earlier to the Government. In the circumstances, I am not proposing to raise the issue of local cost financing in the case of Jamaica with its strong balance of payments. Together with capitalized interest, the total financing requirements of the project would be approximately US\$3.3 million.

17. Nevertheless, I suggest that as a matter of general policy, the Bank should still be prepared, if Borrowers so desire in this frequently sensitive field, to finance an unusually high share of capital costs of

family planning projects, in order to make a reasonable contribution toward meeting overall costs (recurrent and capital). This may well require, in some future family planning projects, the financing of a significant part of local currency outlays and possibly the treating of certain initial running costs as a capital expense.

18. The architectural work on the buildings proposed in the project began in mid-February. Government has proceeded with this work in order to expedite the project. The appraisal report recommends, and I concur, that the Bank should agree to the reimbursement of the eligible portion of these fees. The amount of reimbursement for expenditures between mid-February and the likely date of signature of the proposed loan should not exceed US\$30,000.

19. The success of the family planning program in Jamaica will depend to a large extent on the establishment of the National Family Planning Board (NFPB) on satisfactory lines, and on the selection of a suited individual as its Chairman and Chief Executive Officer. The draft statute establishing NFPB and defining its composition and the role of its Chief Executive Officer, is in its final stages of discussion with the Government. The appraisal report proposes, and I concur, that the Bank should only seek to make the passage by the legislature of a satisfactory statute as a condition of effectiveness.

#### Recommendation

20. I agree with the conclusions of the Appraisal Report, and I recommend that the Government of Jamaica be invited to negotiate a loan for \$2 million for the proposed family planning project.

Edgar Gutierrez  
Director

Attachments

Population: 2.0 m  
GNP Per Cap: \$460

JAMAICA - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-'
Agricultural Credit I	IBRD		5.0						
Agricultural Credit II	IBRD					5.0			
DFC I	IBRD		4.0						
DFC II	IBRD				6.0				
DFC III	IBRD						6.0		
Education II	IBRD		10.0						
Education III	IBRD				8.0				
Population I	IBRD	2.0							
Population II	IBRD						2.0		
Power II	IBRD					10.0			
Highway II	IBRD			12.0					
Highway III	IBRD						15.0		
Sewerage - Kingston	IBRD		5.0						
Water Supply II - Unidentified					5.0				
Urban Development - Hellshire	IBRD			5.0					
	IBRD	<u>2.0</u>	<u>24.0</u>	<u>17.0</u>	<u>19.0</u>	<u>15.0</u>	<u>23.0</u>	<u>37.0*</u>	<u>67.0</u>
No.		1	4	2	3	2	3	3	11

\*/ Net of cancellations.

## LOAN COMMITTEE

April 24, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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SEP 02 2014

WBG ARCHIVES

Philippines - Rice Processing Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 24, 1970 from the East Asia and Pacific Department, entitled "Philippines - Proposed \$14.3 million Loan for a Rice Processing Project" (LC/0/70-68).
2. Comments, if any, should be sent to reach Mr. Gould (ext. 4049) by 4:00 p.m. on Wednesday, April 29.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

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LC/0/70-68

SEP 02 2014

April 24, 1970 WBG ARCHIVES

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

PHILIPPINES: Proposed \$14.3 million loan for a Rice  
Processing Project

1. Attached is an Appraisal Report entitled "Rice Processing Project Philippines" (PA-47) dated April 16 recommending a loan of \$14.3 million to the Government of the Philippines.

Background

2. The Bank's lending program (copy attached) was described in the Country Program Paper which was recently reviewed by Mr. McNamara. It concentrates on the financing of high priority agricultural projects, but also provides for needed investments in transport, power, education, water supply and sewerage and for assistance to financial institutions, the Private Development Corporation of the Philippines (PDCP) and the rural banks, which have made good use of Bank loans in the past.

3. The Country Program Paper also reviewed the current economic situation. The policies agreed with the Fund to achieve fiscal and monetary stability and improve the balance of payments are currently being implemented although there has been some relaxation - with Fund concurrence - of the original Stand-by Agreement relating to the removal of import restrictions. The peso which has been allowed to float as part of the exchange reform has remained steady over the past month at approximately 6.10 pesos to the dollar. The short term debt position of the Philippines will be improved by an expected agreement with the U. S. banks which will convert the largest portion of their claims (settlement of which have been postponed until June 30, 1970) into obligations to be paid off over four years. Negotiations are under way also with the Japanese for a line of credit which would enable the Philippines to refinance short term borrowings which the Central Bank has recently obtained for operational purposes. The international liquidity position is still difficult and is likely to remain so for some time despite the Government's effort to carry out its commitment to the IMF in respect of monetary and fiscal policies. A Bank economic mission is currently in the field and is expected to report next month on the Government's proposed development program and its plans for increasing revenues. The effective devaluation of the peso has made it difficult for some of the Bank's borrowers in the Philippines to observe some of their covenants in loan agreements with the Bank. Temporary waivers have, therefore, been granted to PDCP in respect of its debt-equity ratio and to the National

Power Corporation regarding its rate of return covenant. We expect to review their ability to meet the requirements of these covenants when the exchange rate has been stabilized and we have had the opportunity to study the impact of devaluation on the financial position of these institutions.

#### The Project

4. The proposed project would provide long-term credit to private owners and operators for setting up modern integrated rice processing units in major producing areas where lack of mechanical drying equipment has hindered efficient processing of new paddy varieties maturing in the wet season. Traditional milling and handling techniques have proved increasingly inadequate for handling commercial paddy flows and inadequate storage facilities have contributed to relatively high spoilage losses. Six large integrated rice processing units, each providing about 5000 tons of bulk storage and 60 small units, each providing about 2000 tons of bulk storage, would be set up under the project which will also include complementary sack warehousing and ancillary handling, aeration and transportation equipment. The estimated total cost of the proposed project is U.S. \$19 million, including contingencies.

5. The Bank loan of \$14.3 million is expected to cover the foreign exchange costs, estimated at 74% of total costs. The loan would be made to Government which would onlend the proceeds to qualified grain traders and millers through a trust fund managed by the Government-owned Development Bank of the Philippines (DBP). This will ensure the separation of Bank funds from the overall assets and liabilities of DBP. A bill which would, among other things, provide for Government lending to the private sector through trust funds and also remove existing restrictions on competitive bidding and nationality qualifications for the granting of preferences to local suppliers, is presently under consideration by the Philippine Congress. The President of the Philippines has certified the bill - the terms of which were agreed in advance with the Bank - as being of high priority. It is hoped that the bill will be passed before negotiations begin. In any event the loan would not be presented to Executive Directors until this legislation has been approved. In addition, it would be a condition of effectiveness of the proposed loan that the Government and DBP enter into a trust agreement satisfactory to the Bank, which would inter alia designate DBP as trustees of the trust fund and specify DBP's responsibilities in administering the account. The agreement would also provide that DBP be reimbursed by the trust fund for its services in managing the fund. Although these and other administrative costs are expected to be covered by interest payments by sub-borrowers some advance payments from Government covering about 3% of project costs will be necessary in the early years of the project and Government will be required to contribute funds to the trust fund as and when necessary to ensure its successful operation.

6. As trustee, DBP will be responsible for the onlending of the proceeds of the Bank loan to sub-borrowers to cover the foreign exchange component of their projects. DBP will, at the same time, finance part of the local currency costs of the project through its own sub-loans to borrowers. The ratio of DBP to trust funds in the case of each sub-loan would depend on the foreign exchange component of the particular sub-project; but DBP's share of financing is expected to be approximately 5% of total project costs. Sub-borrowers would contribute about 19% from their own resources. DBP's sub-loans would be subordinated to those made from the trust fund from the standpoint of loan recovery. Assurances would also be obtained during negotiations that where necessary DBP would finance the working capital requirements of sub-borrowers under its normal terms for such finance.

7. Sub-borrowers would repay their sub-loans both to the trust fund and DBP at an interest of 11% over 14 years including a grace period during the construction period of approximately one year. The interest rate would be slightly lower than the rate applicable to sub-borrowers under our rural credit projects in the Philippines, but would leave the trust fund with a spread of 4% on Bank funds - an adequate margin, given the relatively large size of proposed sub-loans (varying between \$140,000-\$550,000), to meet administrative costs including reserves for bad debts. This spread would also compensate the Government to some extent for assuming the foreign exchange risk under the project. The Bank loan to the Government would be for 19 years including four years of grace. These terms take into account lending terms to sub-borrowers and the time required for disbursement of the Bank loan, plus one year for possible setbacks or delays.

8. There is little knowledge of modern rice processing techniques in the Philippines, and DBP has had no prior experience with the larger integrated facilities to be constructed under this project. It is therefore proposed that before the loan is presented to the Executive Directors a special grain processing section be established in the Office of DBP's Chairman, and that before the loan is effective expatriate consultants be appointed to assist the Section. The appointment of the head of the section, who would be a qualified senior officer of DBP, would be made after consultation with the Bank. It would also be a condition of presenting the loan that agreement be reached with the Bank on the form of a sub-project feasibility reports and the major covenants to be included in subloan contracts. Furthermore, designs and technical specifications of sub-projects approved by DBP would be submitted to the Bank for comment and all subloan contracts involving subloans of more than U.S. \$250,000 would be subject to agreement by the Bank. Training would be required to provide sub-borrowers' managerial and operating personnel with the skills that would enable them to operate project plants efficiently and the appraisal report recommends that the provision of suitable training arrangements be made a condition of effectiveness of the loan.

9. When all facilities are constructed, project processors would handle about 480,000 tons of paddy per year producing 322,000 tons of milled rice having a value, based on projected world market prices, of between \$30 and \$40 million. The estimated economic rate of return when the entire value added by processing under the project is taken into account, would be 28%. While it is not clear at this time at what rate the peso will eventually settle, the appraisal report is based on the assumption that a par value of P6.0 to the dollar will eventually be agreed. Sensitivity analysis shows that possible deviations in the exchange rate from this assumed par value within the range of likely alternatives (U.S. \$1 = P5.5 and U.S. \$1 = P6.5), has a minor effect on financial and economic rates of return and that returns would remain satisfactory under the alternate assumptions considered. In addition to providing an adequate return to project sub-borrowers and to the economy, the project is expected to result in substantial benefits to farmers, and an increase in farmers' income, amounting to about U.S. \$2 million annually is projected.

10. There has been some overall improvement recently in the implementation of Bank financed projects in the Philippines. However, the performance of one Bank borrower, the National Waterworks and Sewerage Authority (NWSA), continues to be unsatisfactory. The Government has taken steps to reorganize NWSA and has directed that the reorganization be completed by June 30. Meanwhile a rate increase which the Bank considers is urgently required has been suspended, pending the reorganization. I propose to inform the Government that unless effective measures are taken to improve NWSA's finances, presentation of this proposed loan to Executive Directors may have to be postponed.

#### Recommendations

11. Under this project, we would be working with DBP for the first time and assisting in an area of investment which is quite new to the Philippines, at a time when the economy is adjusting to the effects of a recent devaluation. Nevertheless, the project has high priority and it is important that the Bank demonstrate its willingness at this time to assist the Government if, as it presently appears, the present Administration is making a serious effort to resolve its economic difficulties. I agree with the conclusions and recommendations of the appraisal report and recommend that the Government be invited to send representatives to Washington, to negotiate a loan of \$14.3 million repayable over 19 years, including a four-year grace period.

Douglas J. Fontein  
Deputy Director

Attachment.

Population: 35.9 m  
Per Cap Inc: \$201

IVa. PHILIPPINES - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Irrigation I	IBRD		34.0						
Irrigation II	IBRD						10.0		
Agricultural Credit II	IBRD	12.5							
Agricultural Credit III	IBRD				15.0				
Rice Processing I	IBRD			14.3					
Rice Processing II	IBRD						20.0		
Livestock						5.0			
DFC - PDCP III	IBRD		25.0						
DFC - PDCP IV				20.0					
DFC - PDCP V						20.0			
Education II	IBRD				10.0				
Power V	IBRD			15.0					
Power VI						20.0			
Highways I	IBRD			25.0					
Highways II	IBRD						25.0		
Ports II	IBRD				10.0				
Tourism	IBRD						10.0		
Water Supply II	IBRD				(25.0) <sup>1/</sup>				
Sewerage I	IBRD					(12.0) <sup>1/</sup>			
	IBRD	<u>12.5</u>	<u>59.0</u>	<u>74.3</u>	<u>60.0</u> (35.0)	<u>57.0</u> (45.0)	<u>65.0</u>	<u>68.2</u>	<u>262.8</u> (225.8)
No.		1	2	4	4 (3)	4 (3)	4	5	15 (13)

<sup>1/</sup> Dependent on performance of project authority which will be under review in 1970

## LOAN COMMITTEE

LM/M/70-16

April 24, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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SEP 02 2014

WBG ARCHIVES

Attached for information are the Minutes of a Special Loan Meeting to discuss "China - Second Nuclear Power Project" held on April 16, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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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)

April 24, 1970

Minutes of Special Loan Meeting to discuss "China - Second Nuclear Power Project" held at 11:00 a.m. on April 16, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Cope, Chadenet, Goodman, Armstrong, Howell, Kraske and Pearce (Secretary).
2. Issue: The Chairman had called the meeting to consider Mr. Goodman's memorandum of April 13, 1970 entitled "China - Second Nuclear Power Project." The main issue for discussion was whether the Bank should agree to consider lending for the non-nuclear portion (turbo-generator, auxiliary equipment, and transmission facilities and engineering services of which the foreign exchange cost was tentatively estimated at \$60 million) of a proposed second 600,000 KW nuclear power generating unit to be constructed by the Taiwan Power Company (Taipower) to meet power generation requirements in 1976.
3. Discussion: The Chairman, recalling that the Bank had previously refused to finance the non-nuclear portion of Taipower's first nuclear power plant, for which the "nuclear island" was being supplied and financed by the United States (cf. LC/M/69-5 dated February 5, 1969), said that this second project was different in various respects: firstly, the initial investments made in acquiring in-house engineering and operating capability for the first nuclear power plant would substantially increase the return on the second and subsequent plants; secondly, the justification for buying the nuclear island from the United States without international competitive bidding was now clearer since, according to Taipower, savings from exercising their option from the same supplier (General Electric) would amount to about \$12 million; thirdly, the amount of the entire project which the Bank would be asked to finance might be considerable, at least if the turbo-generator was to be purchased through international competition (see paragraph 4). In principle, therefore, a reasonably strong case could be advanced for Bank assistance for the non-nuclear portion of the proposed project.
4. The meeting noted that Taipower hoped to save money by purchasing the turbo-generator through international competitive bidding rather than by exercising an option for a second machine with Westinghouse, who had supplied the first. However, in view of the limited number of manufacturers of very large turbo-generators of power capability for operating with relatively low-pressure saturated steam produced by General Electric nuclear reactors, the question arose whether the turbo-generator could be subjected to meaningful international competitive bidding; moreover, the Public Utilities Projects Department said that, for technical reasons, it was not entirely clear whether Taipower's best interests would be served by procurement through international competitive bidding since there would be obvious advantages in obtaining an identical second machine, as was proposed for the nuclear island.

In this regard, the question of suitable pre-qualification of bidders (suppliers in France, Germany, Japan, Switzerland and the United Kingdom in addition to the United States were mentioned) would be important. It was suggested that if pre-qualification limited bidding to one country (e.g. the United States), Taipower could and should obtain U.S. financing for the turbo-generator. This would leave up to about \$45 million in respect of auxiliary equipment, transmission facilities and engineering services for which Taipower would still need financial assistance. However, since much of this amount might not be suitable for financing by the Bank, the Bank might end up feeling (as in the previous instance) that it would not desire to come in merely for the "tail-end" of the project.

5. Decision: The Chairman said that it was impossible to decide now the basis on which possible Bank assistance for the proposed project, including the amount, could be considered. However, he authorized the East Asia and Pacific and Public Utilities Projects Departments to continue discussions with the Chinese authorities which should be directed principally towards firming up cost estimates for the non-nuclear portion of the proposed project, determining which bidders for the turbo-generators Taipower expected to pre-qualify, and specifying which components of the remaining miscellaneous facilities might be eligible for possible Bank assistance.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Goodman/Kraske  
Chadenet  
Armstrong/Howell

cc: Loan Committee  
Participants

## LOAN COMMITTEE

April 23, 1970

### MEMORANDUM TO THE LOAN COMMITTEE

DECLASSIFIED

SEP 02 2014

WBG ARCHIVES

#### Iran - Fourth Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 23, 1970 from the South Asia Department, entitled "Iran - Proposed Loan for the Fourth Highway Project" (LC/0/70-65).
2. Comments, if any, should be sent to reach Mr. Aiyer (ext. 2648) by 1:00 p.m. on Monday, April 27.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

#### - DISTRIBUTION -

##### Committee:

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

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

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LC/0/70-65

SEP 02 2014

April 23, 1970

WBG ARCHIVES

LOAN COMMITTEE

Memorandum from South Asia Department

IRAN - Proposed Loan for the Fourth Highway Project

1. Attached for the consideration of the Loan Committee is the appraisal report (PTR-53) dated April 16, 1970 on the Fourth Highway Project in Iran, recommending a Bank loan of \$39 million. If approved, this would be the fifth road loan to Iran.

Background

2. The Iranian economy has been growing at about 8 percent per annum during 1962-68, providing a rising per capita income (\$280 in 1968) for the population (which is increasing at about 3 percent per annum). The report (SA-8a dated December 31, 1969) of the most recent economic mission to Iran suggests that the outlook is favorable for a continuing high level of economic growth provided the Government succeeds with its efforts to improve the quality of the investment program and the terms under which financial resources are obtained from abroad. One of the main economic problems is that a high proportion of recent foreign borrowing has been on relatively short terms, and this has increased debt service rapidly to just over 20 percent in 1969. A country such as Iran with a high level of foreign exchange earnings from oil can probably afford a higher debt service ratio than countries not so favored. However, the economic mission felt, and I agree, that if the terms of new loans can be lengthened and if improved revenue and expenditure policies bring into sight a reduction in the savings gap, then further expansion at a reasonable rate should be feasible. At the present time, Iran is creditworthy.

3. The Bank has made fourteen loans amounting to \$405.4 million after cancellations for projects in Iran, of which some \$119.2 million was disbursed as of March 31, 1970. The first loan for \$75.0 million, for general development, was made in 1957 of which about \$70.0 million has already been repaid. Four loans totalling \$125.2 million were made for road projects, which have been the main area of Bank activity; a further four, totalling \$100.5 million, for agriculture; and five loans amounting to \$104.7 million, for the Industrial and Mining Development Bank of Iran (IMDBI). Also, technical assistance grants have been made in the power sector and for a ports study.

4. The Bank lending program for fiscal years 1971 to 1975 (as set out in the country program paper) calls for loans in several sectors and totals over \$600 million. In the current fiscal year a loan of \$6.5 million has been approved for the Agricultural Development Fund of Iran (ADFI) and

is expected to be made effective shortly. Also, a loan of \$50 million for the IMDBI is to be presented in June. For fiscal year 1971, projects for education, power and telecommunications have already been appraised or are soon to be appraised.

5. Iran's Fourth Plan (March 1968 to March 1973) envisages total expenditures of Rials 480 billion (\$6.8 billion), of which 17 percent or \$1.1 billion is earmarked for transport. At the Government's request a Bank mission reviewed progress in the transport sector in late 1969. The conclusion of the review was that the overall financial and physical targets for transport in the Fourth Plan, which were based on a major transport survey undertaken largely by foreign consultants, Bureau Central pour L'Equiment d'Outre-Mer (BCEOM), were reasonable and acceptable.

6. There is a need for improved transport coordination and a better basis for selection of investment priorities among the various modes in Iran. This is particularly true for the highway sector, which is expected to continue to play a major role in transport. At the present time the Plan Organization (PO) is responsible for the planning, survey and design of roads, and the Ministry of Communications and Roads (Ministry) for execution and maintenance. Coordination between the two agencies is poor and the PO presently performs several functions which should probably be transferred to the Ministry. However, changes in the organization of the Ministry are necessary before it can carry out additional functions efficiently. Moreover, the quality of road maintenance has been very poor in the past few years and a major effort must be made to help the Ministry to carry on this part of its present responsibilities effectively.

7. The highway network in Iran totals some 35,800 km, of which about 10,200 km (28 percent) are surfaced; 20,000 km (56 percent) are graveled and the remaining 5,600 km (16 percent) are earth roads and tracks. The first road loan of \$72 million in 1959, which financed the construction of some 2,700 km of main roads, and the second road loan of \$16.7 million for about 380 km of main roads and engineering on about 3,200 km for future improvement, have been fully disbursed. The third road loan of \$28 million for construction of about 1,600 km of roads, and the fourth road loan of \$8.5 million for the construction of about 1,850 km of feeder roads, are still being disbursed.

#### The Project

8. The proposed project will assist in completing some of the priority road elements in the Fourth National Development Plan and will focus on improvements in transport coordination and in the organization and operations, particularly highway maintenance, of the Highway Department of the Ministry. It will also provide for possible future projects as it will include (a) feasibility studies and detailed engineering of further roads, and (b) a transportation study of the Tehran Metropolitan Area. (In connection with the Tehran Metropolitan Study, we have consulted the UNDP and have been informed that there are currently several other high priority

projects in the pipeline for Iran. Moreover, under UNDP procedures, the Tehran Metropolitan Study could not be approved before January 1971. Consequently, UNDP concurs with the Bank's financing this study as part of its proposed new highway project.) A detailed explanation of the project content is given in Section 4 of the appraisal report.

9. An issue which has plagued Bank road construction loans is the timely provision of adequate local funds, and some IBRD disbursements for road projects have been delayed because payments to contractors were delayed for periods up to four months. Efforts are under way to solve this problem and the Government has been advised that its negotiating team will be expected to provide evidence of steps taken, or about to be taken, to ensure that this problem will not recur in future.

10. Details of all issues to be raised during negotiations are contained in paragraphs 6.01 to 6.04 of the appraisal report. The interest rate of the loan is to be fixed at the time of approval of the loan by the Executive Directors.

#### Recommendation

11. I concur with the recommendation in paragraph 6.05 of the appraisal report that the Bank make a fifth loan for highways in Iran, and propose that representatives of the Government be invited to Washington for negotiations which I hope can begin about May 7, in order that the project can be presented to the Executive Directors before the end of June. On the basis of the construction period and the economic life of roads, a term of 25 years including a grace period of five years would be appropriate.

Attachment

I.P.M. Cargill  
Director

Annex I: Iran - 5 Year Lending Program

## ANNEX I

Population: 26.3 m  
 CNP Per Cap.: \$280

## IVa. IRAN - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Fisheries	IBRD				30.0				
Agric. Development Fund	IBRD	6.5							
Agric. Development Fund II	IBRD			10.0					
Agric. Development Fund III	IBRD					20.0			
Agriculture Unidentified III	IBRD			40.0					
Agriculture Unidentified IV	IBRD					30.0			
Agriculture Unidentified V	IBRD						30.0		
Telecommunications	IBRD		38.0						
Telecommunications II	IBRD				25.0				
DFC - IMDBI VI	IBRD	50.0							
DFC - IMDBI VII	IBRD			50.0					
DFC - IMDBI VIII	IBRD					50.0			
Education I	IBRD		15.0						
Education II	IBRD			20.0					
Education III	IBRD					20.0			
Education IV	IBRD						20.0		
Power Transmission	IBRD		60.0						
Power II	IBRD		60.0						
Power III	IBRD				45.0				
Power IV	IBRD						50.0		
Transp. Unidentified III	IBRD				25.0				
Transp. Unidentified IV	IBRD						30.0		
Highways IV	IBRD	40.0							
Port Equipment	IBRD		8.0						
Pipeline	IBRD		10.0						

IBRD	96.5	191.0	120.0	125.0	120.0	130.0	141.0	602.5
No.	3	6	4	4	4	4	7	19

## LOAN COMMITTEE

April 23, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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SEP 02 2014

WBG ARCHIVES

Indonesia - Telecommunications Expansion Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 23, 1970 from the East Asia and Pacific Department, entitled "Indonesia - Telecommunications Expansion Project" (LC/0/70-67).
2. Comments, if any, should be sent to reach Mr. Kaupisch (ext. 4703) by 1:00 p.m. on Tuesday, April 28.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

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LC/O/70-67

April 23, 1970

LOAN COMMITTEE

Memorandum from the East Asia and Pacific Department

INDONESIA - Telecommunications Expansion Project

1. There is attached for the consideration of the Committee an appraisal report "INDONESIA - Telecommunications Expansion Program of the Perusahaan Negara Telekomunikasi (PNT)". The report recommends that an IDA credit of US\$12.8 million should be made to help finance one part of the PNT's current five-year rehabilitation and expansion program.

2. A summary of recent economic developments in Indonesia and a description of proposed IDA lending for infrastructure rehabilitation were included in a Loan Committee memorandum of March 17, 1970 (LC/O/70-31). The last full report on the economic position and prospects of the Indonesian economy (EAP-10a) was issued on November 14, 1969 and was recently supplemented by a special report on current investment activity in Indonesia (EAP-11a of March 27, 1970).

The Project

3. The proposed credit would assist in financing part of PNT's on-going five-year rehabilitation and expansion program. The whole of this five-year program is estimated to cost US\$96 million and the part which it is proposed should be financed by IDA is a self-contained project selected because of its high priority. The total cost of the project would be US\$26.2 million with a foreign exchange content of \$14.1 million. Since it is expected that \$1.3 million of the foreign exchange cost will be provided through bilateral aid, an IDA credit of \$12.8 million is proposed which would cover the balance of the foreign exchange required.

4. The PNT which operates the public telecommunication services is a department of the Ministry of Communications. The services it now provide are inadequate to cope with the development of business and commerce in Indonesia and is a result of past failure to provide maintenance for existing equipment and to improve and expand the system. In particular, the project to be financed by IDA would provide (i) a trans-Sumatra microwave system linking into Java; (ii) a tropospheric scatter system between Java and Kalimantan; (iii) switching, terminal and operator dialing equipment; (iv) inter-office and local distribution cables; (v) additions and extensions to the telex network. Basically, the project would provide stable and quick telephonic communication between Java and Kalimantan and Sumatra and also within Sumatra itself, while the provision of cable and telex would extend and improve local services.

5. To increase operating efficiency and improve management, the Indonesian Government is to set up a state-owned corporation (PERUM) and we expect to receive the draft decree shortly. To remedy existing deficiencies and introduce commercial practices, the Government will be asked to agree to employ management consultants. We are also expecting that three experts will be available under the Colombo Plan to assist the consultants and help implement their recommendations. The Australian Government has had a technical mission in Indonesia for about two years which has assisted PNT in preparing the Five-Year Development Program and we expect that the Australian Government will continue the mission for a further three years.

#### Amount of the Credit

6. It is suggested (para 4.09 of the appraisal report) that in the unlikely event that bilateral credits are not forthcoming, the project should be reduced by deleting the provision of cables and telex. Since the latter are an important requirement for improving service, and since the amount of foreign exchange involved is small, i.e. \$1.2 million (\$100,000 has already been supplied under bilateral aid), I propose and the Public Utilities Projects Department concurs that if bilateral credits have not been obtained as expected, the amount of the IDA credit should be increased to US\$14 million. This will be taken up with the Indonesians during negotiations.

#### Financing

7. In para 6.03 of the appraisal report it is assumed that the proposed IDA credit would be made available to PNT in the form of equity as was done in the case of a recent IDA credit for power in Indonesia. The Government is opposed to making further exceptions to its present policies in this respect and desires that both the amount of the IDA credit and the local funds should be advanced to PNT in the form of loans carrying interest at the Government's standard rate of 12 percent. The Resident Staff supports the Government's view because of the greater financial discipline which would be imposed on the PNT. The Public Utilities Projects Department have prepared new financial statements in abbreviated form which are attached hereto. They assume the government loans would be advanced to PNT for a term of 20 years including 4 years of grace at 12 percent per annum. On this assumption, they conclude that a switch from equity to debt would show a situation which though much weaker would still be acceptable. I therefore propose, and the Public Utilities Projects Department concurs, that the IDA credit should be in the form of a loan to PNT for a term of 20 years including 4 years of grace and interest at 12 percent.

8. To make the financial situation more comfortable and to assure timely availability of funds, the appraisal report proposed (in para 6.08) that we should attempt to obtain agreement during negotiations that the Government will grant PNT if possible a waiver or at least a deferral of profits tax on all its operations during project implementation. I think that we cannot reasonably request the Government to grant discriminatory tax exemption in favor of a particular taxpayer. Even a deferral might set a precedent for other occasions which considering the size of the Government's overall investment program might adversely affect its revenue expectations. Furthermore, under existing generally applicable legislation, revenue attributable to new investment would in any event be tax exempt for a period of up to 5 years from the date it is put into service. I would therefore propose that we obtain assurances during negotiations that the usual tax exemption will apply in regard to new investment. While this would not overcome a tight cash situation during project implementation it would help the cash position of PNT once the new assets are in place. Any cash shortage during project implementation would have to be made up by the Government by way of loans. The attached financial statements show PNT paying tax and the Government providing the necessary funds as loans.

#### Technical Mission

9. With reference to para 2.18 of the appraisal report, the Public Utilities Projects Department and I agree that in the unlikely event that the Australian Government refuses to allow its present technical mission to remain for a further three years, IDA should undertake to cover the cost of employing outside technicians for this purpose. I understand that it would not be necessary to increase the amount of the loan in these circumstances since there is an adequate provision for contingencies.

#### Recommendation

10. The amount of \$12.8 million, or \$14 million if necessary, for the proposed project is included in the fiscal 1970 lending program. I concur with the findings of the appraisal that the project forms a suitable basis for an IDA credit of up to \$14 million equivalent and recommend that, subject to my comments in paragraphs 6 to 9 above, the Government of Indonesia should be invited to send representatives to negotiate an IDA credit of up to \$14 million.

Douglas J. Fontein  
Deputy Director  
East Asia and Pacific Department

Attachment

## INDONESIA (PNT)

Pro Forma Balance Sheets: 1970-1973  
(Rp Million)

<u>As of December 31:</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Assets</u>				
<u>Fixed Assets</u>				
Plant in service	21,928	28,254	34,407	39,599
Less: depreciation reserve	8,256	8,468	8,927	9,734
Net plant in service	13,672	19,786	25,480	29,865
Plant under construction	2,491	4,912	4,841	4,156
<u>Total net fixed assets</u>	<u>16,163</u>	<u>24,698</u>	<u>30,321</u>	<u>34,021</u>
<u>Current Assets</u>				
Cash	477	404	362	655
Subscriber accounts receivable	1,421	1,454	1,448	1,506
Inventories	1,461	1,885	2,300	2,645
Total current assets	3,359	3,743	4,110	4,806
Less current liabilities	2,152	2,397	2,598	2,829
<u>Net current assets</u>	<u>1,207</u>	<u>1,346</u>	<u>1,512</u>	<u>1,977</u>
Total Assets	<u>17,370</u>	<u>26,044</u>	<u>31,833</u>	<u>35,998</u>
<u>Liabilities</u>				
<u>Equity</u>				
Government investment	8,599	8,599	8,599	8,599
Subscribers' capital contributions	882	1,609	2,459	3,692
Retained earnings	1,488	1,717	1,986	2,084
<u>Total equity</u>	<u>10,969</u>	<u>11,925</u>	<u>13,044</u>	<u>14,375</u>
<u>Long-term debt</u>				
Foreign project aid	5,316	7,477	10,222	12,890
Government Loans - IDA	593	2,986	4,007	4,173
- Other	492	3,656	4,560	4,560
<u>Total long-term debt</u>	<u>6,401</u>	<u>14,119</u>	<u>18,789</u>	<u>21,623</u>
<u>Total Liabilities</u>	<u>17,370</u>	<u>26,044</u>	<u>31,833</u>	<u>35,998</u>
Debt/Equity Ratio	37/63	54/46	59/41	60/40

## INDONESIA (PMT)

## Pro Forma Statements of Income: 1970-1973

(Rp Million)

Year Ending December 31:	1970	FORECAST		1973
		1971	1972	
<u>Revenues</u>				
<u>Telephone</u>				
Rental and local calls	2,350	2,564	2,828	3,185
Trunk and STD	1,968	2,209	2,580	3,065
International calls	7	3	3	3
Installation charges <sup>1/</sup>	21	27	36	46
Total telephone revenues	<u>4,346</u>	<u>4,803</u>	<u>5,449</u>	<u>6,229</u>
<u>Telegraph and telex</u>	<u>2,421</u>	<u>2,615</u>	<u>2,824</u>	<u>3,050</u>
Additional revenue - assumed tariff increase and TV & PH <sup>2/</sup>	-	1,238	3,028	4,863
Total Revenues	<u>6,767</u>	<u>8,656</u>	<u>11,301</u>	<u>14,212</u>
<u>Expenses</u>				
Staff expenses	2,925	3,803	4,944	6,427
Maintenance and other cost of operation	1,754	2,260	2,753	3,168
Depreciation	<u>1,028</u>	<u>1,255</u>	<u>1,567</u>	<u>1,850</u>
Total Expenses	<u>5,707</u>	<u>7,318</u>	<u>9,264</u>	<u>11,445</u>
Net Operating Income-before interest	1,060	1,338	2,037	2,767
Less: interest-foreign project aid	303	458	634	823
-Government loans-IDA	36	215	420	491
-Other	30	249	493	547
Net Profit	<u>691</u>	<u>416</u>	<u>490</u>	<u>906</u>
Less: Government tax <sup>3/</sup>	311	187	221	408
Dividend payment	-	-	-	400
Balance transferred to retained earnings	<u>380</u>	<u>229</u>	<u>269</u>	<u>98</u>
Average net plant in service	12,318	16,729	22,633	27,673
Rate of Return	8.6%	8.0%	9.0%	10.0%
Operating ratio	84%	85%	82%	81%

- 1) Only the portion of charges to cover installation cost of telephones is shown as revenue; remaining portion is credited to "subscribers" capital contributions.
- 2) Television (TV) and private wire (PW) revenue is assumed in 1973 amounting to Rp 200 million.
- 3) Profit tax of 45% paid to Government.

INDONESIA (PNT)

ANNEX 3

Pro Forma Statements of Sources and Applications of Funds: 1970-1973  
(Rp Million)

<u>Year ending December 31:</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Total</u>
<u>Sources of Funds</u>					
Internal cash generation					
Net operating income before interest	1,060	1,338	2,037	2,767	7,202
Depreciation	1,028	1,255	1,567	1,850	5,700
Total internal cash generation	2,088	2,593	3,604	4,617	12,902
Borrowings-foreign project aid <sup>1)</sup>	2,282	2,161	2,807	2,778	10,028
-Government funds-IDA <sup>2)</sup>	593	2,393	1,021	166	4,173
-Other <sup>2)</sup>	492	3,164	904	-	4,560
Installation charges	461	727	850	1,233	3,271
<u>Total Sources of Funds</u>	<u>5,916</u>	<u>11,038</u>	<u>9,186</u>	<u>8,794</u>	<u>34,934</u>
<u>Application of Funds</u>					
Construction program	4,970	9,790	7,190	5,550	27,500
Debt service					
Interest-foreign project aid	303	458	634	823	2,218
-Government loans-IDA	36	215	420	491	1,162
-Other	30	249	493	547	1,319
Amortization-foreign exchange loans	-	-	62	110	172
-Government loans-IDA	-	-	-	-	-
-Other	-	-	-	-	-
Total debt service	369	922	1,609	1,971	4,871
Government tax	311	187	221	408	1,127
Dividends	-	-	-	400	400
Increase in working capital other than cash	89	212	208	172	681
<u>Total Application of Funds</u>	<u>5,739</u>	<u>11,111</u>	<u>9,228</u>	<u>8,501</u>	<u>34,579</u>
Cash surplus (or deficiency)	177	( 73)	( 42)	293	355
Cash at beginning of period	300	477	404	362	300
Cash at end of period	477	404	362	655	655
Times debt service covered by internal cash generation	5.7	2.8	2.2	2.3	2.6

1) Debt incurred is assumed to be serviced on terms like present Bank loans, i.e. 7% per annum for 20 years including a grace period of 4 years.

2) Loans are assumed to be serviced at 12% per annum for 20 years including a grace period of 4 years

## LOAN COMMITTEE

April 23, 1970

MEMORANDUM TO THE LOAN COMMITTEE

DECLASSIFIED

SEP 02 2014

WBG ARCHIVES

Tunisia - Second Water Supply Project

With reference to the memorandum of April 22, 1970 from the Europe, Middle East and North Africa Department on this subject (LC/0/70-66), the Committee is requested to note that the accompanying appraisal report (No. PU-37 dated March 31, 1970) is to be revised. The Committee's consideration of the proposed credit is therefore postponed pending receipt of the revised appraisal report.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

## LOAN COMMITTEE

April 22, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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WBG ARCHIVES

Tunisia - Second Water Supply Project

1. The Committee is requested to consider, without meeting, the attached memorandum of April 22, 1970 from the Europe, Middle East and North Africa Department, entitled "Tunisia - Proposed Credit for a Second Water Supply Project" (LC/0/70-66).
2. Comments, if any, should be sent to reach Mr. Siebeck (ext. 4805) by 5:00 p.m. on Friday, April 24.
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  
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Vice President (IFC)

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LC/0/70-66

April 22, 1970

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Tunisia - Proposed Credit for a Second Water Supply Project

1. Attached is the Appraisal Report No. PU-37 dated March 31, 1970. It recommends an IDA credit of \$10.5 million to the Government of Tunisia. It is expected that this credit will be accompanied by a Swedish loan equivalent to \$3.5 million.

Background

2. Bank and IDA lending to Tunisia since the first IDA credit in 1962 consists of eight Bank loans for \$76 million and four IDA credits for \$32.4 million. The proposed credit would bring the total to \$118.9 million. A loan of \$10 million to Société Nationale d'Investissements made in December 1969 and the present credit make up the lending program for the current fiscal year. The figure for the year is relatively low in comparison with the \$41.3 million lent in 1969 and with the projected \$37 million for 1971 (cf. attached lending program). The Country Program Paper is scheduled to be reviewed by Mr. McNamara in July 1970.

3. The proposed credit was included among those operations for which presentation to the Executive Directors may have to be postponed until July as a result of the "bunching" of projects in the latter part of the current Fiscal Year. Since the processing of the project is proceeding on schedule, however, and there are no conflicts of priority regarding availability of staff, I propose to continue with this operation according to the original timetable, which would bring it to the Board in mid-June.

The Beneficiary

4. Following an agreement with the Bank, the Tunisian Government established Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) in July 1968 as an autonomous government-owned organization in charge of all water supply activities in the country. During a relatively short period of time, SONEDE has built up a sound water supply undertaking in accordance with established public utility practices. SONEDE's financial outlook is satisfactory, and the quality of its management and operating efficiency adequate for carrying out the project, although further improvements are necessary. A Projects Department mission visited Tunisia April 6-10

and confirmed that uniform salary scales suitable to attract and to retain qualified staff are expected to be approved very soon and implemented as a matter of urgency, and that the Engineering Department of SONEDE has introduced the procedures recommended by management consultants and is recruiting most of the necessary staff, especially site engineers, needed to supervise the large program of capital works.

### The Project

5. Preparations for this project started in 1966, when the Tunisian Government requested the Bank's assistance in identifying and preparing a project in the water supply sector. With the help of consultants and several Bank missions, the Government prepared a National Water Supply Program for 1968-1973, which is designed to meet water demand up to about 1980.

6. A Bank Loan (581-TUN) of \$15 million was made in January 1969, together with a Swedish credit of \$5 million, for financing the first part of the program including the most urgently needed works in the most densely populated areas (Tunis and the Sahel region). The proposed Second Water Supply Project consists of eight sub-projects aimed at expanding water supplies for certain important tourist areas and for other, largely industrial, towns not covered by the first project. The small remaining part of the National Water Supply Program is being financed principally by SONEDE from its internal cash generation and the government's contribution to the National Program.

7. At the time of the first loan, the estimated total cost of the National Program was \$61 million; this figure has now been adjusted to \$58 million. The financing plan agreed upon at the time of the first loan and the presently proposed financing can be summarized as follows:

	<u>\$million</u>	
	<u>Time of First Loan</u>	<u>Time of Second Loan</u>
Government capital contribution	20	15
SONEDE contribution to expansion	10	12
Bilateral financing	1	1
First Bank Loan	15	12
First Swedish Loan	5	4
Other external loans to be obtained	10	-
Proposed IDA credit	-	10.5
Proposed Second Swedish Loan	-	3.5
Total	<u>61</u>	<u>58.0</u>

8. Because of low bids on contracts placed to date for the first project, it is likely that its estimated total cost might be substantially lower, and this is reflected in the above table by a tentative reduction of the first Bank loan and the related Swedish credit by \$3 million and \$1 million respectively. As pointed out in the appraisal report (para. 6.02) this saving is still a forecast only and in due course the Bank and Sweden could decide either to disburse a bigger percentage of construction costs or to postpone the loan's and credit's closing dates to include other works planned for 1974-1975 or to cancel the unused balances. However, since the closing date of the loan is on December 31, 1973, it would be premature to take a decision and the option is left open for the time being.

9. The reduction in the Government's capital contribution from \$ 20 million to \$15 million is felt appropriate in view of the heavy financial requirements to repair damage caused by the recent floods to other infrastructures (particularly roads and railroads). The increase in SONEDE contribution to expansion reflects the better than expected improvements in receipts which result mainly from the increase in water sales and in installation charges.

10. For this project, as for the first one, international competitive bidding would be used for all major supply and construction contracts, the margin of preference for local suppliers being set at 15 percent or the customs duty, whichever is lower. Tunisian industry is highly competitive for prestressed concrete pipes, but the sub-projects call for medium-sized pipes for which steel and cast iron pipes not manufactured in Tunisia will be competitive.

#### The Economy

11. An economic report was circulated to the Executive Directors on August 25, 1969, and a mission visited Tunisia in January/February 1970 to review the current position and prospects of the economy; its report will be available in early May.

12. Weather conditions and floods affected the economy adversely in 1969, and the increase in gross domestic product in real terms was only 4.5 percent. Projected growth in the current year is about 7.5 percent. Production in the oil and manufacturing sectors exceeded projections, and the contribution of tourism to GDP was 12 percent higher than in 1968. Domestic savings improved as a result of a recovery in government finance. The balance of payments had a surplus, despite a larger trade deficit, as public capital inflow rose substantially. A surplus is also anticipated for 1970 and net foreign private borrowing is to be further reduced.

13. The Government intends to take further measures to improve economic performance. Public investment projects will be reexamined and will be implemented with more flexibility, and a number of state-owned enterprises are to be reorganized. The policy of complete cooperativisation of agriculture, which was initiated in the beginning of 1969, was reversed in September, thereby removing a great potential burden on financial and manpower resources.

14. The burden of external debt service remains high, amounting to almost 26 percent of gross foreign exchange earnings. Both the level and the structure of the present debt result in high service commitments in the coming ten years. This sets constraints on the amount and terms of further borrowing and calls for sustained efforts to raise exports and savings. The Government is firmly committed to meeting its external obligations, and Tunisia continues to be creditworthy for additional lending from the Bank Group, a part of it at concessionary terms.

15. While the proposed IDA credit will cover 93 percent of total foreign exchange requirements, the joint financing with Sweden will provide financing of \$2.7 million of local currency. As was pointed out in the Country Program Paper, savings and external aid from other sources cannot be expected to adequately cover Tunisia's capital requirements, and a moderate amount of local currency expenditures (10-15 percent of the program) should be included in Bank Group operations. The proposed local currency component would represent 19 percent of this joint financing, taking into account that in projects in other fields, there is no local currency financing.

#### Recommendation

16. I recommend that the Bank enter into negotiations along the lines and on such conditions as proposed in Chapter VII of the Appraisal Report and in this memorandum. If the Committee agrees, I propose to invite the Government of Tunisia and SONEDE to start negotiations on May 11, 1970. The Swedish aid organization (SIDA) would also be asked to join the negotiations.

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

# TUNISIA - 5 YEAR LENDING PROGRAM

			(\$ millions)								
			Fiscal Year					Total	Total		
			1969	1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit I	IBRD				12.0						
" " II	IBRD					15.0					
" " III	IBRD							20.0			
Fisheries	IBRD				3.0						
Irrigation I	IBRD					5.0					
" II	IBRD							10.0			
DFC - SNI III	IBRD		10.0								
DFC - SNI IV	IBRD				10.0						
DFC - SNI V	IBRD						10.0				
Education III	IDA				10.0						
" IV	IDA							10.0			
Phosphate Mining I	IBRD				5.0						
Phosphate Mining II	IDA						15.0				
Family Planning	IDA			3.0							
Power II	IBRD				8.0						
Tourism Infrastructure	IDA			7.0							
Tourism II	IBRD					15.0					
Road Engineering	IBRD	0.8									
Road Construction	IBRD			15.0							
Road Construction II	IDA						10.0				
Pipeline	IBRD				5.0						
Railways I	IBRD	8.5									
"	IDA	8.5									
Railways II	IDA					10.0					
Ports II	IBRD	8.5									
Ports III	IBRD						10.0				
Water Supply I	IBRD	15.0									
Water Supply II	IDA		10.5								
Water Supply III	IBRD							6.0			
Sewerage I	IBRD				12.0						
	IBRD	32.8	10.0	27.0	43.0	35.0	35.0	36.0		34.0	147.8
	IDA	8.5	10.5	10.0	10.0	10.0	10.0	10.0		19.0	49.0
	Total	41.3	20.5	37.0	53.0	45.0	45.0	46.0		53.0	196.8
	No.	4	2	4	7	4	4	4		5	21