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A1995-291 Other #: 10 Box # 213549B

Special Loan Committee Meeting - Minutes and Memos - 1970 - (June - August)

*Special Loan Committee meeting minutes 1970 (Jun-Aug.)*



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Special Loan Committee Meeting - Minutes and Memos - 1970 - (June - August)

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# LOAN COMMITTEE

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SEP 05 2014

August 13, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

1. The Committee is requested to consider, without meeting, the attached memorandum of August 13, 1970 from the Western Africa Department, entitled "Cameroon - Proposed Loan for a Port Project" (LC/0/70-92).
2. Comments, if any, should be sent to reach Mr. El Maaroufi (ext. 4743) by 1:00 p.m. on Tuesday, August 18.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

Mr. J. Burke Knapp, Vice President, Chairman  
Mr. S.R. Cope, Deputy Chairman  
Mr. S. Aldewereld, Vice President  
General Counsel  
Director of the Development Services Department  
Directors of the Area Departments  
Deputy Director, Projects  
Directors of the Projects Departments  
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CONFIDENTIAL WBG ARCHIVES

LC/0/70-92

August 13, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

Cameroon - Proposed Loan for a Port Project

I. Background

1. The Cameroon government has requested the Bank's assistance for financing a port project. The project is based on detailed designs made by a French-German group of consultants who are presently studying Cameroon's long-term needs for port development, and was appraised in April 1970. This would be the seventh Bank/IDA operation in Cameroon.

2. Attached are:

- a) A summary statement of Bank loans and IDA credits as of June 30, 1970;
- b) The current five-year lending program;
- c) Basic data on the economy; and
- d) The report "Federal Republic of Cameroon - Appraisal of the First Douala Port Project" (August 10, 1970, No. PTR 60).

II. The Economy

3. A Bank economic mission visited Cameroon in March-April 1970. The report based on its findings will be circulated before this loan is presented to the Board of Executive Directors.

4. The main conclusion of this mission is that Cameroon's economic performance in recent years and its prospects are good. According to their calculations, GDP at constant prices grew at an average annual rate of 5.3 percent during the period from 1964/65 to 1968/69, while the population is estimated to have grown at 2.2 percent per year. Growth of GDP in the first half of the 1970's is likely to be somewhat slower than in the past five years (4.8 percent from 1968/69 to 1975/76), although still well ahead of the population growth rate.

5. The government's increased determination in the last two years to curb the growth of current expenditures, as well as the favorable fiscal effects of high export prices and the CFA franc devaluation of August 1969, have led to considerable improvement of the government's financial position. The current surplus on the consolidated federal and federated budgets in 1968/69 is estimated to have been CFAF 4.29 billion. Public savings are expected to increase further during the next few years. However, the government will still have to rely, to a large extent, on external assistance for the financing of the major portion of public sector investment. The debt service ratio presently constitutes about 3.5 percent of export earnings but it is expected to amount to 6 percent of projected export earnings in 1975/76.

6. The principal economic problems of Cameroon are the backward state of agriculture, rapidly increasing unemployment in the cities, and the constraint placed on development by deficiencies in infrastructure, particularly transportation. The attached five-year program is intended to assist the government in dealing with these problems. In view of the country's poverty and of its increasing debt service, a soft blend of Bank-IDA assistance is justified.

### III. The Project

7. Cameroon's port capacity is becoming increasingly insufficient to handle the country's growing international trade. In 1969, the government appointed a French-German group of consultants, OCCR/SOGREAH/DSBI <sup>1/</sup>, to undertake an extensive study of long-term port development programs. The results of the consultants' investigations will only be available during the second half of 1971.

The proposed project is designed to implement urgent interim measures to deal with the problem of congestion of the port of Douala, pending the results of the study. The port of Douala is by far the most important of the four state-operated ports in Cameroon, as it handles over 85 percent of the country's foreign trade.

8. The project would consist of the following elements:

At Douala-Bonabéri:

- (i) construction of a new deep water quay, 200 meters long and 8.5 meters deep;
- (ii) provision of engineering consulting services for supervision of this work;

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<sup>1/</sup> OCCR/SOGREAH/DSBI: Organisation, Contrôle, Conception, Réalisation/  
Société Grenobloise d'Etudes et Applications Hydrauliques/Deutsche  
Societat Beratender Ingenieure.

At Douala:

- (iii) in the log-handling area, construction of a shallow-draft quay for loading logs in barges, 30 meters long and 2 meters deep, 16 meters of sloping concrete aprons for launching floatable logs and the paving of about 20,000 m<sup>2</sup> of roads and timber stacking areas;
- (iv) dredging of about 100,000 m<sup>3</sup> in front of the log-handling area to facilitate movement of barges and floating logs;
- (v) installation of buoys for three mooring stations for timber loading ships;
- (vi) a study comparing the feasibility of the establishment of new timber handling facilities at Japoma-Manoka and that of their establishment at Douala;
- (vii) provision of a costing advisor;
- (viii) mobile and floating log-handling equipment.

9. The total estimated cost of the project is CFAF 750 million (US\$ 2.7 million equivalent) according to the consultants' report. The proposed Bank loan of \$ 1.3 million would finance the estimated foreign exchange component for all civil engineering works, representing 67 percent of the cost of these works, the c.i.f. costs of imported equipment (excluding log-handling equipment) and the actual foreign exchange costs of advisory and consulting services. The log-handling equipment, which is estimated to cost about \$0.7 million equivalent, will be procured and financed by a new log-handling company. The Bank loan would be repayable over 20 years, including two years of grace, and would be granted to the Federal Government of Cameroon.

10. The measures envisaged should substantially alleviate the present situation until a longer-term solution can be found and implemented.

#### IV. Recommendation

11. I recommend that the Bank invite the government of the Federal Republic of Cameroon to negotiate a loan of US\$ 1.3 million for the proposed first Douala port project. Negotiations would be in conformity with the terms and conditions outlined in paragraphs 7.01 and 7.02 of the appraisal report.

Roger Chaufourmier  
Director

Attachment 1

Summary Statement of Bank Loans and IDA Credits  
to Cameroon as of June 30, 1970

<u>Loan or Credit Number</u>	<u>Financial Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (US\$ million)</u>		
				<u>Bank</u>	<u>IDA</u>	<u>Undisbursed</u>
100 CM	1967	Cameroon	CAMDEV	-	11.0	4.7
490 CM	1967	CAMDEV	CAMDEV	7.0	-	6.9
S3 CM	1968	Cameroon	Road En- gineering	-	0.6	0.2
593 CM	1969	SOPAME	Oil Palm	7.9	-	7.1
604 CM	1969	SNEC	Water Supply	5.0	-	3.7
161 CM	1970	Cameroon	Education	-	10.5	10.5
180 CM	1970	Cameroon	Roads	-	7.0	7.0
663 CM	1970	Cameroon	Roads	12.0	-	12.0
687 CM*	1970	Regifercam	Railway	<u>5.2</u>	<u>-</u>	<u>5.2</u>
Total now held by Bank and IDA				37.1	29.1	
Total undisbursed				<u>34.9</u>	<u>22.4</u>	<u>57.3</u>

\*Not yet effective

CAMEROON - 5 YEAR LENDING PROGRAM

Population: 5.8 m  
 GDP Per Capita: \$ 164

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Semry Rice Irrigation	IDA			3.0					
Tea Development	IDA			2.0					
Cocoa Development	IBRD				2.0				
Plaines de Ndop Rice	IDA				3.0				
Agriculture Unidentified	IBRD					5.0			
DFC I	IBRD				3.0				
DFC II	IBRD					5.0			
Education I	IDA	10.5							
Education II	IDA				7.0				
Education III	IDA						6.0		
Roads I	IBRD	12.0							
"	IDA	7.0							
Roads II	IBRD				7.0				
"	IDA				7.0				
Roads III	IBRD					4.0			
"	IDA					4.0			
Ports I	IBRD		1.3						
Ports II	IDA			12.0					
Railways I	IBRD	5.2							
Railroad - CAR-Cameroon	IBRD						12.0		
Water Supply II	IDA						5.0		
Urban Development	IDA					5.0			
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
IBRD		17.2	1.3		12.0	14.0	12.0	7.0	43.4
IDA		17.5		17.0	17.0	9.0	11.0	11.6	51.5
Total		<u>34.7</u>	<u>1.3</u>	<u>17.0</u>	<u>29.0</u>	<u>23.0</u>	<u>23.0</u>	<u>18.6</u>	<u>94.9</u>
		3	1	3	5	4	3	2	14



BASIC DATA

Area: 183,524 square miles; 475,450 square kilometers

Population (1970): 5.8 million (of which about 15,000 non-Africans)

Rate of growth: 2.2 percent  
Density: 31 per square mile

Political Status:

East Cameroon - independent January 1, 1960.  
West Cameroon - independent October 1, 1961.  
Federation - October 20, 1961.  
Member of the Banque Centrale des Etats de l'Afrique  
Equatoriale et du Cameroun (BCEAEC) and the Union  
Douanière et Economique de l'Afrique Centrale  
(UDEAC); Associated Member of the European  
Economic Communities.

Gross Domestic Product (Est. 1968/69): \$ 921 million \*  
(subsistence: 19 percent)

Per capita: \$ 164 \*

Primary sector 37 percent  
Secondary sector 16 percent  
Transport, Trade, Services 47 percent

Rate of growth  
1964/65 - 1968/69 6.9 percent (at current prices)  
5.3 percent (at constant prices)

Percent of GDP at Market Prices

	<u>1964/65-1966/67</u>	<u>1967/68-1968/69</u>
Gross investment	15.2	14.6
Gross savings	10.0	10.4
Net import of goods and services	2.1	1.9
Current account deficit	5.2	4.3
Government taxation revenue (Federation)	15.6	16.9

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\* Based on exchange rate prevailing prior to August 11, 1969, of CFAF 247 per US\$ 1.00. At the currently prevailing exchange rate of CFAF 278 per US\$ 1.00, the 1968/69 GDP would have amounted to the equivalent of US\$ 819 million and the per capita GDP to US\$ 145.

<u>Money, Credit and Prices (CFAF billion)</u>	<u>December 1969</u>	<u>Average Annual Increase 1964-1969</u>	
Total money supply	35.68	11.2 %	
Quasi-money	4.47	17.0 %	
Commercial bank credit to private sector	41.97	9.4 %	
Rate of change in prices		2.5 %	
<u>Public Sector Operations (CFAF billion)</u>	<u>1967/68</u>	<u>1968/69</u>	<u>1969/70</u>
Government current receipts	35.6	38.4	43.8
Government current expenditures	33.4	34.1	38.5
Surplus/Deficit	2.2	4.3	5.4
Government capital expenditures	3.5	3.6	5.9
Public investment expenditures	13.1	13.5	...
<u>External Public Debt (US\$ million)</u>			
Total debt (including undisbursed) at December 31, 1968, with ad- ditions through March 27, 1970	183		
Total debt service (1969)	7		
Debt service ratio		3.5 percent of	merchandise exports
<u>Balance of Payments (US\$ million)*</u>	<u>1968</u>	<u>1969</u>	
Total exports	197.0	229.4	
Total imports	187.6	204.8	
Current account surplus/deficit	-30.3	...	
Foreign aid disbursements	43.0	35.0	
<u>Commodity Concentration of Exports</u>	<u>1964</u>	<u>1969</u>	
Coffee, cocoa, aluminum	27%; 30%; 15%	20%; 38%; 11%	
<u>Gross Foreign Exchange Reserves</u>	<u>1966</u>	<u>1970</u>	
US\$ million (February)	19.0	60.7	
<u>IMF Position (US\$ million)</u>		<u>May 31, 1970</u>	
Quota		18.2	
Drawings		none	

\* Based on currently prevailing exchange rate.

# LOAN COMMITTEE

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August 11, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

1. The Committee is requested to consider, without meeting, the attached memorandum of August 11, 1970 from the South America Department, entitled "Uruguay - Proposed Bank Loan to the Usinas Electricas y los Telefonos del Estado (UTE) for a Fourth Power Project" (LC/0/70-91).
2. Comments, if any, should be sent to reach Mr. B. Ahmad (ext. 4778) by 1:00 p.m. on Friday, August 14.
3. It is planned then, if the Committee approves, to inform the Government and UTE 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:

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

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LC/O/70-91

August 11, 1970

LOAN COMMITTEE

Memorandum from the South America Department

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URUGUAY - Proposed Bank Loan to the Usinas  
Electricas y los Telefonos del Estado (UTE)  
for a Fourth Power Project

1. In Mr. Alter's memorandum of April 9, 1970 to the Loan Committee concerning the loan for the Third Livestock Project in Uruguay (LC/O/70-52), he reported that a power project had just been appraised with a view to making a loan in FY 1971. I attach herewith Appraisal Report PU 49 "URUGUAY - Usinas Electricas y los Telefonos del Estado (UTE) - Appraisal of the Fourth Power Project" recommending a Bank loan of \$16.0 million for a generation expansion and distribution rehabilitation project. The proposed loan would be the Bank's eighth operation in Uruguay and would bring the total of Bank lending to \$124.5 million. The last operation was a loan of \$6.3 million for the Third Livestock Project made in June 1970 with which the Bank resumed lending to Uruguay, after a hiatus of more than five years. No other loans are planned for the current fiscal year.

The Lending Program

2. The five-year lending program for FY 1971-75 envisages total Bank lending of \$91.0 million (see attached table). In addition to power, the lending program includes projects in livestock, tourism and industrial finance which are presently at various stages of identification and preparation. As reviewed by Mr. McNamara on February 27, 1970, the program for power included three loans totalling \$39.0 million, i.e., a loan of \$6.0 million for distribution in FY 1971, a loan of \$15.0 million for generation in FY 1973 and an "unidentified" loan of \$18 million in FY 1975. However, in mid-April, the South America Department sought and obtained the approval of the Chairman of the Loan Committee to increase the amount of the proposed loan for FY 1971 to \$16 million in order to permit the financing of both generation and distribution facilities. This decision was made in the light of the appraisal mission's finding that UTE had already made impressive progress in meeting the sector conditions for administrative and financial reform essential for Bank lending. A general manager had been appointed, and UTE's administration reorganized, pursuant to the recommendations of a Bank consultant. Moreover, in the financial sphere UTE and the Government had actually

gone considerably further than we had expected at that stage. New tariff regulations had been introduced, substantially along the lines the Bank had been suggesting for some time, and electricity rates had been sharply increased, with the result that the outlook for the financial performance of the utility had been greatly improved. In addition, the possibility of Bank financing of the generation expansion immediately required had been opened up by UTE's decision to procure a new thermal unit on the basis of international competitive bidding rather than by following the more expensive course of taking up the option offered by the manufacturers of a unit it had previously acquired.

3. While the decision to include generation facilities in the presently proposed loan will inevitably require permanent changes in the size and timing of the power loans in the lending program, these changes cannot be definitely identified now. I propose that, for the interim, the total amount of lending for power during FY 1971-75 be kept at \$39 million but that the proposed FY 1975 loan be eliminated and that the remaining \$23 million be tentatively allocated for a generation project for FY 1973 when financing would have to be arranged for the next major step in UTE's expansion. In this connection, UTE has asked the Bank to consider financing the Palmar Hydroelectric Project and is presently arranging at our request for consultants to re-study the project in the context of a long-term expansion program.

#### The Economy

4. A report on the "Current Economic Position and Prospects of Uruguay" (WH-198a) was distributed to the Executive Directors in April 1970. The report confirmed that the policies being pursued by the present Government had brought about significant improvement in Uruguay's economic performance and creditworthiness. The Government's monetary, fiscal and incomes policies had succeeded in substantially slowing inflation and these measures, together with the action that had been taken to improve incentives for livestock producers, had helped greatly to strengthen the balance of payments. These favorable trends appear to have continued in recent months and Uruguay has been fulfilling the conditions of its current stand-by agreement with the IMF. An economic mission is presently in the field to update our information on economic developments since the last report. A memorandum based on findings of this mission will be circulated to the Executive Directors in conjunction with the presentation of the proposed loan.

#### The Project

5. The proposed Bank loan would assist in financing the most urgent power investments UTE must carry out in the period 1970-73:

- a) the installation of the sixth steam unit (80 MW) at the Batlle plant in Montevideo, in order to allow UTE to meet the expected growth in consumption by 1973; and

- b) the rehabilitation and expansion of the Montevideo power distribution system.

The loan would also help to finance the services of consultants who would assist UTE in three key areas: (i) the development of long-range plans for the expansion of generating capacity, (ii) the reorganization of the accounting system, and (iii) the strengthening of organization and management and raising operating efficiency.

6. The total cost of the project is estimated at \$23.8 million. The proposed Bank loan would finance the estimated foreign exchange cost of \$16.0 million including interest during construction. Procurement of all equipment and award of the erection contracts for the steam unit will be on the basis of international competitive bidding. Civil works and erection contracts for distribution equipment would be awarded on the basis of local bidding inasmuch as these contracts, which would be financed entirely by UTE, would be too small to be economically subject to international competitive bidding. Uruguayan manufacturers, who would be in a position to bid on some \$1.0 million of the orders for distribution equipment, would be given a 15% margin of preference in international competitive bidding.

7. The Borrower, UTE, is an autonomous government agency established in 1912 and reorganized in 1931, which supplies practically all electricity and telephone services in Uruguay. The proposed loan would be the Bank's fourth to UTE, which received loans of \$33 million in 1950, \$5.5 million in 1955 and \$25.5 million in 1956 to finance the expansion of its power and telecommunications facilities. Subsequently, however, in the environment of rapid inflation and general deterioration in the Uruguayan economy during 1956-68, UTE's financial performance and operating efficiency declined below acceptable levels and it was not until last year, when the reforms noted above were made, that it became possible for the Bank to consider resuming lending to UTE. Despite the significant steps already taken by the Government and UTE, much remains to be done in both the financial and administrative spheres, as the appraisal report points out. Therefore, I regard the proposed loan not only as a means of helping UTE finance urgently needed investments but, perhaps more important, as a means by which the Bank can assist at a strategic moment in advancing the further institutional reforms necessary for the rebuilding of the power sector. In this connection, we intend to focus during negotiations on the issues outlined below.

#### Main Issues

8. Tariffs. The appraisal report recommends that tariff regulations be revised to raise the permissible maximum rate of return from 10% to 12% and to assure that tariffs producing this maximum are maintained in practice. The increase in the rate of return would be necessary if UTE is to make a reasonable contribution to the financing of its future investment requirements, assuming, as UTE does, that the Palmar Hydroelectric Project would be the next major generation project.

While the achievement of a 12% rate of return would not require an increase in the present tariff level in real terms, it may not be possible to obtain the Government's agreement to the raising of the present ceiling. In this case, I think we should be prepared to accept the maintenance of a 10% rate of return but we would put UTE on notice that, if the decision to go ahead on Palmar is taken, this would imply a clear need to lift the ceiling on the rate of return. In addition, we would seek agreement on the other measures to improve UTE's financial performance discussed below.

9. Unpaid Accounts. UTE's inability to collect substantial amounts owed it by public sector entities is a major source of the utility's financial weakness. We will seek to reach agreement with the Government and UTE on a specific, time-phased program for bringing receivables down to a reasonable level, and for a reporting system which will enable the Bank to monitor progress on a current basis. Since a reduction in the level of receivables would mean that UTE would be able to generate more cash with a given rate of return, our ability to satisfactorily resolve this issue would have important implications for our position on the rate of return.

10. Overstaffing. As the appraisal report points out, UTE is "grossly overstaffed" and has been asked to come to negotiations with a program for dealing with this problem. We will try to reach agreement with UTE and the Government on a program which would result in a reduction in staff of at least 500 per year over a five-year period, something which we believe can be largely accomplished by not replacing personnel leaving through normal attrition.

11. Management. UTE's Board of Directors still exercises excessive control over day-to-day operational matters and a further definitive delegation of functions to the general manager is needed. During negotiations the Government and UTE will be asked to agree to take all necessary action to delegate certain specific additional functions to the general manager by a specified date in the near future. While the present general manager of the company is able, in view of the continuing weaknesses of UTE's management and the long history of political interference, we should seek an assurance that any new appointment to the position of general manager would be made subject to consultation with the Bank.

12. Telecommunications. A covenant in the Loan Agreement will be proposed requiring UTE to earn a rate of return of at least 10% in its telecommunication operations. While UTE's financial performance on the telecommunication side has been relatively satisfactory, such a covenant, together with the commitments to be obtained on power tariffs, would provide the necessary assurance of the financial viability of UTE's overall operations.

Recommendation

13. I recommend, and the Departments concerned concur, that the Bank inform the Government and UTE that it is prepared to negotiate a loan of \$16.0 million equivalent substantially along the lines set forth in the attached appraisal report and discussed above.

Gunter K. Wiese  
Deputy Director

Attachments.



Population: 2.8 million  
 GNP Per Capita: \$550

URUGUAY - 5 YEAR LENDING PROGRAM

FY 1971-75

(\$ millions)

		Fiscal Years					Total	Total
		1971	1972	1973	1974	1975	1966-70	1971-75
Livestock IV	IBRD	15.0						
Livestock V	IBRD				15.0			
DFC	IBRD			4.0				
UTE Power Expansion IV	IBRD	16.0						
UTE Power Expansion V	IBRD			23.0				
Tourism I	IBRD	8.0						
Tourism II	IBRD					10.0		
		<u>16.0</u>	<u>23.0</u>	<u>27.0</u>	<u>15.0</u>	<u>10.0</u>	<u>6.3</u>	<u>91.0</u>
No.		1	2	2	1	1	1	7

August 7, 1970

# LOAN COMMITTEE

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WBG ARCHIVES

August 7, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### Tanzania - Kidatu Hydroelectric Project

1. The Committee is requested to consider, without meeting, the attached memorandum of August 7, 1970 from the Eastern Africa Department, entitled "Tanzania - Proposed Kidatu Hydroelectric Project" (LC/0/70-90).
2. Comments, if any, should be sent to reach Mr. Hornstein (ext. 4005) by 4:00 p.m. on Wednesday, August 12.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

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Mr. S.R. Cope, Deputy Chairman  
Mr. S. Aldewereld, Vice President  
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Deputy Director, Projects  
Directors of the Projects Departments  
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LC/0/70-90

August 7, 1970

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

TANZANIA - Proposed Kidatu Hydroelectric ProjectI. INTRODUCTION

1. In February 1966, the Government of Tanzania requested assistance from the Bank Group to finance the 1966-1975 development program of the Tanzania Electric Supply Company, Limited (TANESCO), a Government-owned company responsible for public power supply in mainland Tanzania. The program had at that time not yet been well determined regarding major power generation development, but attention had been narrowed down to two hydroelectric schemes, Kidatu and Wami, after comparative studies of 10 alternative hydroelectric schemes and some thermal alternatives. The economic mission which visited Tanzania in late 1966 recommended that a comparative study be undertaken of these two major schemes. The Government accepted this recommendation and the study, which was completed in July 1968, concluded that the Kidatu Project would be the most economical. The Bank received the feasibility report for Kidatu Project in December 1969, and the project was appraised in the field in April 1970.

2. A \$5.2 million loan for power development (Loan No. 518 TA) was signed in November 1967 to finance the installation of 21 MW diesel generating facilities, largely for Dar es Salaam. The project is making satisfactory progress, and \$3.2 million had been disbursed as of June 30, 1970.

II. THE PROJECT

3. Attached is a report entitled "Appraisal of the Kidatu Hydroelectric Project of the Tanzania Electric Supply Company Limited" (No. PU-48). The report recommends a Bank loan of \$30 million for a term of 25 years, including a five-year grace period. TANESCO would be the borrower, and the loan would be guaranteed by the United Republic of Tanzania.

4. The project, which would meet demand for electric power in the most rapidly developing region of Tanzania around Dar es Salaam and Tanga up to 1980, consists of a hydroelectric station and an underground generation plant at Kidatu on the Great Ruaha River, extension of an existing diesel

generating station near Dar es Salaam to meet the increasing demand until the hydroelectric station has been completed and transmission lines between Kidatu and Dar es Salaam. The capacity of the hydroelectric station would be 100 MW (two units of 50 MW each) with provision for addition of two more 50 MW units when needed.

5. The cost of the project is estimated at \$59 million (excluding interest during construction), of which about \$42 million is in foreign exchange. It is expected that Sweden would provide the \$12 million needed for the foreign exchange requirements and not covered by the proposed Bank loan of \$30 million. The Government would provide the local currency component in the form of equity subscriptions in TANESCO. Interest during construction, estimated at \$6.7 million, would be provided out of TANESCO's own funds.

6. The incremental financial rate of return would be between 10% and 19%, with a likely intermediary rate of 16%.

### III. SWEDISH PARTICIPATION

7. The Swedish International Development Authority (SIDA) has been interested in this project for some time and sent a representative to join the appraisal mission. SIDA has indicated that it would be prepared to lend the equivalent of \$12 million for the foreign exchange costs of the project. The proposed Swedish credit would go to the Government on IDA terms and would be onlent to TANESCO on the same terms as the Bank loan. Documentation for the financing is expected to follow the pattern for other projects financed jointly with SIDA. It is expected that the documents for the proposed Swedish credit would be signed at the same time as the Bank loan documents and that the Swedish credit would be made effective prior to, or simultaneous with, the effectiveness of the Bank loan.

### IV. ISSUES AND HIGHLIGHTS

8. Under Loan No. 518 TA, TANESCO is required to maintain tariffs sufficient to achieve a 10% return on the average net fixed assets in operation. During the first few years after the present project has been commissioned, the rate of return would decline below 10% because of the substantial increase in the rate base and the inability to utilize the project's full capacity immediately. It is recommended that TANESCO be released from the existing rate covenant which would be replaced by one permitting rates below 10% during the first five years after the new project has become operative, provided, however, that tariffs are not lowered during these years. To avoid delays caused by unexpected shortages of funds during the construction period, an assurance would be sought that

the dividend rate of 6-2/3% paid to the Government would not be increased. In any event, the Guarantee Agreement would include the normal provision requiring the Government to make satisfactory arrangements to provide TANESCO with such funds as are needed to carry out the project.

9. TANSECO currently employs about 50 expatriates, including the General Manager and most of the senior technical officers. Company policy is to fill posts as they become vacant with qualified Tanzanians. Despite the shortage of Tanzanians with adequate qualifications, there has been a gradual increase in their percentage of the total. TANESCO's management is able and has the competence to carry out the project. During negotiations, an assurance will be sought that no change in the post of General Manager, nor in his responsibilities and functions, would be made without prior consultation with the Bank. An assurance will also be sought that the Company will employ consultants acceptable to the Bank, as it has in the past.

10. SIDA has indicated that reimbursement of about \$1 million in expenditures on the project incurred before signing of the financing agreements would be permitted under the proposed Swedish credit. In such event, it is recommended that disbursements of expenditures after the signing be made out of the proposed Bank loan alone until the amount disbursed has reached a level in relation to disbursements from the Swedish credit, corresponding to the ratio between the totals of the two loans, presumably 30:12; thereafter, disbursements would be divided in that same ratio.

11. An assurance would be sought during negotiations that no other major generating facilities will be constructed for the Dar es Salaam/Tanga system before adding the third and fourth generating units required to complete the Kidatu scheme, without the concurrence of the Bank. The reason for this is that the incremental cost of installing these two units would be comparatively low on account of the work undertaken with the proposed loan.

#### V. ECONOMIC HIGHLIGHTS

12. Certain highlights of Tanzania's economic situation were presented in the memorandum dated July 28, 1970 (LC/O/70-86) on a Third Education Project. It was noted that it was important to continue aid to Tanzania on concessional terms. Tanzania's service payments on foreign debt (including a notional one-third of the East African Community's payments) amounted in 1968 to 6.7% of foreign exchange earnings, and this ratio is expected to increase during the life of the proposed loan. However, there is no reason to conclude that the proposed loan would create a difficult burden, especially since the expected Swedish participation would soften the overall terms.

VI. RECOMMENDATION

13. I recommend that the Bank invite representatives of the Government of Tanzania and the Tanzania Electric Supply Company, Limited to negotiate a loan of US\$30 million for a term of 25 years including five years of grace, substantially in accordance with the conditions set forth in the attached Appraisal Report and this memorandum.

Michael L. Lejeune  
Director

Attachment: Five-Year Lending Program

Population (1970): 12.9 m  
 GNP Per Head (1968): \$80

Annex

TANZANIA - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Years					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit II	IDA				5.0				
Livestock II	IDA			10.0					
Tea I	IDA			5.0					
Tea II	IDA						7.0		
Tobacco I - Flue-cured	IDA		9.0						
Tobacco II	IDA					5.0			
Rural Development I	IDA				5.0				
Rural Development II	IDA						4.0		
Agricultural Education	IDA		4.1						
Education III	IDA				10.0				
Education IV	IDA						12.0		
Power II - Kidatu	IBRD		30.0						
Kidatu Transmission Equip.	IBRD					5.0			
Hotel Financing	IBRD				7.0				
Tourism II	IBRD						10.0		
Highways - Tan-Zam II	IDA	7.5							
Highways III	IDA			10.0					
Highways IV	IBRD					10.0			
	IBRD		30.0		7.0	15.0	10.0	5.2	44.0
	IDA	7.5	13.1	25.0	20.0	5.0	23.0	22.0	79.9
	Total	<u>7.5</u>	<u>43.1</u>	<u>25.0</u>	<u>27.0</u>	<u>20.0</u>	<u>33.0</u>	<u>27.2</u>	<u>123.9</u>
	No.	1	3	3	4	3	4	4	14

# LOAN COMMITTEE

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SEP 05 2014

August 6, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Finland - Industrialization Fund of Finland

1. The Committee is requested to consider, without meeting, the attached memorandum of August 6, 1970 from the Europe, Middle East and North Africa Department, entitled "Finland - Proposed \$20 million Bank Loan for the Industrialization Fund of Finland (Fourth Development Bank project)" (LC/0/70-89).
2. Comments, if any, should be sent to reach Mr. Guillot-Lageat (ext. 4716) by 5:00 p.m. on Tuesday, August 11.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

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)



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LC/0/70-89

August 6, 1970

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department

FINLAND - Proposed \$20 million Bank loan for the  
Industrialization Fund of Finland  
(Fourth Development Bank project)

1. A report entitled "Appraisal of Teollistamisrahasto Oy-Industrialization Fund of Finland" (DB 71), dated July 22, 1970 is attached for consideration by the Loan Committee.

Background

2. The present total of Bank lending to Finland is \$243.5 million (net of cancellations) of which \$140 million is outstanding. Between 1949 and 1962, the Bank made nine loans, all fully disbursed, mainly for power and industry. Since then, we have made two loans for roads, both fully disbursed, totalling \$48.5 million. The Industrialization Fund of Finland (IFF), following an IFC equity investment of about \$160,000 in 1963, has received three loans amounting to \$43 million; the last loan for \$22 million made in January 1969 is expected to be fully committed by the end of September 1970.

3. A third loan for roads is under consideration for FY 1971; it should assist in completing the institutional reforms initiated under previous loans, and therefore, conclude the Bank's participation in Finland's road development. The Bank's Five Year lending program envisages total lending of \$107.5 million in FY 1971-75, including \$25 million for a further loan to IFF in FY 1973 (see Annex). The Bank's net lending (disbursements less repayments of principal) to Finland over these five years would be only about \$4 million. In this period, however, the Bank's net financial contribution would be negative, since estimated total debt service including interest will exceed disbursements by about \$40 million, giving an average annual outflow of almost \$8 million.

The Economy

4. A "Memorandum on the Economic Situation of Finland" (EMA 20) was circulated to the Executive Directors on April 9, 1970. Finland's performance has been satisfactory since the devaluation of October 1967 and subsequent stabilization; prospects for growth are favorable.

5. Finland will need further capital inflows to sustain its growth over the next several years. Gross capital requirements are estimated at more than \$200 million per year in 1970-73. In 1968-69 Finland raised about \$115 million in the international financial market, mostly in Germany where six bond issues totalled about \$105 million. The country's geo-political situation, however, still remains a special problem for foreign investors, and Finland is unlikely in the next few years to be able to raise on the market the funds required. Continued Bank lending on the scale envisaged in the lending program, therefore appears justified.

#### IFF's Position and Role

6. Although it remains small relative to total industrial investment, IFF's contribution has grown substantially since its inception. IFF's level of activity has been a function of industrial investment in Finland. Commitments grew to Fmk 37.4 million in 1963-1965 and then fell in 1966 and early 1967 through the recession. Operations have picked up rapidly since; commitments reached Fmk 96.4 million in 1969 (about \$24 million equivalent). Stimulated by rising industrial investments, IFF's disbursements increased from 2.7 percent of total investment in industry in 1968 to about 4 percent in 1969. However, IFF is playing a vital role, far beyond its share in financing, in promoting the diversification of the Finnish industry. The bulk of its commitments goes to non-traditional activities, i.e. other than wood-based industries, such as food processing, textiles, and to export-oriented firms. This policy is to be continued in the future. IFF also has had considerable educational impact through its project appraisal methods and techniques. Moreover, IFF's management has been instrumental in reforming tax legislation affecting the capital market development and it has introduced underwriting in Finland.

7. Forecasts of future business are based on the relatively modest annual growth rate of 6 percent over the next four years. This would result in commitments amounting to Fmk 130 million (or \$32.5 million equivalent) in 1974, as compared to Fmk 96 million (or \$24 million equivalent) in 1969. IFF should face no difficulty in achieving this level of commitments.

8. IFF's management and staff are able and qualified, and the company is steadily improving its profitability which, however, remains modest because of the high incidence of taxes, and a fairly thin margin on its borrowed funds. Mr. Lassila, the present managing director of IFF, has very recently been nominated Deputy Governor of the Bank of Finland and will, therefore, be leaving IFF around mid-August. His successor has not been chosen yet. I recommend not to postpone negotiations on this account, but at the same time not to present the proposed loan to the Bank's Executive Directors until a suitable successor to Mr. Lassila has been nominated. Under the present Loan Agreement (582 FI), the appointment of IFF's managing director does not require Bank approval.

The Project

9. An appraisal mission from the Development Finance Companies Department visited IFF in May 1970. The balance of the last Bank loan (582 FI) is expected to be fully committed by the end of September 1970. IFF's estimated commitments between October 1970 and the end of 1972 amount to Fmk 240 million (about \$60 million equivalent). On that basis, the report recommends a loan of up to \$25 million, to meet a part of IFF's total resource gap, the balance of its capital requirements being found through private bond issues and shareholders' debentures.

10. Under the previous loans the Bank financed IFF's projects on the basis of a fixed proportion of its total disbursements, defined in relation with the foreign exchange component of industrial investment in Finland presently estimated at 50-60 percent. I agree with the recommendation in the Appraisal Report to continue with this practice. I also agree with the recommendation to reduce the Bank's share to 40 percent of IFF's total commitments, against 50 percent under the previous loan, to lessen IFF's dependence on the Bank. The proposed loan would then cover approximately two-thirds of IFF's disbursements to finance imports.

11. However, because of Finland's relatively high income per head and because we are contemplating a third road loan during FY 1971, a \$25 million loan to IFF would be out of line with our lending program. I therefore recommend reducing the amount of the proposed loan to \$20 million. However, because of the limited availability of capital in Finland, despite the improvement of the capital market climate, we should not reduce the proportion of Bank financing to less than 40 percent. (See para. 10 above.) The proposed loan would therefore be fully committed about mid-1972.

12. Under the previous loans IFF and the Bank have agreed to a simplified disbursement procedure through which disbursements by the Bank are made on the basis of a certified statement showing the disbursements made by IFF during a month. I agree with the appraisal report recommendation to continue with this procedure unless the findings of the representative from the Controller's Department who reviewed IFF's disbursement procedure last week in Helsinki lead us to recommend otherwise. In that case, the modification of the present system will be an item for discussion during negotiations.

13. It is finally recommended by the appraisal report that IFF's free limit be increased from \$750,000 to \$1 million. The free limit is defined in terms of the total financing by IFF of a project, 40 percent of which will be covered by the Bank. This provision would be subject to a limit of \$7 million on the aggregate contribution by the Bank for projects below the free limit, instead of \$8 million as recommended in the appraisal report as a consequence of the reduction in the amount of the loan.

Recommendation

14. I recommend that the Bank invite negotiators for a loan for IFF, the amount of the loan to be \$20 million for a term of 17 years including two years of grace. The loan is to be made in accordance with the conditions set forth in the attached appraisal report, except for what is indicated above in paragraph 11 and 13.

C. H. Thompson  
Chief Economist  
Europe, Middle East and North Africa  
Department

Attachments

Population: 4.7 m.  
GNP Per Cap.: \$1,660

FINLAND LENDING PROGRAM: PAST AND PROPOSED

ANNEX

		(\$ millions)												Totals			
		Through	Fiscal Years											1964-	1969-	1971-	
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1968	1973	1975
Industry	IBRD	2.3															
Bank of Finland (4)	IBRD	48.0															
Mortgage Bank of Finland (4)	IBRD	102.0															
DFC - IFF I	IBRD		7.0														
DFC - IFF II	IBRD			14.0													
DFC - IFF III	IBRD						22.0										
DFC - IFF IV	IBRD								20.0								
DFC - IFF V	IBRD											25.0					
Forestry	IBRD											20.0					
Agriculture - Unidentified	IBRD												10.0				
Highways I	IBRD		28.5														
Highways II	IBRD				20.0												
Highways III	IBRD								12.5								
Unallocated	IBRD													20.0			
<b>Total</b>	<b>IBRD</b>	<u>152.3</u>	<u>35.5</u>	<u>14.0</u>	<u>20.0</u>	<u>-</u>	<u>-</u>	<u>22.0</u>	<u>-</u>	<u>32.5</u>	<u>-</u>	<u>45.0</u>	<u>10.0</u>	<u>20.0</u>	<u>69.5</u>	<u>99.5</u>	<u>107.5</u>
	<b>No.</b>	9	2	1	1	-	-	1	-	2	-	2	1	1	4	5	6

Europe, Middle East and  
North Africa Department  
July 24, 1970.

# LOAN COMMITTEE

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LC/A/70-7

August 3, 1970

## NOTICE OF MEETING

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

## AGENDA

### Peru

The Committee will consider the attached memorandum of August 3,  
1970 from the South America Department entitled "Peru - Proposed Road  
Reconstruction Loan" (LC/0/70-38).

David Pearce  
Secretary  
Loan Committee

## - DISTRIBUTION -

### Committee:

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

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LC/O/70-88

August 3, 1970

LOAN COMMITTEE

Memorandum from South America Department

PERU: Proposed Road Reconstruction Loan

Introduction

1. Attached is a report "Peru - Appraisal of a Road Reconstruction Project" (PTR - 59), dated July 30, 1970, which recommends a loan of \$30 million equivalent to assist in the reconstruction of roads affected by the earthquake of May 31, 1970.
2. Following the earthquake, the Government of Peru asked for the Bank's assistance in financing the rehabilitation of the economy. The total sum required for rehabilitation was provisionally estimated by the Government at the somewhat inflated figure of \$516 million equivalent; the Bank was requested to assist in the amount of \$150 million. A Bank mission, comprising Messrs. van Helden and Schaefer (Consultant) visited Peru for ten days commencing June 17: they travelled to the earthquake-affected area, reviewed Peru's rehabilitation needs jointly with a UNDP mission in the field, and discussed with the Government possible Bank assistance for its rehabilitation program. Upon the mission's return an approach to such assistance was evolved and presented to Mr. McNamara, and approved by him. At their meeting on July 14, the Executive Directors associated themselves with the proposed approach, and a cable was sent to the Government of Peru the same day, expressing the Bank's readiness to consider, on specially favorable repayment terms, a loan of \$25-30 million for the reconstruction of roads in the earthquake-affected area in the country. This was followed by Mr. McNamara's letter of July 17 to the Government, setting out the Bank's proposal in greater detail. Subject to the Government's concurrence to the Bank's approach, it was decided that necessary documents be prepared and negotiations completed in time for the loan to be presented to the Executive Directors in early September. While a cable was received from the Government on July 20, acknowledging our cable of the 14th, in a form suggesting general agreement, the Government's detailed response to Mr. McNamara's letter is still awaited. The proposals presented in this memorandum assume the Government's concurrence with the essentials of the Bank approach to the loan operation.
3. The last Bank loan to the Republic of Peru (Port of Pisco) was made on May 13, 1966. Two other loans were made, in 1966 and 1967, to a private company (Empresas Electricas Asociadas). Subsequently, the Bank

became concerned at the rapidly deteriorating fiscal situation in the country, and it was considered that we should refrain from lending for projects which would have a substantial claim on public resources. The same year saw the development of a balance of payments crisis which ultimately led to the devaluation of the sol in September 1967. In October 1968, the new regime expropriated the IPC properties. As a consequence of all these factors, we have done no fresh lending in the last 3-4 years.

### The Economy

4. Our latest economic mission to Peru, in April/May of this year, has not yet completed its report although a substantial back-to-office report dated July 9 has been distributed. A short economic memorandum on Peru's current economic situation and prospects will be presented to the Executive Directors in connection with the proposed loan.

5. The preliminary conclusions of the economic mission indicate a strong performance on the part of the Government in fiscal, monetary and balance of payments sectors of the economy over the last eighteen months or so. Budgetary deficits and inflation, which plagued the economy in the preceding years, have been arrested, and current expenditures severely curtailed. Current fiscal revenues have been increasing at more than 10 percent annually, and at a pace much faster than GDP in real terms. As a result of improvement in internal finances, larger export earnings, a restrictive import policy, especially in respect of consumer goods, and the refinancing of Peru's external debt, the exchange reserves of the Central Bank have grown substantially since 1968 when the reserves were actually negative. By June 15, 1970, official foreign exchange reserves stood at \$315 million equivalent, or sufficient to finance six months' imports at 1969 levels.

6. While recognizing the Government's record of achievements, our mission has expressed concern about the medium-term outlook for the Peruvian economy. Last year's stabilization effort left the economy stagnant, with a GDP rate of growth of 1.7 percent as against 1.4 percent in 1968. In order to restore momentum to the economy, the Government has now embarked on an expanded public investment program: on the evidence of budget outlays in the first four months of this year, real public investment in 1970 is likely to exceed the 1969 level by about 30 percent. It is not possible at this stage to estimate the extent to which projected outlays may be affected by earthquake relief expenditures. If the current year's investment program remains materially unaltered, however, it may be expected to result in GDP growth of 4 to 5 percent.

7. At the time our mission was in the field, Peru's medium-term investment plan had not yet been formulated. It is, however, clear that the Government is set upon a basic restructuring of the socio-economic



system in the country. The primary components of this effort would be the execution of far-reaching agrarian reform, the setting up of basic industries, and state participation in mining, petrochemicals and metallurgical industries. Such a program, to be implemented at a rapid pace and with acceptable levels of GDP growth, would call for substantial internal and external resources. There are indications the requisite domestic effort would be forthcoming. Imports would, however, need to rise sharply in line with the growth requirements; and the country faces a heavy external debt service burden over 1972-74. The presently comfortable exchange reserve position is, therefore, not expected to last; and Peru's export-led economy will face a critical longer-term situation unless substantial foreign investment in copper mining is forthcoming. In regard to the latter the position as yet remains unclear, though talks are continuing between the Government and the mining companies. The mining companies are expected to have formulated their financing plans in the first half of next year. An economic mission, scheduled for April/May 1971, will assess the outcome of these plans, and will also review the country's five-year development program which will be available by that time.

8. Meanwhile, and pending decisions by the mining companies to go forward on a substantial scale, economic growth prospects must be considered uncertain at best. It will be fortunate if Peru is able to achieve sufficient economic growth to maintain present per capita income. Only with substantial copper investments could we safely project a significant increase in per capita income. Until the investments of the mining companies are assured, Peru's creditworthiness must be considered severely limited. Debt service will rise from the present level of 13 percent of net export earnings, to about 17 percent in 1973. It may be possible to reschedule amortization due on shorter maturities, particularly in view of the major reaction to the earthquake among creditors.

9. Given the improvement in financial management which has already taken place, the exceptionally strong current balance of payments position resulting from the present good market for Peru's major exports, and giving some weight to opportunities which Peru enjoys in expanding exports of minerals, some further Bank lending to Peru would appear justified even before the country's creditworthiness is more firmly established by investment decisions in the mining field. It would, however, be prudent to provide exceptionally favorable terms for Bank loans to Peru at this time.

10. At their meeting on July 14 the Executive Directors noted the special circumstances in which this loan is being proposed. In view of these circumstances, the lack of progress on the IPC issue is not considered a bar to the Bank making this loan.

#### The Project

11. Its geography and the spatial distribution of its population and natural resources make the development of an adequate transport system central to Peru's economic growth. Successive governments have been

for this reason emphasizing the development of the transport network, especially highways, and over 25 percent of public investment in the economic plan for 1970 is earmarked for this sector. In Peru's permanent rehabilitation program following the earthquake, transportation accounts for about 20 percent of the proposed expenditures, being exceeded only by the allocation for housing wherein the destruction has been especially heavy.

12. The earthquake is estimated to have affected 4,300 km. or 8.7 percent of the entire roads network in the country. The maximum damage occurred on the Pan-American highway and on roads in the Departments of Ancash and Lima. In the Department of Ancash - between the coastal towns of Chimbote and Pativilca, and the Cordillera Blanca, a branch of the Western Andes - where the proposed project will be located, 30 percent of all asphalt roads, close to 80 percent of gravel roads and over 60 percent of dirt roads have been affected. Especially hard hit were the middle and upper reaches of the Santa River Valley, known as the Callejon de Huaylas. The road in the Callejon suffered extensive damage, and sections of it have disappeared in the avalanches that engulfed the towns of Yungay and Ranrahirca. All the three access routes to the valley were also disrupted in varying degrees, and the railroad between Chuquicara and Huallanca in the valley was destroyed. Under the present plans of the Government, the approach to the valley by railroad from Chimbote will be abandoned and replaced by a road. Some of the landslides over the two other routes, Casma-Huaraz and Pativilca-Huaraz, have been cleared and the roads reopened: extensive reconstruction and improvement will, however, be necessary before either of these roads can serve as an efficient access route to the valley.

13. The Callejon de Huaylas is an intensively cultivated valley, attractive to tourists because of its scenic beauty and pleasant climate. It offers possibilities of agricultural expansion to serve the markets on the Coast, provided an efficient transport outlet is available. The Department of Ancash as a whole is an important contributor of agricultural produce in which Peru is deficient. The reconstruction of the transport network in this area is of crucial importance for the restoration of communications with the valley, and to Peruvian economy generally: the project is intended as a substantial contribution to this end. The project consists of the reconstruction of an access route to the Callejon, and the restoration of the road within the valley. It will include a feasibility study of alternatives and detailed engineering of the selected route, emergency works for the restoration of other important road sections in the earthquake-affected area, and technical assistance for road maintenance and betterment which our recent economic mission identified as of paramount importance if Peru's roads system is not to be allowed to fall into complete disrepair. The loan represents about 30 percent of the cost of Peru's provisional rehabilitation program for the transport sector, estimated by the Government to cost \$105 million equivalent.

Points for Consideration

14. Peru's needs and the nature of the reconstruction program call for quick action. Given the impossibility of selecting the most economic access route to the valley and determining its precise cost without a feasibility study and detailed engineering, and because of the possibility of future adjustments in the loan amount and its distribution, the loan is, for the present, proposed as a "line of credit". The major reconstruction component is based on the highest cost alternative, viz. the Chimbote-Huaraz access route. The road, or a combination of roads, to be actually financed will be determined on the basis of the feasibility and engineering studies before contracts are awarded and disbursements for construction take place. Should one of the other roads, or a cheaper combination of roads, be selected for reconstruction on the basis of the foregoing feasibility study, or design standards chosen be more modest than those presently envisaged by the Government, the balance of the loan proceeds would be used on priority roads elsewhere in Peru. Procedures for disbursement against the cost of emergency rehabilitation works will be determined during negotiations on the basis of proposals received from the Peruvian Government. We believe these arrangements, which will be agreed with the Government of Peru during loan negotiations, should be adequate. The feasibility and engineering studies will of course be carried out by consultants approved by the Bank.

15. In the absence of a feasibility study and precise cost estimates of the road to be taken up for reconstruction, no attempt has been made at this stage to assess the economic benefits of the project. A prima facie justification, however, exists in the economic topography of the region and the crucial position within that of the roads system. The three routes mentioned earlier comprise the only lateral connection between the Coast and the Sierra in the earthquake-stricken area, and their reconstruction is vital to the economic and social integration of the region. In recognition of this fact, improvements to the Pativilca-Huaraz and Casma-Huaraz roads were included by the Government of Peru in its provisional investment plan for 1971-75, the Chimbote-Huaraz rail-and-road route being operative at the time the plan was formulated. The project thus fits into the medium-term development program of the country.

16. The technical assistance constituent of the loan would similarly assist in solving one of the most pressing transportation problems in the country. Over a number of years lately, Peru has invested heavy amounts in the development of its highways network. Maintenance has, however, been poor, with the result that large sections of the system have fallen into disrepair. Beginning this year, the Government is allocating larger sums for road maintenance and betterment; the Government's efforts in this direction would benefit greatly from the nucleus organization proposed as technical assistance under the loan.

17. In view of the special circumstances of this loan, it is proposed to finance around two-thirds of the total cost of road reconstruction. The actual foreign currency component is estimated at 50 percent of the total

cost: the last highway loan made to Peru, for a project with 45-50 percent foreign exchange costs, contributed 60 percent of the construction costs. The loan would also finance the foreign exchange costs of the feasibility study and detailed engineering and of the technical assistance, estimated at 80 percent of their total cost. It is proposed to apply the same percentage of Bank financing even if there would be participation of Peruvian consultants in the studies. Since the use of loan proceeds for reconstruction works will not take place for about a year pending the completion of the feasibility study and final engineering, it is proposed that commitment charges on the undisbursed amount for construction commence on a date one year after the loan is signed; and interest and commitment charges for the first five years be capitalized, to raise the overall loan amount to \$30 million. Procurement will be in line with Bank procedures for international competitive bidding, except for emergency restoration works for which some departures may be necessary. The latter will be worked out in detail during loan negotiations.

18. The Appraisal Report recommends that during negotiations agreement be reached with the Government that it will set aside, in its annual budget, adequate funds for the local currency costs of the reconstruction project, and for expenditures needed for the execution of a maintenance and betterment program in the two pilot zones included in the technical assistance component of the proposed loan. Agreement will also need to be reached in respect of the Government's intention to increase its annual budget allocations for highway maintenance in the country generally to adequate levels.

19. In the context of the proposed IBRD (\$25-30 million) and IDB (\$35 million) earthquake reconstruction loans to Peru, we have reviewed the country's domestic resources availability for new starts in the period 1971-75, after allowing for the investment requirements of ongoing projects in all sectors of the economy. We find that the counterpart local currency requirements of both these loans will not exceed, on an average, 13 percent of the resources likely to be available for new starts during this period, without assuming new tax measures. However, in the view of our recent economic mission the Government, in order to finance its investment program, is expected to go forward with new tax measures. An exercise assuming such additional taxation indicates the local currency requirements for the two aforementioned loan projects would comprise around 5 percent of the estimated resources available for new starts during the period the loans would be disbursing.

20. Nevertheless, in view of our past experience in Peru, I propose, and the Transportation Projects Department concurs, that the loan documents specifically require the Government to (i) provide sufficient local currency funds in its annual budget so as to complete the project by the agreed date, the amount so provided being advised to the Bank on approval of the budget every year during the disbursement period of the loan; and (ii) gradually increase its annual budget allocations for highway maintenance in accordance with a five-year program to be developed with the help of the technical assistance group, and discussed with the Bank.

21. In view of the fact that it will support an earthquake reconstruction program, the repayment terms of the loan proposed are exceptionally favorable.

Recommendation

22. I recommend that the Republic of Peru be invited to send representatives to Washington to negotiate a loan of \$30 million equivalent for a period of 30 years including 10 years of grace, on the terms and conditions outlined in paragraph 5.02 of the Appraisal Report and paragraph 20 above, and that the commitment charges on the construction component do not begin to accrue until one year after the loan has been signed.

Gerald Alter  
Director

Attachment

Population: 13.4 m  
 GNP Per Cap: \$350

IVa. PERU - 5 YEAR LENDING PROGRAM

		(\$ millions)							
		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit V	IBRD			17.0					
Agricultural Credit VI	IBRD					25.0			
Irrigation III - Chira-Piura	IBRD			40.0					
Industry II - Unidentified	IBRD				20.0				
Power V - Distribution	IBRD			8.0					
Power VI - Distribution	IBRD				10.0				
Roads	IBRD						20.0		

IBRD  
 No.

<u>65.0</u>	<u>30.0</u>	<u>25.0</u>	<u>20.0</u>	<u>98.7</u>	<u>95.0</u>
3	2	1	1	7	5

# LOAN COMMITTEE

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August 3, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### Iceland - Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of August 3, 1970 from the Europe, Middle East and North Africa Department, entitled "Iceland - Proposed US\$4.1 Million Loan for a Highway Project" (LC/O/70-87).
2. Comments, if any, should be sent to reach Mr. I.M. Wright (ext. 4719) by 1:00 p.m. on Thursday, August 6.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

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LC/0/70-87

August 3, 1970

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department

ICELAND - Proposed US\$4.1 Million Loan for a Highway Project

1. An appraisal report entitled "Appraisal of a Highway Project - Iceland" (PTR-57), dated July 15, 1970, is attached hereto for consideration by the Loan Committee.

Background

2. The Bank has made seven loans to Iceland between 1951 and 1966 amounting to US\$25.9 million, of which \$20.9 million was outstanding on June 30, 1970.

3. The Bank's role in Iceland is based upon the premise that Iceland's small size, the vulnerability of its export earnings to large fluctuations, and physical conditions which inhibit economic expansion make it difficult for the country to obtain funds in the world capital markets. The inflow of foreign private capital in the future very much depends on individual projects which prove feasible and attract investors, but at best this will provide only funds for financing directly productive enterprises, leaving financing for infrastructure still to be obtained. Bank lending is therefore justified, although Iceland has a relatively high per capita income (\$1,750).

4. The current Five-Year Lending Program for Iceland (see Annex) includes only one other project. At the CPP review on October 28, 1969 it was agreed, however, that the Bank should be ready to increase its lending should a suitable opportunity arise to lend further support to the diversification of Iceland's industry and exports. The only other project contemplated at present, a third power loan amounting to US\$12 million, is tentatively scheduled for FY 1972. Identification, however, awaits the National Power Company's selection of an appropriate site. A previous loan to the National Power Company in FY 1967 for the Burfell Power project, primarily to provide electricity for an aluminum smelter, encountered difficult problems with construction due to shortages of skilled labor and problems between the owner and the contractor. Furthermore, there were substantial cost overruns for which arrangements were, however, made by the other parties involved in the project. The project is now operating satisfactorily.

The Project

5. An appraisal mission from the Transportation Projects Department visited Iceland in April/May 1970. Its report is attached and recommends a



loan of \$4.1 million for 24 years including a four-year period of grace. Although these terms are justified on project grounds, I recommend, and the Transportation Projects Department agrees, that these terms be changed to 20 years including a grace period of four years on country grounds.

6. The project would be the first for the Bank Group in the transportation sector in Iceland. The project comprises:

- (i) the construction and improvement to two-lane surfaced standards of approximately 14 km of a primary road named Vesturlandsvegur and 34 km of a primary road named Sudurlandsvegur;
- (ii) supervision of construction by consultants; and
- (iii) the purchase of specific items of highway maintenance equipment.

7. The Vesturlandsvegur is the main highway going north from Reykjavik linking the capital with the western, northern and eastern parts of Iceland. The Sudurlandsvegur is the main highway south linking Reykjavik with the main agricultural area. The project is estimated to have a weighted average rate of return of 17 percent.

8. The Public Roads Administration (PRA) would be responsible for the execution of the project, and construction would be divided into two bidding groups. The contract sections within each group are relatively small in order to keep them within the capability of local contractors or groups of contractors. However, to make the work attractive to foreign contractors bids could be submitted for all sections in either one or both groups. Foreign contractors have worked in Iceland, and a number have applied for prequalification for this project.

9. Since the construction of roads in Iceland is closely tied to satisfactory weather conditions, it is important that contracts be awarded prior to the onset of winter. As a result, PRA intends to award two contracts in early September before the proposed loan would be submitted to the Executive Directors for their consideration. PRA has followed the Bank's procurement guidelines, and the relevant documents are satisfactory to the Bank. I therefore propose retroactive financing for these two contracts since any delay in their award would affect the project adversely. The amount involved would cover advances for mobilization only and would be approximately \$150,000.

10. The provision of an amount for highway maintenance equipment (\$540,000) is also proposed under the project. The need for financing of maintenance equipment has arisen because the devaluations of 1967 and 1968 (about 50 percent) made the funds set aside for depreciation insufficient to cover replacement needs. The charges for depreciation are since then gradually being increased but it would take several years to eliminate the shortfall. The Government has therefore requested Bank assistance in

financing the replacement of urgently needed selected items of maintenance equipment as well as the purchase of snow-clearing equipment for use on surfaced roads (largely on the project roads).

11. The total cost of the project is estimated at US\$7.7 million equivalent of which the foreign exchange component has been calculated to be US\$4.1 million. The foreign exchange component of construction work has been estimated at about 55 percent for execution wholly by foreign contractors and about 45 percent by local contractors. It is likely that the value of contracts awarded will be about evenly divided between local and foreign contractors, so that the estimated overall foreign exchange component would be in the order of 50 percent. Since the difference between the foreign exchange components of local and foreign placed contracts is small; any larger proportion of contracts won by local contractors would lead to only a small amount of local currency financing. The proposed loan would finance the entire foreign exchange component of the cost of highway construction and of consultants for supervision, both assumed at 50 percent of the total cost, and the C.I.F. price of highway maintenance equipment.

#### The Economy

12. The most important economic asset of Iceland is its rich fishing grounds. Fishing accounts for about 20 percent of Iceland's GNP and about 90 percent of her exports.

13. As stated in the report "Current Economic Position and Prospects of Iceland" (EMA-152) dated October 31, 1969, the country's excessive dependence on the fishing industry has had disturbing effects on the economy. The fishing boom of 1960-66 led to increased total spending which resulted in a higher demand for labor in fishing and other industries. Wages were pushed up in all sectors of the economy. However, as long as the catches kept on increasing this did not produce unsurmountable problems; the current account of the balance of payments was by and large in equilibrium during 1960-66.

14. In 1967 a sharp decline in herring catches and a simultaneous decline in fish prices drastically decreased the export earnings of the country. A large deficit in external account made devaluation inevitable. In November 1967 the Kronur was devalued by 25 percent and as fish prices and exports continued to fall, an additional devaluation of 35 percent became necessary. The resulting sharp rise in the domestic price level together with restrictive fiscal policies and declining real income provided the necessary adjustment between consumption and resources.

15. The Government, in order to avoid such serious fluctuations, has since endeavored to broaden the economic base and to diversify production by developing industry. The most far-reaching initiative in industrial development has been the membership of Iceland in EFTA on March 1, 1970. Iceland will gradually abandon its import duties within 10 years, but the

EFTA partners have immediately opened their borders to products from Iceland. Iceland is also included in a treaty between the United Kingdom and the Scandinavian countries which will enable it to export fish fillets to the United Kingdom as duty exempt industrial product. Furthermore the other Nordic countries (Sweden, Denmark, Norway and Finland) have set up a \$14 million development fund to ease the adjustment of Iceland's industry to EFTA membership.

16. Membership in EFTA will make the rationalization of existing industries such as fish processing, manufacture of clothing, furniture, cement, fertilizer, paper converting and ship building necessary. At present these productions are virtually all for domestic use but some have potential for export. Membership will be particularly beneficial for new large-scale industries under consideration, such as production of phosphorus, silicon and heavy water and a large chemical complex which would start from salt extraction from geothermal brine for the production of caustic soda and vinyl chloride in conjunction with an oil refinery. EFTA membership may also enhance prospects for foreign participation in these and other large-scale power-based industries.

17. Total external debt of Iceland has risen from about US\$50 million in 1966 to US\$96 million by December 31, 1968. Most of the debt was incurred during the depression of 1967. In 1970 projected external debt will be as much as US\$100 million. The Bank's outstanding loans will account for about 21 percent of the total.

18. Debt service payments in 1968 were US\$13.3 million, equivalent to 8 percent of total exports. Debt service payments this year are estimated to be US\$16 million or more than 10 percent of projected exports (US\$150 million). Service payments in the years immediately ahead are expected to remain high as past debt was contracted for rather short periods. After 1975, the relative debt service burden should ease if in the meantime the country succeeds in obtaining sufficient long-term finance to cover the bulk of its foreign capital requirements.

#### Recommendation

19. I recommend that the Bank invite the Government of Iceland to send representatives to negotiate a loan of \$4.1 million for the Highway Project substantially on the conditions set forth in Section 6 of the appraisal report except for the term of the loan, which would be 20 years including four years of grace as discussed above in paragraph 5 of this memorandum.

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

Attachment

Population: 0.2 m.  
GNP Per Cap.: \$1,750

## ICELAND LENDING PROGRAM: PAST AND PROPOSED

		(\$ millions)											Totals				
		Through	Fiscal Years										1964-	1969-	1971-		
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1968	1973	1975
Communications	IBRD	0.3															
Farm Improvements I & II	IBRD	2.4															
Highways I	IBRD								4.1								
Industry	IBRD	0.9															
Power I	IBRD	2.5															
Power II	IBRD					18.0											
Power III	IBRD									12.0							
Reykjavik Hot Water	IBRD	2.0															
	IBRD	<u>8.1</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>18.0</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>4.1</u>	<u>12.0</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>18.0</u>	<u>16.1</u>	<u>16.1</u>
No.		6				1				1	1			1	2	2	

E/ME/NA Department  
July 9, 1970

# LOAN COMMITTEE

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July 28, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

### Tanzania - Third Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of July 28, 1970 from the Eastern Africa Department, entitled "Tanzania - Third Education Project" (LC/O/70-36).
2. Comments, if any, should be sent to reach Mr. Myhrer (ext. 4916) by 1:00 p.m. on Friday, July 31.
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  
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Mr. M. Shoaib, Vice President  
Directors, other Departments  
Executive Vice President (IFC)  
Vice President (IFC)

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July 28, 1970

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

TANZANIA - Third Education Project

I. INTRODUCTION

1. Two IDA Credits have so far been provided to Tanzania for education projects. The first, of \$4.6 million extended in December 1963 (Credit No. 45 TA), helped to finance a general expansion of the country's secondary school system; this project was satisfactorily completed in June 1967. The second credit, of \$5.0 million, was signed in May 1969 (Credit No. 149 TA). Implementation of the project being financed by Credit No. 149 TA was delayed by the Government's request for amendments to the project, to which the Association agreed in May 1970. The amended project provides for the further general expansion of the secondary school system as well as for the expansion of Dar es Salaam Technical College and teacher training facilities. The project includes provision for the introduction of agricultural, commercial and technical subjects into the secondary school curriculum and for instruction in agricultural subjects at the primary teacher training level.

2. Finance has now been requested by the Tanzania Government for a third education project prepared by the Government with the assistance of an FAO/Bank mission to Tanzania in May/June 1969. A Bank mission also visited Tanzania in late 1969 to collect additional information for the project, which was appraised in February/March 1970.

II. THE PROJECT

3. The attached appraisal report (No. PE-18) recommends an IDA Credit of \$4.1 million for a project consisting of:

- (a) the expansion of the Faculty of Agriculture;
- (b) the construction of two new and expansion of two existing certificate/diploma level agricultural institutes;
- (c) the construction of five new Rural Training Centers (RTCs) and the conversion of three existing District Training Centers into RTCs; and
- (d) technical assistance for the implementation of programs at the institutions mentioned under (a), (b) and (c) above.

4. The project is geared to Tanzania's projected manpower requirements. The country's development strategy is focused upon the agricultural sector, which accounts for about 50% of Gross Domestic Product, some two-thirds of exports and over 90% of total employment. Progress in modernizing the agricultural sector in Tanzania is being seriously hampered by a lack of local expertise at all levels. The proposed project is designed to alleviate this deficiency.

5. The recurrent expenditures generated by the proposed project would amount to 1.1% of the recurrent budget of the Ministry of National Education, which would be responsible for the Faculty of Agriculture, and to 3.1% of the recurrent budget of the Ministry of Agriculture, Food and Cooperatives, which would be responsible for the other project entities. These expenditures are within the Government's capacity.

### III. ISSUES AND HIGHLIGHTS

#### Local Currency Financing

6. The estimated total cost of the project is \$5.9 million, of which the proposed IDA Credit of \$4.1 million would cover 70%. The foreign exchange component is estimated at \$3.1 million, and it is proposed to finance local currency costs of about \$1.0 million from the Credit. Tanzania's ability to prepare and implement projects has increased, but by their nature some do not attract foreign finance. In order to secure the foreign exchange needed for the entire development program, it is important to finance some local currency costs of projects which attract foreign finance.

#### Faculty of Agriculture

7. The agricultural college at Morogoro has recently been converted into a Faculty of Agriculture. The project would provide additional buildings and equipment needed by the Faculty. Assurances would be sought during negotiations that a staff development plan for the Faculty acceptable to the Association would be prepared within six months of the signing of the proposed Credit and would be implemented.

#### Certificate/Diploma Institutes

8. The four institutes to be included in the project would offer two-year certificate programs and a one-year diploma course restricted to certificate holders who had completed at least two years of acceptable performance in the field. Curricula reforms are necessary if the institutes are to meet their objectives. During negotiations the Government would be asked to submit to the Association, within one year of the signing of the Credit, appropriately revised curricula for all courses to be offered at the institutes. Assurances would also be sought during negotiations that the Government would provide the required teaching staff for the institutes, either by direct engagement or through external aid agencies.

### Rural Training Centers

9. A major element of the Government's long-term adult education program is the establishment of a Rural Training Center in each of the 64 districts in Tanzania. These RTCs, which will provide training of about 1-2 weeks for farmers and their wives, are intended to supplement the activities of the agricultural extension services to increase the skills of the peasant farmers. The centers are also designed to equip farmers for life in the new village communities, known as "Ujamaa" villages, which are being established in Tanzania as an important part of the Government's rural development policy. Instruction at the centers will be intensive, and because of the animal husbandry involved, will extend from pre-dawn to late evenings. To permit farmers to participate fully, it is necessary to accommodate them at the centers, especially since very few live within walking distance of the centers and public transportation is either non-existent or, at best, inadequate.

10. Due to the shortage of experienced staff and financial resources, the establishment of RTCs will need to be carefully phased. The eight centers proposed for inclusion in the project have been selected on the basis of population density, agricultural output and type of agricultural activity undertaken in the district concerned.

11. The programs provided by the RTCs would consist of courses in agriculture, simple carpentry and metal work, health, nutrition and various aspects of citizenship. It is proposed that within one year of the signing of the Credit the Government should submit to IDA for its approval specimen outlines of the types of courses envisaged for each center. In addition, a system for the continual evaluation of the effectiveness of the RTCs and the training methods employed would be set up. During negotiations, the Government would be requested to undertake to make arrangements, e.g., with the University College of Dar es Salaam, for this purpose. Steps would also be taken to ensure continued contact with farmers who had attended the RTCs.

### Technical Assistance

12. A substantial amount of technical assistance, in the form of specialists and overseas fellowships, will be required for the successful implementation of the programs to be provided at the various project institutions. A number of bilateral donors, e.g., Denmark, Germany, Sweden and the U.S.A., have indicated interest in providing technical assistance for agricultural education in Tanzania. On request, we have provided Danish authorities with information on the type of technical assistance required for the proposed project, and we intend to pursue the matter with the other interested parties. Since it is not yet clear precisely what bilateral assistance will be forthcoming for the project, an allocation of \$0.97 million has been provided in the proposed Credit for the technical assistance required. It is proposed that the amount included in the Credit for this purpose should be cancelled to the extent that bilateral assistance is obtained.



13. Assurance would be sought from the Government that the necessary technical assistance would be obtained, whether with IDA or bilateral financing, and that the qualifications and experience of the specialists, as well as the training to be provided through the fellowships, would be acceptable to the Association.

#### Procurement

14. All contracts for civil works and the supply of furniture and equipment would be awarded on the basis of international competitive bidding. It would be expected that local manufacturers would participate in the bidding notably for furniture. At the request of the Tanzanians and with the view of promoting growth of the emerging manufacturing sector in Tanzania, we propose to accord local suppliers a preference of up to 15% of the c.i.f. price on competing imports.

#### IV. ECONOMIC HIGHLIGHTS

15. The Tanzanian Government's economic policy is devoted wholeheartedly to development, and there is a determined effort to mobilize maximum domestic resources for development. For example, monetary GDP for gross fixed investment rose from 15.0% to 21.7% between 1964 and 1968, tax revenues increased from 17% to 22% of monetary GDP over the same period, and there was a 23% average annual increase in Central Government savings.

16. Economic growth in recent years has been hampered by adverse weather conditions and falling export prices for sisal. Nevertheless, total output grew by close to 5% per year in 1964-68. In the second five year plan, 1969-74, the growth rate is set at 6-1/2%, which was considered a realistic target by the Economic Mission which visited Tanzania in August/September 1969. In its Report (No. AE-7), the Mission singles out the shortage of skilled manpower in agriculture and the lack of capital as major constraints on development. These conclusions underline the importance of the present project proposal.

17. The Country Program Paper dated June 2, 1970, states that "Tanzania is poor and will require external aid for a considerable time" and that it "therefore remains important to continue aid on concessional terms to postpone the rise in external debt service...for as long as possible."

V. RECOMMENDATION

18. I recommend that the Association invite the United Republic of Tanzania to send representatives to Washington to negotiate a development credit of \$4.1 million equivalent for the project, substantially on the terms and conditions set forth in the Appraisal Report and this Memorandum.

Michael L. Lejeune  
Director

Attachment: Five-Year Lending Program

Population (1970): 12.9 m  
 GNP Per Head (1968): \$80

Annex

TANZANIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total	
		Fiscal Years				1964-68	1969-73		
		1970	1971	1972	1973	1974	1975		
Agricultural Credit II	IDA				5.0				
Livestock II	IDA			10.0					
Tea I	IDA			5.0					
Tea II	IDA						7.0		
Tobacco I - Flue-cured	IDA		9.0						
Tobacco II	IDA					5.0			
Rural Development I	IDA				5.0				
Rural Development II	IDA						4.0		
Agricultural Education	IDA		4.1						
Education III	IDA				10.0				
Education IV	IDA						12.0		
Power II - Kidatu	IBRD		30.0						
Kidatu Transmission Equip.	IBRD					5.0			
Hotel Financing	IBRD				7.0				
Tourism II	IBRD						10.0		
Highways - Tan-Zam II	IDA	7.5							
Highways III	IDA			10.0					
Highways IV	IBRD					10.0			
	IBRD		30.0		7.0	15.0	10.0	5.2	44.0
	IDA	7.5	13.1	25.0	20.0	5.0	23.0	22.0	79.9
	Total	7.5	43.1	25.0	27.0	20.0	33.0	27.2	123.9
No.		1	3	3	4	3	4	4	14

Population (1970): 12.9 m  
 GNP Per Head (1968): \$80

Annex

TANZANIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total	
		Fiscal Years				1964-68	1969-73		
		1970	1971	1972	1973	1974	1975		
Agricultural Credit II	IDA				5.0				
Livestock II	IDA			10.0					
Tea I	IDA			5.0					
Tea II	IDA						7.0		
Tobacco I - Flue-cured	IDA		9.0						
Tobacco II	IDA					5.0			
Rural Development I	IDA				5.0				
Rural Development II	IDA						4.0		
Agricultural Education	IDA		4.1						
Education III	IDA				10.0				
Education IV	IDA						12.0		
Power II - Kidatu	IBRD		30.0						
Kidatu Transmission Equip.	IBRD					5.0			
Hotel Financing	IBRD				7.0				
Tourism II	IBRD						10.0		
Highways - Tan-Zam II	IDA	7.5							
Highways III	IDA			10.0					
Highways IV	IBRD					10.0			
	IBRD		30.0		7.0	15.0	10.0	5.2	44.0
	IDA	7.5	13.1	25.0	20.0	5.0	23.0	22.0	79.9
	Total	7.5	43.1	25.0	27.0	20.0	33.0	27.2	123.9
No.		1	3	3	4	3	4	4	14

# LOAN COMMITTEE

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LM/M/70-34

July 29, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Malaysia - Muda Irrigation (Loan 434-MA) held at 11:00 a.m. on July 24, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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

July 29, 1970

Minutes of Special Loan Meeting to discuss "Malaysia - Muda Irrigation (Loan 434-MA) held at 11:00 a.m. on July 24, 1970 in Conference Room B.

1. Present: Messrs. Cope (Chairman), Baum, Evans, Fontein, Scott, Street, French-Mullen, Foster, Takahashi and Pearce (Secretary).
2. Issue: The meeting had been called to consider Mr. Fontein's memorandum to the Chairman concerning the disposition of approximately \$5.2 million surplus funds remaining in a \$45 million loan (No. 434-MA) made on November 17, 1968 to finance the foreign exchange costs and some local expenditures of the Malaysia - Muda Irrigation Project.
3. Discussion: The meeting noted that:
  - (a) The original supplemental letter "List of Goods" provided that, if at any time civil works cost estimates should change substantially, a revised disbursement percentage could be substituted by either party, relating revised cost estimates for remaining civil works to the undisbursed loan amount. Since it was therefore clear that the Bank had intended to disburse the full amount of the loan, the only question arising was one of technique.
  - (b) Of two methods proposed for disbursing the balance of the loan - (i) changing the percentage for withdrawals in Category 1 (Civil Works) and (ii) financing additional items within the original project description - the second was preferable from the Bank's point of view in that it would permit Bank supervision of the execution of additional project works. Moreover, since the financing of additional works within the original project description would simply entail amending the List of Goods, reference to, or the approval of the Executive Directors was unnecessary.
4. Decision: The Chairman agreed that the Malaysians' agreement to these arrangements (para. 3(b) above) should be sought.

David Pearce  
Secretary

Cleared by: Messrs. Cope  
Fontein/ Foster  
Evans/French-Mullen  
Scott

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

July 27, 1970

WBG ARCHIVES

## MEMORANDUM TO THE LOAN COMMITTEE

### Sierra Leone - First Highway Project

1. The Committee is requested to consider, without meeting, the attached memorandum of July 27, 1970 from the Western Africa Department, entitled "Sierra Leone - The Proposed First Highway Project" (LC/0/70-85).
2. Comments, if any, should be sent to reach Mr. Ram (ext. 4788) by 5:00 p.m. on Thursday, July 30.
3. It is planned then, if the Committee approves, to inform the Government that the Bank and the Association are prepared to begin negotiations for the proposed loan and credit on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

Mr. J. Burke Knapp, 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)

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LC/0/70-85

July 27, 1970

LOAN COMMITTEE

Memorandum from the Western Africa Department

SIERRA LEONE - The Proposed First Highway Project

Introduction

1. The attached report entitled "Appraisal of the First Highway Project" (No. PTR-58 dated July 23, 1970) recommends a project as a suitable basis for a Bank loan of US\$4 million equivalent for a term of 22 years (including a 4-year grace period) and a credit of US\$3.5 million equivalent to the Government of Sierra Leone to finance its foreign exchange cost. The project was appraised by a Bank Mission in February/March 1970.
2. The Five Year Lending Program (1971-75) for Sierra Leone is attached. The proposed project, which is definitely scheduled for FY 1971, would be the Bank Group's fourth operation in Sierra Leone. The earlier commitments are US\$7.7 million in two loans for power expansion to the Sierra Leone Electricity Corporation and a credit of US\$3 million to the Government for an education project. The Electricity Corporation has a number of management problems resulting from labor unrest; the retirement of the previous General Manager in 1969; and the depletion of experienced senior staff. For these reasons the second power expansion project is not on schedule. An experienced expatriate, selected with the Bank's approval, has recently taken over as General Manager of the Corporation. He is expected to improve the affairs of the Corporation and speed up the implementation of the second project.
3. The only other project under active consideration and likely to come up for consideration by the Loan Committee during this FY is a cocoa/rice project for which a feasibility study has been recently completed by the Commonwealth Development Corporation acting as consultants to the Bank Group.

The Project

4. The proposed project would consist of (a) construction of the Bo-Kenema road (43 miles); (b) detailed engineering with retroactive financing of Bo-Kenema and Freetown-Waterloo roads (rural section); (c) feasibility studies to be followed by detailed engineering (if found justified) of 5 miles of the urban section of the Freetown-Waterloo road;



(d) purchase of mechanical equipment and spare parts; and (e) technical assistance for the Ministry of Works. The project is in line with the recommendation of a UNDP-financed Land Transport Survey for which the Bank acted as Executing Agency. The Survey identified and prepared feasibility studies for certain roads which have high priority in the development of the road transport system.

5. The estimated total cost of the project is US\$10.4 million equivalent. The Bank Group financing of US\$7.5 million would cover all the foreign exchange requirements of the project. The Government would meet the local costs. The weighted average rate of return on the project as a whole would be about 24 percent. The Ministry of Works will be in overall charge of the administration and execution of the project and will carry it out with the assistance of contractors and consultants. The Government would undertake to follow the Bank's Guidelines for Procurement. Construction will be carried out through contracts awarded on the basis of international competitive bidding and mechanical equipment will be purchased on the basis of international tenders. The project is expected to be completed in about 3 years and the disbursement would take about 4 years.

6. The largest part of the project -- the proposed Bo-Kenema road -- would be the last section to be completed of the country's main trunk highway between Freetown and Kenema. Bo and Kenema are the second and third largest towns in Sierra Leone; both are important administrative and commercial centers. The road would serve a diamond mining area populated by about 500,000 people and producing nearly all the country's cocoa and coffee exports, and 20 percent of palm kernel exports as well as some timber for domestic use.

7. Until about a decade ago the Sierra Leone railway, single track, narrow gauge, completed in 1908 with an overall length of 310 miles, played an important part in moving people and goods within the country. Since 1950 it has not met its operating costs and in recent years the Government has been subsidizing it at about US\$1.2 million per year. It has outlived its useful economic life and ought to have been phased out years ago. As the railway is the largest employer in the country, the Government was reluctant to do so and risk the unpopularity of creating large-scale unemployment. The UNDP study recommended phasing out the railway be completed by the end of 1972. The present Government has taken the economically wise but politically unpopular decision to phase out the railways and in pursuance of this decision closed the branch line of the railway in 1969. It proposes to complete the phasing out by 1972.

8. The transport needs of the country will have to be met by organizing an efficient and reliable road transport system and in the coming years Government will have to concentrate all its attention on development of certain high priority highways and proper maintenance of existing highways which have been neglected for a number of years.

9. The Government have formulated a Five Year Highway Development Plan (1971-75) for construction and maintenance of highways within the country, following the recommendations of the Land Transport Study. The total estimated expenditure would be US\$48 million, practically double the amount spent during the previous 5 years. The Government expects to secure the foreign exchange requirements of about US\$21 million from external sources and to contribute the balance of US\$27 million from its own resources. During the last year, financing for construction of two of the five high priority roads was covered by bilateral financial assistance from the Federal Republic of Germany and the United Kingdom. Taking into consideration the proposed project and the financing for the Freetown-Waterloo road which is included in the Bank's Five Year Lending Program, foreign financing remains to be found only for the construction of the Makeni-Matotoka road. The Federal Republic of Germany, which has financed construction of a sector of this road from Lunsar to Makeni, would be requested by Government to finance this road. The local resources required for financing the program are within the financial capacity of the country.

10. The Committee is invited to pay particular attention to the following:

- (a) It is proposed to obtain assurances from the Government limiting new suppliers' credit to US\$2 million per year over the next years (please see para. 13 below).
- (b) The proposed retroactive financing of the detailed engineering of the foreign exchange cost of the Bo-Kenema and Freetown-Waterloo roads (rural sections).

After clearance with the chairman of the Loan Committee, the Bank informed the Sierra Leone Government that it would consider financing engineering under (b) retroactively to enable the proposed construction project to be prepared as quickly as possible. The amount of retroactive financing is not likely to exceed US\$500,000 (para. 4.05 of the Appraisal Report).

- (c) An amount of about \$0.9 million proposed for financing the feasibility study and detailed engineering of the Freetown-Waterloo road and technical assistance (paras. 4.01(c) and (e) of the Appraisal Report) is provisional.

Government were not certain that UNDP funds for item (c) above would be available without prejudicing their pending requests for planning assistance and assistance for carrying out a vocational training program. The planning assistance program has since been approved in June 1970 and the vocational program is likely to be presented to the Governing Council in January 1971. As a result of recent contacts with UNDP, we understand that while UNDP may not be able to submit a request on (c) above (if made by Government) to the Governing Council earlier than June 1971, there is possibility of provisionally approving the proposal and making an advance

allocation of up to \$300,000 for expenditure up to June 1971. This question will be discussed with the Sierra Leone delegation in the course of negotiations; should it be possible to obtain sufficient assurance from UNDP before presentation of loan/credit to the Executive Directors, as we think it might be possible, so that we would be able to regard their financing as firm even though this would not be formalized until mid-1971, the Bank loan would be reduced by approximately \$900,000. Normally it would have been logical to wait until the Government has received a firm commitment from UNDP, but given the history of this project and the need to start construction by October to take advantage of the dry season this year and avoid another delay, we believe this loan/credit should now be processed forthwith.

### The Economy

11. Reviewing the Economic Policy Memorandum (EC/O/69-1 dated January 3, 1969) the Economic Committee observed on January 10, 1969 that there has been a remarkable improvement in the foreign exchange reserves and continued satisfactory budgetary performance (EC/M/69-3 dated January 30, 1969). The Committee recommended, subject to continued improvement in economic performance, that Sierra Leone be considered eligible for a blend of Bank Group assistance of approximately US\$6 million annually for the next five years. The Committee agreed that limited domestic savings justified external financing to the extent of 70/80 percent of project costs, but where a significant proportion of local currency financing was involved in Bank Group projects each case would have to be examined in the light of up-to-date information and overall development needs and priorities.

12. The Economic Mission that visited Sierra Leone in November/December 1969 has noted further improvement in the country's economic performance. Rice production, which represents about 40 percent of the agricultural output, has grown by 8.5 percent in 1968, slightly above the average of the previous three years. There was a dramatic recovery in the production of export crops in 1968 followed by a modest increase in 1969. Growth in the relatively small manufacturing sector has also been impressive. Over the 2-year period 1968/69 the value of domestic exports increased by 85 percent while imports increased only about 35 percent. The combined effect of restraint in Government expenditure and boosts in revenues from customs duties following the 1967 devaluation has produced an unprecedented surplus in the budget of 15 percent of current revenues compared to either a negligible surplus or a deficit in previous years.

13. The most important recent development is Government's decision in December 1969 to acquire the majority of shares in four foreign-owned mining companies which together provide 50 percent of export earnings. Negotiations with some of these companies are under way on the amount and duration of compensation payments, on the question of day-to-day management of the companies and future taxation policy. Pending satisfactory negotiated arrangements with the mining companies, economic prospects are

somewhat uncertain. Government is also under strong pressure to produce visible signs of development and to reduce the growing unemployment. An IMF standby arrangement which included a number of monetary and financial constraints is scheduled to end this summer. There may, therefore, be strong pressure to resort to deficit financing and financing by suppliers' credit. Based on the findings of the Economic Mission, this Department recommended in the Country Program Paper for Sierra Leone dated April 30, 1970 that we should take the opportunity of the forthcoming negotiations for the Highway Construction Project to obtain assurances from the Government on limiting the Government's contraction of suppliers' credit to US\$2 million a year for the next years. Review of this paper was made by the President on May 6, 1970 and this recommendation was approved. The assurance may be either in the form of a covenant in the Loan Agreement or a separate Letter of Understanding from Government. We propose to be flexible regarding the form of assurance.

14. A new economic report will be circulated to Executive Directors before presentation of this loan/credit. The report is presently being discussed with Government including the supplier credit question.

Recommendation

15. I concur with the recommendations of the Appraisal Report and I recommend that the Government of Sierra Leone be invited to negotiate a loan/credit up to \$7.5 million for the proposed First Highway Project on the terms and conditions set forth in paras. 6.01 - 6.03 of the Appraisal Report and para. 13 of this memorandum.

Roger Chaufournier  
Director

Attachment

Population: 2.4 m.  
 GNP Per Cap. \$140

IVa. SIERRA LEONE - 5 YEAR LENDING PROGRAM

		(\$ million)					Total	Total
		1971	1972	1973	1974	1975	1965-69	1970-74
Cocoa and Rice	IDA		6.0					
Rhombe Rice	IDA			4.0				
Fisheries	IBRD			3.0				
Agriculture (Unidentified)	IDA					3.0		
Education II					5.0			
Roads I - Bo-Kenema and	IDA	3.5						
Highway Equipment	IBRD	4.0						
Roads II- Freetown Waterloo	IDA				3.0			
	IBRD				6.0			
IBRD		4.0	-	8.0	6.0	-	7.7	20.0
IDA		3.5	6.0	4.0	8.0	3.0	-	24.5
Total		7.5	6.0	12.0	14.0	3.0	7.7	44.5

## LOAN COMMITTEE

July 24, 1970

MEMORANDUM TO THE LOAN COMMITTEE

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SEP 05 2014

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Cyprus - Nicosia and Famagusta Sewerage Projects

1. The Committee is requested to consider, without meeting, the attached memorandum of July 24, 1970 from the Europe, Middle East and North Africa Department, entitled "Cyprus - Proposed \$3.2 Million Bank Loan for the Nicosia Sewerage Project and Proposed \$1.5 Million Bank Loan for the Famagusta Sewerage Project" (LC/0/70-84).
2. Comments, if any, should be sent to reach Mr. I.M. Wright (ext. 4719) by 5:00 p.m. on Tuesday, July 28.
3. It is planned then, if the Committee approves, and subject to passage of proposed sewage legislation, to inform the Government that the Bank is prepared to begin negotiations for the proposed loans 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:

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

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SEP 05 2014 RESTRICTED

WBG ARCHIVES LC/0/70-84

July 24, 1970

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department

CYPRUS - Proposed \$3.2 Million Bank Loan for the Nicosia  
Sewerage Project and Proposed \$1.5 Million Bank  
Loan for the Famagusta Sewerage Project

1. Appraisal reports on the Nicosia and Famagusta Sewerage Projects (PU-45 and PU-46), dated July 2 and 9, 1970, are attached hereto for consideration by the Loan Committee.

Background

2. The present total of Bank lending to Cyprus is \$34.2 million equivalent (net of cancellations), of which \$31.9 million was outstanding on June 30, 1970. Three loans totalling \$22.7 million (net of cancellations) for power development were made to the Electricity Authority of Cyprus in 1963, 1967 and 1969. A loan of \$11.5 million for the Cyprus Ports Project was made in 1969. Performance under all loans has been satisfactory, and there are no outstanding problems.

3. The Bank has no other loan under consideration for Cyprus in FY 1971. One loan is under preparation for early FY 1972. This project relates to the construction of the Nicosia-Morphou road and the undertaking of a highway development study in order to assist in rationalizing future highway administration and development in Cyprus. The Bank's Five-Year Lending Program (1971-75) envisages total lending of around \$38.7 million (see Annex).

The Projects

4. The proposed sewerage projects consist of the construction of two separate sewerage systems in Nicosia and Famagusta. Since neither a modern sewerage system nor an appropriate agency to run such a system now exists in Cyprus, the Government has had to start with providing legislation creating the necessary organizational and legal framework. A draft of a Sewage and Drainage Law creating sewage boards (generally composed of members of the Municipal Council staff) and setting forth their powers and functions has been prepared and is acceptable to the Bank. It was expected that this legislation would be passed by the end of May, but the campaign for national elections on July 5 intervened, and it is only now being considered by Parliament. Since it is expected that this legislation will pass shortly, I am submitting these projects to the Committee now to avoid a possible delay in the negotiations. It is, of course, necessary that before negotiations begin, the legislation be enacted, the areas of the sewage boards' authority delineated and the members of the boards appointed. We have made this clear in our preliminary discussions with the Government, and have been assured that these steps will

be completed in time for negotiations to be held in the near future.

5. An appraisal mission from the Public Utilities Projects Department visited Cyprus in January-February 1970. Its reports are attached and recommend two loans, one to each of the sewage boards: \$3.2 million for Nicosia and \$1.5 million for Famagusta.

#### Nicosia

6. The proposed project (total cost \$6.4 million) would be the first stage of a Master Plan for sewers for the capital city of Cyprus, serving initially 32,000 of the city's residents. The project area of 1,060 acres in south central Nicosia is that part of the city where the need for a sewer system is greatest because of population density and where present disposal methods are creating the greatest problem. The project includes 16 miles of connecting sewers and 53 miles of lateral, sub-trunk and main trunk sewers through which sewage water will flow by gravity to the treatment site. It also includes construction of a treatment plant, which will provide effluent suitable for either irrigation or disposal in the Pedios River.

7. A portion of the project area lies within the walls of the old city of Nicosia, where an archaic water supply system will be reconstructed concurrently with the installation of sewers. A consultant is presently redesigning the water system to permit the necessary work to take place at the same time as the laying of the sewers in order to save costs. The water system improvements would be made by the local water authority with financial assistance from the Government.

8. About 60 acres of the project lie within the Turkish sector of Nicosia. It is hoped that arrangements can be made with the Turkish community for construction of sewers within this area which account for about 3 percent of total project cost. If this should prove impossible during the construction period, however, the project could be reduced proportionately without significantly affecting the balance. Construction of the portion within the Turkish sector at a later time would pose no technical problems and would require no further work in the Greek sector.

#### Famagusta

9. The Famagusta project (total cost \$2.7 million) includes both a sewerage and a drainage system. The sewerage system would be the first stage of a Master Plan of sewers for Famagusta, serving initially 12,000 of the town's 42,000 residents, as well as accommodations for about 4,000 tourists. The project area of 420 acres near the beach is that part of the Municipality where the need for a sewerage system is greatest because of population and tourist density and where present disposal methods are creating the greatest problem. The sewerage system would include 7.5 miles of connecting sewers, 18 miles of laterals and gravity sewers and transmission mains, several sewage pumping stations and a treatment plant. The waste water produced will be suitable for irrigation or discharge to a nearby reservoir for recharge of the aquifer.



10. The storm water drainage part of the project would improve the drainage of two areas totalling 120 acres near the waterfront and an inland area of about 80 acres. The storm water from the waterfront areas would be discharged to the harbor. That from the inland area would be discharged away from the waterfront. The system would include about 3.3 miles of gravity storm drains, a pumping station, and about 0.6 miles of pressure main.

11. As requested by the Municipality of Famagusta and as already discussed with the consultants, certain components of the proposed storm water drainage system may be expanded in order to allow re-use of the water. A decision on whether to do this will be made during negotiations and could increase the foreign exchange requirements of the project, and thus the loan, by as much as \$100,000.

#### Financial Matters

12. The proposed borrowers, the Sewage Boards, would be new entities, and the projects would be 100 percent debt financed. The funds necessary during the construction period (1970-1974) would be provided in three ways: the Bank loans, local bond issues, and loans from the Government. The Bank loans would finance the full foreign exchange requirements of the projects including interest during construction. I propose that, as requested by the Government, retroactive financing of the entire foreign exchange component of engineering services for detailed design be included in the loans. This would entail financing payments made after the consultants were engaged, i.e., since July 1, 1969 for Nicosia (approximately \$77,000) and since November 15, 1969 for Famagusta (approximately \$40,000). The local currency requirements would be met from local resources. The major portion would come from the proceeds of bond issues by the Sewage Boards, underwritten by the Central Bank and guaranteed by the Government. Each issue will be for a 12-year term and at 7 - 7½ percent interest, with a sinking fund to provide for redemption of 50 percent of the amounts issued. The Government would guarantee refinancing of the remaining 50 percent for a further 12-year period. The second major source would be Government loans for working capital. The loans would be for a 25-year period at 6½ percent interest, including a grace period of seven years on amortization and without payment of interest for the first two years.

13. Since the borrowers are new entities and the projects are 100 percent debt financed, they do not have support from either equity in the capital structure or from revenues from ongoing operations. Since we will require full cost recovery (operating costs, debt interest and amortization) immediately following completion of construction, sewage rates will have to be set at a level which will be relatively high for the individual householder. It is for this reason that terms of 25 years including four years of grace are proposed for the Bank loans.

### Political Situation

14. The United Nations forces stationed in Cyprus continue to play an important role in keeping the peace and have recently received a new mandate from the General Assembly. The first elections for Parliament since independence were held on July 5 and went peacefully. The results are not expected to cause major policy shifts. While the political situation appeared to be improving, the latest terrorist activities by the pro-Enosis groups have created some new tensions. The Greek and Turkish communities are, however, continuing to meet and discuss problems, and the growing demand for labor in the Greek community is providing increasing opportunities for the Turkish labor force. While no breakthrough has yet been achieved, there is general agreement that the political disputes should be solved through a negotiated settlement. Such an attitude on the part of the leaders of both communities warrants guarded optimism.

### The Economy

15. A report "Current Economic Position and Prospects of Cyprus" distributed to the Economic Committee (EC/O/68-98/1) on October 14, 1968 recorded the impressive growth of the economy in the mid-sixties. In spite of political difficulties, GNP in real terms increased at an annual rate of 6 percent during the first Five-Year Plan (1962-66) exceeding the target rate of 5.5 percent. Investment and savings also increased. Exports and earnings from tourism rose significantly. Conservative fiscal and monetary policies resulted in budget surpluses, internal and external financial stability, and accumulation of foreign exchange reserves. Full employment of the Greek community has been maintained though unemployment remained high among Turkish Cypriots. The report concluded that Cyprus had a good potential for economic development and that the second Five-Year Plan (1967-71) on the whole appraised realistically the economic situation and prospects and proposed consistent policies aimed at promoting growth and solving existing structural problems.

16. An updating memorandum on Cyprus (EC/O/69-52), distributed to the Economic Committee on May 7, 1969, confirmed the conclusions of the earlier report and reported that a sustained rate of growth had been maintained in the first two years of the Second Plan (1967-68) during which GNP had probably grown on the average at a rate somewhat above the 7 percent target stipulated by the Plan.

17. In 1969 the GNP is estimated to have grown at a rate of 10 to 12 percent in real terms. However, there are signs that the accelerated economic expansion was accompanied by inflationary pressures. These were caused by a high rate of investment, rapid expansion of credit, shortage of skilled manpower and large wage increases, all of which have contributed to the emergence of substantial purchasing power in excess of production. These developments are primarily reflected in a rapid growth of imports and a deterioration of the balance of payments on current account. The overall balance, however, showed a large surplus due to the inflow of capital, much of which appears to be for real estate speculation.

18. The Government has been seriously concerned about this situation and has taken steps to meet it by resorting to more restrictive monetary and fiscal policies and by other supporting measures designed to encourage savings and to discourage speculation. The full impact of these measures cannot be forecast accurately but they appear to be adequate without being unduly repressive. So far the openness of the economy has prevented any significant increases in prices which would affect competitiveness. Whilst the Government of Cyprus is, perhaps, entering a period in which it may have to face up to major economic adjustments, it is in a position to do so from strength and with considerable confidence in the future.

19. The total outstanding external public debt of Cyprus as of December 31, 1969 was about US\$51 million, of which about US\$33 million was disbursed. Service payments were less than 3 percent of gross foreign exchange earnings in 1969. Cyprus has an excellent debt service record. It is justified in borrowing externally and should be able to support it on conventional terms to the extent contemplated.

#### Recommendation

20. I recommend that the Bank invite the Government of Cyprus and the Nicosia and Famagusta Sewage Boards to send representatives, subject to passage of the proposed sewage legislation, to negotiate (a) a loan of \$3.2 million for the Nicosia Sewerage Project on the conditions set forth in Section 7 of the appraisal report; and (b) a loan of \$1.5 million for the Famagusta Sewerage Project on the conditions set forth in Section 7 of the appraisal report and subject to the possibility of increasing the loan amount by up to \$100,000 as discussed in paragraph 11 above.

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

Attachments

ANNEX

Population: 0.6 m.  
GNP Per Cap.: \$780

CYPRUS LENDING PROGRAM: PAST AND PROPOSED

		(\$ millions)											Totals				
		Through	Fiscal Years											1964-	1969-	1971-	
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1968	1973	1975
Power I	IBRD	21.0															
Power II	IBRD					2.8											
Power III	IBRD							5.0									
Ports	IBRD						11.5										
Roads	IBRD									2.0							
Sewerage I	IBRD								4.7								
Sewerage II	IBRD											4.0					
Tourism	IBRD									4.0							
Water Use Improvement	IBRD									4.0							
Irrigation	IBRD										10.0						
Unallocated	IBRD										5.0						
Unallocated	IBRD												5.0				
		<u>21.0</u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>2.8</u>	<u>    </u>	<u>11.5</u>	<u>5.0</u>	<u>4.7</u>	<u>10.0</u>	<u>15.0</u>	<u>4.0</u>	<u>5.0</u>	<u>2.8</u>	<u>46.2</u>	<u>38.7</u>
No.		1				1		1	1	1	3	2	1	1	1	8	8

E/ME/NA Department  
July 9, 1970

# LOAN COMMITTEE

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LM/M/70-33

July 22, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held at 4:30 p.m. on July 20, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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

July 22, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held at 4:30 p.m. on July 20, 1970 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Cope, Baum, Evans, Nurick, Hartwich, Goffin, Siebeck, Suratgar and Pearce (Secretary).
2. Issue: The meeting had been called to consider the back-to-office report of a supervision mission which had visited Tunisia from July 6-11, 1970 to discuss arrangements for revising the project and cancelling the balance of the loan and credit (cf. LM/M/70-29 dated June 23, 1970 and LM/M/70-31 dated July 6, 1970).
3. Discussion: The meeting, noting that the Tunisians had requested inclusion in the revised project of amounts for irrigation and livestock and retention of the 80 per cent disbursement formula for all approved contracts whether or not the equipment was needed for the revised project (instead of the Bank/IDA proposal to limit further disbursements on approved contracts for equipment surplus to the revised project to the foreign exchange component only), agreed that:
  - (a) Irrigation and livestock contracts amounting to about \$392,000 and \$38,000 respectively should be included in the revised project; 80 per cent of the cost of these contracts - the originally agreed disbursement formula - would be financed from the loan and credit.
  - (b) Approved contracts in respect of equipment needed for the revised project would continue to be financed from the loan and credit on the basis of the original 80 per cent formula; however, disbursements for approved contracts in respect of equipment surplus to the revised project would be limited to the foreign exchange component.
  - (c) On this basis, total Bank/IDA disbursements would amount to about \$9.5 million, including studies on land use policy estimated at about \$600,000; the corresponding amount available for cancellation would be about \$8.5 million.

4. Decision: The Chairman agreed that the Tunisians should be informed by cable of this Bank/IDA response to their request. Meanwhile, remaining disbursement requests should not be acted upon until the Tunisians had signed and ratified the revised loan/credit agreements.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Baum  
Hartwich/Siebeck  
Goffin  
Suratgar

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/70-32

July 16, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Provision of Expatriate Managers for Bank Financed Projects and of Operational Staff for Government Departments and Agencies held at 3:30 p.m. on July 10, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

### Copies for Information:

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



July 16, 1970

Minutes of Special Loan Meeting to discuss the Provision of Expatriate Managers for Bank Financed Projects and of Operational Staff for Government Departments and Agencies held at 3:30 p.m. on July 10, 1970 in Conference Room B.

---

1. Present: Messrs. Knapp (Chairman), Aldewereld, Broches, Demuth, El Emary, Baum, Lejeune, Calika, Cheek, McIvor, Sella, Engelmann, Riley, Stoops and Pearce (Secretary).

2. Issue: The meeting had been called to consider a draft memorandum to the Executive Directors which proposed the establishment of an experimental program under which the Bank, through the direct employment and secondment of personnel, would provide management assistance for Bank-financed projects and operational staff for governmental departments and agencies carrying out development functions, provided that the member country concerned requested such assistance and could not, with reasonable efforts, obtain it from other sources. The proposal (paragraphs 3-14 of the draft memorandum) had already been discussed informally with the Executive Directors and several, representing Part I countries, had expressed more or less serious reservations; on the other hand, Executive Directors representing Part II countries had, with one exception, generally welcomed the proposal. Since the President regarded the program as having relatively low priority, he had decided to postpone presenting a formal proposal to the Executive Directors at least until next year, i.e. in connection with the FY 1972 administrative budget. The main issue for discussion therefore was whether, on the basis of previous discussions of this subject (cf. LC/M/68-32 dated December 26, 1968 and LM/M/69-32 dated July 9, 1969) and operational experience during the last two years, the need for a program of the type proposed in the draft memorandum was sufficiently urgent that the President should be asked to assign it a higher priority and to present a proposal to the Executive Directors for consideration; alternatively, whether it would suffice for the Bank to continue providing management assistance on the present ad hoc basis.

3. Discussion: The meeting noted that:

- (a) An alternative approach - under which the Bank would become a Participating Agency of the UNDP's Operational Assistance scheme (OPAS) - would not require the Executive Directors' specific approval of expenditures because the Bank would merely administer funds provided by OPAS itself. However, some of the Bank's members were not participants in OPAS and, since OPAS' operations were financed by UNDP technical assistance funds which were pre-allocated annually, a country's annual allocation might be fully committed before the need for management assistance became evident.

(b) In 1966, the Bank had established the Agricultural Development Service to provide or retain managers for agricultural projects in Eastern Africa; subsequently, and with the Executive Directors' approval, it had hired and seconded managers for several livestock projects in Latin America and Africa where no suitable alternatives existed. In addition, the Bank had occasionally seconded advisers or managers to development finance companies. These ad hoc arrangements had worked satisfactorily.

(c) While there was an established need for expatriate project managers, particularly in Africa and South America and primarily in the agriculture and education sectors, it was not clear that existing ad hoc arrangements were inadequate in the immediate future.

4. Decision: The Chairman decided (a) that the existing ad hoc arrangements for the employment of expatriate managers should continue to be utilized, and (b) that the necessary steps should be taken for the Bank to become a Participating Agency of OPAS and the Executive Directors be advised accordingly. If and when, in the judgement of the Area and Projects Departments concerned, these arrangements proved inadequate, the proposal for Bank employment of project managers described in the draft memorandum could be reconsidered.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Broches  
Demuth  
Baum  
Lejeune  
Cheek

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LC/M/70-6

July 9, 1970

Minutes of Loan Committee Meeting held at  
3:00 p.m. on Wednesday, July 1, 1970 in  
the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S. Aldewereld  
Mr. G. Alter  
Mr. B. Chadenet  
Mr. B.M. Cheek  
Mr. R.H. Demuth  
Mr. R.J. Goodman

Mr. E. Gutierrez  
Mr. D. Hartwich  
Mr. A.M. Kamarck  
Mr. M.L. Lejeune  
Mr. F.R. Poore  
Mr. R. Sadove  
Mr. H.N. Scott  
Mr. D. Pearce, Secretary

In Attendance:

Mr. W.C. Baum  
Mr. D.J. Fontein  
Mr. J. Foster  
Mr. M.L. Hoffman  
Mr. B.B. King  
Mr. K.S. Krishnaswamy

Mr. C.E. Madavo  
Mr. V.J. Riley  
Mr. B.G. Sandberg  
Mr. G.M. Street  
Mr. D.A. Strombom  
Mr. R.M. Westebbe

B. Singapore - Mass Rapid Transit Proposal and Urban Development

1. The Committee considered a memorandum dated June 26, 1970 from the East Asia and Pacific Department entitled "Singapore - Mass Rapid Transit Proposal and Urban Development" and the report of a Special Projects Department reconnaissance mission which described the current status of urban planning and programs in Singapore, examined a proposal for an urban mass rapid transit system in the context of overall urban development, and identified prospects for Bank involvement. The main issue for

- 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

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Mr. M. Shoaib, Vice President  
Directors, other Departments  
Executive Vice President (IFC)  
Vice President (IFC)

discussion was the report's recommendation that further studies be undertaken of a comprehensive project for the development of the so-called Western Corridor between the city of Singapore and the new town of Jurong and of mass rapid transit alternatives leading to an integrated transport system, and the East Asia and Pacific Department's recommendation that the Bank discuss with UNDP the possibility of their financing the proposed studies with the Bank as Executing Agency.

2. The Committee noted that:

- (a) In May, 1967, the Government had begun a \$5.2 million Urban Renewal and Development Study Project with assistance from the United Nations Special Fund. A State and City Planning Board (SCP) had been set up; its first task was to implement the project with assistance from planning and transport consultants and recommendations were expected in April, 1971. Subsequently, the Government had sponsored a consultants' study in 1968 to investigate the feasibility of a mass rapid transit system. The latter had developed independently of Singapore's overall urban planning program.
- (b) While the planning study was deficient in various respects and was unlikely to result in better coordination between the agencies concerned with Singapore's development, it would provide a sufficient data base for the Bank mission's proposed comprehensive study of the development of the Western Corridor, which would link urban development with specific project preparation.
- (c) Similarly, the mass rapid transit study, apart from the fact that it did not comprise part of an integrated transport system, was inadequate both in terms of the geographical area to be served and the characteristics of the system. Bank involvement in further studies of mass transit alternatives would ensure that the analyses would meet its requirements for project consideration and financing.
- (d) Finally, the two proposed studies would enable the Bank to gain its first direct experience in urban mass transportation and organization. In this respect, Singapore, a small city state in which national and urban development priorities coincided, was an ideal case-study.

3. The East Asia and Pacific Department enquired (a) whether a mass transit project in Singapore would in principle be suitable for future Bank financing and (b) whether, if the proposed comprehensive study for development of the Western Corridor resulted in the establishment of agencies for implementing urbanization projects, the Bank would be prepared to consider financing these projects through such agencies. To the first question (a), the Chairman replied in the affirmative and to the second (b), stated that while Bank financing of urbanization projects could be considered in principle, the Bank was far from having any established policies in this field and specific projects should be considered on their merits, as and when they arose.

4. The Chairman also stated that, while the financing of the two proposed studies should logically be provided by the UNDP, the Bank might be prepared to consider a loan for this purpose if, in the event, UNDP was unable to help.

5. The Committee approved the East Asia and Pacific Department's recommendation that, following consultations with the Government, the UNDP be asked to consider financing the proposed studies with the Bank acting as Executing Agency.

Secretary's Department  
July 9, 1970

# LOAN COMMITTEE

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LM/M/70-31

July 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held at 9:30 a.m. on June 25, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

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

July 6, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held at 9:30 a.m. on June 25 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Aldewereld, Chadenet, Hartwich, McIvor, Sella, Goffin, Springuel, Suratgar and Pearce (Secretary).

2. Issue: The Chairman, recalling the discussion and conclusions reached at the Special Loan Meeting on June 18 (cf. LM/M/70-29 dated June 23, 1970), reported that the President had asked him to consider further the arrangements proposed and agreed by the departments concerned for revising the project and cancelling the balance of the loan and credit, especially as to whether additional amounts might be cancelled or repaid.

3. Discussion: The Europe, Middle East and North Africa Department stated that, in its view, a decision to cancel or require payment of further amounts would be unwise and inappropriate at this time for the following reasons:

- (a) The Bank and IDA had embarked upon the project in 1966/67 knowing that it was a high-risk operation, partly because of its social and political implications for Tunisian agrarian reform. The Bank and IDA had had cause to consider prematuring the loan and credit already in 1969, owing to the project's unsatisfactory progress, but had not done so. If the loan and credit were suddenly prematured now, so soon after the demise of Ben Salah, the former Minister of National Economy, this might be interpreted by the Tunisians as adverse Bank/IDA reaction to their handling of the Ben Salah affair.
- (b) The repayment in foreign exchange of the \$5.9 million already disbursed from the Bank/IDA loan/credit would place a heavy burden on Tunisia's balance of payments at this time, and such a requirement would seriously compromise Bank/IDA relations with the Government, at both the country and project working levels.

The Europe, Middle East and North Africa Department recommended therefore that the project be revised and the balance of the loan/credit be cancelled on the basis of the arrangements agreed at the previous meeting (cf. LM/M/70-29 dated June 23, 1970).

4. The meeting reconsidered in some detail the precise status of the project and the \$18 million loan/credit and agreed that:

- (a) Of about \$5.9 million already disbursed, about \$3 million, representing \$2.4 million equipment in use in the revised project area and \$0.6 million technical assistance had been put to the originally intended program.
- (b) \$1 million, comprising continuation of technical assistance through June 30, 1971 (\$0.4 million) and additional studies if requested by the Government (\$0.6 million) should be financed from the loan/credit.
- (c) \$4.2 million of equipment, comprising about \$3 million already disbursed for equipment delivered but now surplus to the project and \$1.2 million not yet disbursed but committed for equipment on order from foreign suppliers, could be sold for effective use in other projects/sectors of the economy. Arrangements should be negotiated with the Tunisians for Bank/IDA supervision of the use of these sales proceeds in connection with a forthcoming \$12 million agricultural credit.
- (d) \$8 - 9 million, the undisbursed or uncommitted balance of the loan/credit should be cancelled as soon as possible; the \$1.2 million undisbursed amount committed for equipment on order should not be cancelled because suppliers had contracted with the Tunisians in good faith on the assumption that Bank/IDA financing would be available.

5. Decision: It was agreed that the considerations and recommendations noted in paragraphs 3-4 above should be conveyed to the President for decision.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Hartwich/Springuel  
Sella  
Goffin

cc: Loan Committee  
Participants



# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/70-30

July 6, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Togo - CIMAO Multinational West African Cement Project" held at 3:00 p.m. on June 23, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

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

July 6, 1970

Minutes of Special Loan Meeting to discuss the proposed "Togo - CIMA0 Multi-national West African Cement Project" held at 3:00 p.m. on June 23 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Gaud (IFC), Baum, Chauffournier, Nurick, Kalmanoff, Hassan (IFC), El Darwish, Gue, Kreuter (IFC) and Pearce (Secretary).
2. Issue: The meeting had been called to consider the Bank Group's position with respect to a proposed \$40 million cement project to be established with French co-sponsorship and technical assistance (Lambert Freres) in Togo to supply six neighboring countries - Dahomey (possibly), Ghana, Ivory Coast, Niger, Togo and Upper Volta.
3. Discussion: The meeting noted that:
  - (a) On December 31, 1969, the Coordination Committee on Industrialization had agreed to recommend to the Governments concerned that, in order to conserve their limited creditworthiness, the project should be financed as far as possible by private capital and that IFC would be precluded from participating if the Governments' share in ownership exceeded 50 per cent (cf. CCI/M/70-1 dated January 16, 1970).
  - (b) However, this approach was no longer possible because, by cable of June 22, 1970 from Togolese President Eyadema, the Governments had informed the Bank that the project company would be government-controlled. Moreover, the objective of establishing a private company would not be achieved by the revised financing plan discussed by IFC and Lambert; while reducing the Governments' voting equity from 72 per cent to 48 per cent, the revised plan added quasi-equity which increased the Government's venture capital contribution to 66 per cent. Lambert proposed to take a 20-25 per cent equity participation - by capitalizing the cost of its services hitherto - with IFC and others contributing the remainder.
  - (c) If financed partly by the Bank, the loan would require Government guarantees. In accordance with its policy in projects of this kind, the Bank would also have to increase the cost of its loan to the borrower - to make it comparable to an IFC loan at 9 - 9.5 per cent - by means of guarantee fee of the order of 2 - 2.5 per cent.
4. Decision: The Chairman decided that the Bank would take over the

project with a view to establishing a financing plan and appropriate supplementary arrangements for a Bank loan of \$10-12 million at the standard interest rate plus a guarantee commission of 2 - 2.5 per cent. It was agreed that the Western Africa and Industrial Projects Departments should assume responsibility for contacts with the co-sponsor and Governments concerned for this purpose.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Baum  
El Darwish  
Gue

cc: Loan Committee  
Participants

## LOAN COMMITTEE

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SEP 05 2014

July 1, 1970

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### MEMORANDUM TO THE LOAN COMMITTEE

#### India - Agricultural Aviation Project

1. The Committee is requested to consider, without meeting, the attached memorandum of July 1, 1970 from the South Asia Department, entitled "India - Agricultural Aviation Project" (LC/0/70-83).
2. Comments, if any, should be sent to reach Mr. Kirk (ext. 2847) by 4:00 p.m. on Tuesday, July 7.
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  
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Directors, other Departments  
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Vice President (IFC)

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SEP 05 2014

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WBG ARCHIVES

LC/0/70-83

July 1, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

INDIA - Agricultural Aviation Project

1. Attached is an Appraisal Report (PA-54) dated June 22, 1970, recommending that the Association make available to India a credit of \$6 million equivalent for this project. The most recent version of the Five-Year Lending Program is attached; a revised program is under preparation for inclusion in a new Country Program Paper due for review in August. The major revisions to the program comprise an adjustment of the agricultural projects to be included in FY 1971 and FY 1972 (including a breakdown of the \$140 million indicated for FY 1972), the omission of a Telecommunications project in FY 1971 and adjustments in the timing of certain Transportation projects.

Background

2. In response to GOI's new agricultural strategy, the Bank Group is now giving increased emphasis to projects having a direct impact on farm investment. The first of these, the Tarai Seeds Project, was signed in June 1969. Of a series of six proposed agricultural credit projects, one for Gujarat was approved in May 1970 and for the Punjab in June 1970; an Andhra Pradesh project has been appraised and a Tamil Nadu project will be appraised shortly with a view to their being presented to the Board in FY 1971. Other agricultural projects expected to be considered in the next fiscal year are the Cauvery Delta, Tawa and Pochampad irrigation projects and a food grain storage project.

The Project

3. This would be the first Bank Group project whose main purpose is aerial plant protection, and it would complement other Bank/IDA assistance to India in the agricultural sector. The project would form part of India's plant protection program for the current Five-Year Plan period (1969-74), and would include the foreign exchange costs of importing about 82 agricultural aircraft (67 for the use of qualified private operators and 15 for the GOI Directorate of Agricultural Aviation (DAA)); spare parts and ancillary equipment; and provision for training agricultural pilots.

4. Benefits from the project would arise from an increased agricultural production through aerial application of chemicals for pest and disease control. Most of the crops to be benefited are now being imported. India's gross foreign exchange savings would be at least US \$1.3 million annually at full development. The economic rate of return is expected to exceed 100 percent; however, even if very conservative assumptions are used the economic rate of return would still be about 44 percent (Annex 10, Appendix C).

5. The total project cost is estimated to be \$8.8 million equivalent, the foreign exchange cost being \$6 million which would be financed by the proceeds of the proposed credit. GOI would relend that portion of the IDA credit (\$3.3 million) to be used for credit to private operators to the Agricultural Refinance Corporation (ARC) at a rate of 5-1/2 percent interest per annum for eleven years including a four year grace period. ARC would relend these funds at an interest rate of 7 percent to the commercial banks, which would make individual loans to private operators at the prevailing commercial rate (presently 8-1/2 - 9-1/2 percent). The remainder of the proceeds of the proposed credit would be used by GOI to finance the foreign exchange cost of DAA's aircraft and training program (\$1.0 million) and to cover the foreign exchange cost to GOI of the cost of insurance for replacement of the private operators' aircraft and for dealers' spare parts imports (\$1.7 million).

6. The Appraisal Report recommends that contracts for all equipment be through normal trade channels in order to satisfy the operators' preferences for types of aircraft which have been proven satisfactory under Indian conditions and which pilots and engineers know how to operate and service. Agricultural applicator aircraft are not manufactured in India at present. However, effective competition exists in India through eight established foreign dealerships of agricultural aircraft manufacturers (of four Bank Group member countries). Additional aircraft manufacturers are expected to enter the Indian market which would increase competition. Suppliers of aircraft would be prequalified by DAA upon receipt of proposals obtained through advertisements. (Paragraphs 4.18 and 4.19).

7. The initial rate of loss of agricultural aircraft is likely to be high but will gradually decline as operation and efficiency improve. Based on expected attrition rates, spraying capacity would decrease by 10-15 percent per annum. To maintain spraying capacity at the proposed level, adequate provision must be made for prompt replacement. As noted above, no agricultural aircraft are presently manufactured in India. There is accordingly a large foreign exchange component in the costs of replacement and repair of damaged aircraft. GOI aircraft are not insured and provision for the estimated replacement of GOI's aircraft during the three-year project development period have been included in the project. Similar arrangements would not be practicable for private operators who would insure their aircraft as a condition of receiving credit for purchase of aircraft financed under the project. Therefore, I agree that in these special circumstances and as recommended in the Appraisal Report (paragraphs 4.08 and 4.09) the Association be prepared to finance the estimated foreign exchange component of the insurance premiums payable by the private operators on equipment financed by this project for the three year period of implementation of the project. Assurances would be sought from GOI that the proceeds of insurance for damaged private operators' aircraft would be made available for importing replacement aircraft.

Recommendation

8. I recommend that IDA negotiate with India a proposed credit of \$6 million, generally in accordance with the recommendations set forth in paragraphs 8.01 - 8.03 of the Appraisal Report

I.P.M. Cargill  
Director

Attachments

Population: 511 m  
 GNP Per Cap: \$90

IVa. INDIA - 5 YEAR LENDING PROGRAM

(\$ millions)

		Fiscal Year					Total	Total	
		1970	1971	1972	1973	1974	1975	1964-68	1969-7
Agricultural Credit - Gujarat	IDA	35.0							
Agricultural Credit - Punjab	IDA	27.5							
Agricultural Credit - Tamil Nadu	IDA		25.0						
Agric. Credit - Andhra-Pradesh	IDA		25.0						
Irrigation - Kadana	IDA	35.0							
Irrigation - Cauvery Delta	IDA		26.0						
Irrigation - Pochampad	IDA		39.0						
Irrigation - Tawa	IDA		20.0						
Irrigation - Krishna-Godavari	IDA			10.0					
Agricultural Aviation	IDA		6.0						
Grain Storage	IDA		4.0						
Fisheries	IDA			7.5					
Agriculture Unident.(7 projects)	IDA		140.0						
Agriculture Unident.(7 projects)	IDA			150.0					
Agriculture Unident.(7 projects)	IDA				165.0				
Agriculture Unident.(7 projects)	IDA					165.0			
Telecommunications IV	IDA			40.0					
Telecommunications V	IDA				40.0				
Telecommunications VI	IDA				40.0				
Telecommunications VII	IDA					35.0			
Telecommunications VIII	IDA						35.0		
DFC - ICICI VIII	IBRD	40.0							
DFC - ICICI IX	IBRD				40.0				
DFC - ICICI X	IBRD							40.0	
Education Unidentified I	IDA			20.0					
Education Unidentified II	IDA							20.0	
Fertilizer - Nangal (Public)	IDA		40.0						
Fertilizer Plant Unidentified	IBRD			25.0					
Industry Unidentified II	IBRD				15.0				
Industrial Imports VI	IDA	75.0							

(Contd.)



## IVa. INDIA - 5 YEAR LENDING PROGRAM

		(\$ millions)					Total	Total
(Contd.)		1970	1971	1972	1973	1974	1964-68	1969-71
Family Planning	IDA		10.0					
Power Transmission	IDA		40.0					
Power Transmission	IDA			60.0				
Power Unidentified II	IDA				15.0			
Power Unidentified III	IDA					15.0		
Power Unidentified IV	IDA						60.0	
Highways II	IDA			30.0				
Ports - Bombay/Calcutta	IDA		30.0					
Railways X	IDA	55.0						
Railways XI	IDA			50.0				
Transportation Projects Unident.	IDA				60.0			
Transportation Projects Unident.	IDA					50.0		
Water Supply - Bombay	IDA		15.0					
Water Supply Unidentified I	IDA				15.0			
Water Supply Unidentified II	IDA					15.0		
Unallocated	IDA				15.0			

IBRD	40.0		25.0	55.0		40.0	189.0	160.5
IDA	227.5	280.0	357.5	335.0	280.0	280.0	591.0	1352.5
Total	<u>267.5</u>	<u>280.0</u>	<u>382.5</u>	<u>390.0</u>	<u>280.0</u>	<u>320.0</u>	<u>780.0</u>	<u>1513.0</u>
No.	6	12	15	15	11	11	13	51

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

235.0 320.0 320.0 320.0 320.0

# LOAN COMMITTEE

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LC/A/70-6

June 26, 1970

## NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Wednesday,  
July 1, 1970 at 3:00 p.m. in the Board Room.

## AGENDA

### Singapore

The Committee will consider the attached memorandum of June 26,  
1970 from the East Asia and Pacific Department entitled "Singapore -  
Mass Rapid Transit Proposal and Urban Development" (LC/O/70-82).

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  
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Vice President (IFC)

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**SEP 05 2014**

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CONFIDENTIAL

LC/0/70-82

June 26, 1970

**LOAN COMMITTEE**

Memorandum from East Asia and Pacific Department

SINGAPORE - Mass Rapid Transit Proposal and Urban Development

1. Attached for consideration by the Committee is a report, "Singapore - Mass Rapid Transit Proposal and Urban Development".
2. In August 1969, the Singapore Government asked the Bank to review a proposal for a mass rapid transit system and consider participating in the financing of the project. Following the review of the Country Program Paper on Singapore, which included such a project in FY 1973, a mission visited Singapore in January/February 1970 to study the proposal. It did so in the context of overall urban planning in Singapore and examined particularly the relationship between the proposal and the urban development framework being worked out by the State and City Planning Board (SCP) with assistance from the UNDP.
3. The mission found that the proposed mass rapid transit project is not a part of an integrated transport system designed to meet Singapore's development objectives and needs. It therefore recommends that further studies of mass transit alternatives be carried out that will lead to an integrated transport system for Singapore. This recommendation is in line with the conclusion reached at the CPP review that Bank consideration of the project should be preceded by such studies.
4. As to other urban activities the mission found that the various public agencies concerned with the development of Singapore, while capable and well managed, need better coordination of their activities within established guidelines and a comprehensive land use and urban planning framework. The mission recommends the carrying out of a comprehensive study project for the future development of the so-called Western Corridor between the city of Singapore and the new town of Jurong, which appears to be the focus of physical development during the foreseeable future.
5. While the report indicates that the present planning efforts of the SCP will not lead to a comprehensive overall policy framework for future urban development in Singapore, the mission feels, and I agree, that they will provide enough of a base for the proposed studies. In addition, it is likely that by linking urban development planning with specific project preparation, the proposed studies will provide the SCP with experience which could make its future work on the overall urban plan framework more concrete and more useful.

6. In addition to being of benefit to Singapore the proposed studies would provide the basis for possible Bank lending for the urban mass rapid transit project and for better coordination of the activities of agencies and projects for which Bank financing has been or is likely to be provided, including the Public Utilities Board (power and water), the Singapore Telephone Board, the Public Works Department (sewerage), the Port of Singapore Authority, the University of Singapore and the Development Bank of Singapore. All of these agencies provide services for an expanding Singapore and will be competing for the scarce land resources of the island. Finally, the two proposed studies would provide the Bank with a valuable opportunity to gain experience in the fields of urban mass transportation and urbanization, an aspect of the urban mass transit project stressed at the CPP review.

7. The UNDP is already involved in urban planning in Singapore and is assisting, with the UN as Executing Agency, the activities of the SCP, through a project which is expected to be completed in April 1971. Informal contacts have already been made with the UNDP and they have been informed of the major conclusions of our mission.

8. I recommend that we now proceed to sound out the UNDP about the possibilities of their financing the proposed studies with the Bank as Executing Agency. If the Committee agrees, we would then inform the Singapore Government of our willingness to act as Executing Agency for the proposed studies and to assist the Government in preparing a request for UNDP financing. The Special Projects Department concurs in this recommendation.

Raymond J. Goodman  
Director

Attachment

## LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES June 23, 1970

### MEMORANDUM TO THE LOAN COMMITTEE

#### Iran - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of June 23, 1970 from the South Asia Department entitled "Iran - Proposed Loan for Education Project" (LC/0/70-81).
2. Comments, if any, should be sent to reach Mr. Eschenberg (ext. 2291) by 5:00 p.m. on Friday, June 26.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

#### Committee:

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

#### Copies for Information:

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

CONFIDENTIAL

LC/O/70-81

June 19, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

IRAN - Proposed Loan for Education Project

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

1. Attached for the consideration of the Loan Committee is the appraisal report (PE-17) dated June 2, 1970 of an Education Project, recommending a Bank loan of \$20 million. The amount of the loan has since been revised to \$15 million. If approved, this would be the first Bank loan for education in Iran.

Background

2. My memo regarding the proposed loan to the Industrial and Mining Development Bank of Iran (IMDBI), (LC/O/70-79 dated May 20, 1970), summarized background data on Bank lending (paragraphs 2 - 3). Briefly restated, these paragraphs noted that the Bank's present net investment in Iran is approximately \$150 million (\$405 million committed, less \$130 million repaid, less \$124 million undisbursed) and that a substantial increase in the Bank's net exposure is contemplated. The attached Annex I (Iran - 5 Year Lending Program) dated June 19, 1970, calls for loans totalling over \$600 million during the next five years. In the current fiscal year, loans of \$6.5 million for the Agricultural Development Fund of Iran (ADFI) and \$42 million for a fifth road project have been approved. A proposed sixth loan to IMDBI of \$50 million has slipped into FY 71, pending an increase in their interest charges. For FY 71, in addition to the proposed project for education, there are projects in power and telecommunications, totalling about \$95 million, for which appraisal reports are expected next month. We expect that ADFI will need an additional \$10 million before the end of FY 71, but this is subject to confirmation by a supervision mission scheduled for September and would then have to find a place in the already overbooked appraisal schedule of the Projects Department.

3. The earlier Loan Committee memorandum also summarized the current Iranian economic situation (paragraphs 4 - 5). The Iranian economy is growing rapidly. Although earnest efforts are required to increase savings and to improve the quality of the investment program, we consider Iran creditworthy for further Bank lending.

4. The population of Iran is estimated to be about 28 million. The urban population represents about 39 percent of the total, with Tehran alone accounting for 3 million people. The rural population is scattered in nearly 67,000 villages, of which less than 3 percent are supplied with electricity. The uneven distribution of the rural population makes it difficult to provide modern living conditions and equal educational

opportunity for the entire population. Another important demographic feature is the rapidly growing size of the young and dependent population. Between 1956 and 1966, the proportion of the population under the age of 15 increased from 42 percent to 46 percent. This factor underlies the extent and the rate of growth of demand for education and other social services.

5. In recent years, the Government has achieved some success in its efforts to improve the quality and quantity of education. The illiteracy rate for those 10 years or older decreased from 85 percent in 1956 to 72 percent in 1966. The campaign against illiteracy, together with the growth in primary school enrollment should result in further improvements. However, the government's policy towards education has been based on short-term criteria, aimed at satisfying immediate needs with little study of longer term objectives. There is an urgent need for a better distribution of expenditure with respect to level and types of education and the formulation of a long-term policy on education.

6. Public expenditures on education increased from Rials 14.9 billion in 1965/66 to an estimated Rials 21.5 billion in 1969/70 at about 9.5 percent per annum about equal to the rate of growth of enrollment and slightly higher than the rate of growth of GNP. Total expenditure (public and private) on education accounted for 3.9 percent of GNP last year. It is estimated that over the next five years recurrent public expenditure on education will increase by 7.7 percent per annum which is slightly higher than the estimated rate of growth of enrollment. The Fourth Plan (March 1968-1972) allocated Rials 14.6 billion for capital expenditure on education and the government intends to maintain this level of expenditure after the end of the Plan period.

#### The Project

7. The proposed project will assist the government in its efforts to improve the quality of education at all levels, to meet specific manpower needs, and to restructure the education system.

8. The present education system consists mainly of (i) a six-year primary course, (ii) a secondary course comprising a three-year lower cycle and a three-year upper cycle, and (iii) higher education of two to six years' duration at universities and other institutions. The primary and secondary courses are being replaced by a five-year primary course and a three-year guidance cycle to be followed by a four-year diversified program. The new system, now being gradually introduced, will improve the curricula in both the primary and secondary schools, and will provide guidance by specially trained counsellors regarding careers and further education. In the last four years of secondary education, the new system will introduce a multi-lateral school with stress on practical and employment-oriented courses. The proposed project would finance modest numbers of each type of new school, and teacher training colleges and faculties of education associated with their development.

9. The proposed project will also include the financing of vocational and secondary agricultural schools. With the expected continuing growth of the economy, the unsatisfied manpower requirements, which are already evident, are expected to become even more acute over the next few years. This is particularly true with regard to middle level agricultural technicians, skilled industrial workers and teachers at all levels.

10. As mentioned previously, the education system in Iran developed on an ad hoc basis and as a result, imbalances have developed, the quality of education has suffered and the need for improvements has now become imperative. The proposed project will provide technical assistance to assist the government in the formulation of a long-term educational plan and in improving the efficiency of the educational institutions. A more detailed explanation of the project content is given in Section III of the appraisal report.

11. The government will be requested to supply the Bank, prior to or during negotiations, with satisfactory information regarding (a) the proposed arrangements to improve the coordination of all vocational training, (b) the nomination of candidates for project director, architect and general educator and the agency to be responsible for the project implementation, and (c) at least nine of the seventeen sites yet to be selected. Details of all issues to be raised during negotiations are contained in paragraphs 5.02 and 5.04 of the appraisal report.

12. In the CPP and Monthly Timetables \$15 million was indicated for this education project, representing 50 percent of project costs as estimated prior to full appraisal. As the appraisal report notes, the revised estimate of total project costs is roughly \$40 million, of which about \$13.1 million is for expenditures in foreign exchange. In addition, there will be about \$1.6 million of interest and similar charges during construction. Therefore, I propose that we consider a loan of \$15 million. As noted in paragraph 6, Iran's Fourth Plan allocates Rials 14.6 billion (approximately \$1,946 million) for capital expenditures on education. The proposed loan would represent a very modest contribution to that program but would assist in a crucial restructuring of the educational system.

#### Recommendation

13. I concur with the recommendation in paragraph 5.05 of the appraisal report that the Bank make a loan for education to the Government of Iran for a duration of 25 years including a 10 year period of grace (but in an amount of \$15 million), and I propose that representatives of the Government be invited to Washington for negotiations.

Attachments

Gregory B. Votaw  
Deputy Director

Annex I: Iran - 5 Year Lending Program



Population: 26.3 m  
 GNP Per Cap: \$280

ANNEX I

IVa. IRAN - 5 YEAR LENDING PROGRAM

		(\$ millions)								
		Fiscal Year					Total	Total		
		1970	1971	1972	1973	1974	1975	1964-68	1969-73	
Agric. Development Fund I	IBRD	6.5								
Agric. Development Fund II	IBRD		10.0 <sup>1/</sup>							
Agric. Development Fund III	IBRD				20.0					
Fisheries	IBRD				30.0					
Agriculture Unidentified	IBRD			40.0						
Agriculture Unidentified	IBRD					30.0				
Agriculture Unidentified	IBRD						30.0			
Telecommunications	IBRD		35.0							
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 <sup>2/</sup>						
Education III	IBRD					20.0				
Education IV	IBRD						20.0			
Power Distribution	IBRD		60.0							
Power II	IBRD			30.0						
Power III	IBRD				45.0					
Power IV	IBRD						50.0			
5th Road Project	IBRD	42.0								
6th Road Project	IBRD				30.0					
Pipelines	IBRD				10.0					
Ports	IBRD				8.0					
Railways	IBRD				10.0					
Airport	IBRD					20.0				
Transport Unidentified	IBRD						30.0			
		IBRD	<u>48.5</u>	<u>170.0</u>	<u>168.0</u>	<u>170.0</u>	<u>100.0</u>	<u>130.0</u>	<u>141.0</u>	<u>626.5</u>
P & B 6/19/70		No.	2	5	7	6	3	4	7	22

<sup>1/</sup> Present manpower allocations of Agriculture Projects Department provide for this project to be included in FY 72 program.

<sup>2/</sup> Present manpower allocations of Education Projects Department provide for this project to be included in FY 73 program.

# LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

LI/M/70-29

June 23, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held on June 18, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

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

June 23, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Farm Cooperative Project" (Loan 484-TUN and Credit 99-TUN) held at 3:30 p.m. on June 18, 1970 in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Chadenet, Evans, Nurick, Hartwich, Goffin, Julin, Suratgar and Pearce (Secretary).
2. Issues: The meeting had been called to consider Mr. Hartwich's memorandum of June 15, 1970 to the Chairman and an Agriculture Projects supervision mission report dated May 18, 1970 which, having determined that successive changes in the Government's agricultural policy during 1969 had largely destroyed the basis of the project, recommended its termination, except for some agreed technical assistance. As of May 31, 1970, about \$5.9 million (2/3 Bank and 1/3 IDA) of the \$12 million loan and \$6 million credit had been disbursed and an additional \$2.9 million (\$1.9 million owed to foreign suppliers for Bank/IDA approved construction and equipment contracts and \$1 million for technical assistance) was eligible for disbursement; the balance of the loan and credit, i.e. up to about \$9 million, was thus available for cancellation. There were two main issues for discussion: (a) the arrangements for the proposed termination of the project and cancellation of the balance of the loan and credit (paragraph 5 of Mr. Hartwich's memorandum) and (b) the disposition of \$3 million IDA funds which would become available upon cancellation of the credit (paragraph 6 of Mr. Hartwich's memorandum).
3. Discussion-Issue(a): In reviewing the arrangements for terminating the project and cancelling the balance of the loan and credit, the meeting noted and agreed that:
  - (a) Bank/IDA financing of technical assistance in the Bureau de Controle, which would permit the Bureau to retain its expatriate staff, should be continued through the project's Closing Date, i.e. June 30, 1971.
  - (b) Additional studies to permit the Government to determine future policy concerning the use of remaining cooperatives and state lands should, if the Government requested, be financed from the loan/credit; the cost of these studies was estimated at \$600,000 and their financing would require a change in the project description.
  - (c) Payments owed to foreign suppliers as of December 12, 1969 in respect of Bank/IDA approved contracts for construction equipment and machinery should be disbursed from the loan/credit; since most of this unused equipment (mainly steel frames) and farm machinery and probably some surplus used

machinery would be sold by the Government for use in other projects/sectors of the economy, the Bank should discuss with the Tunisians arrangements for the application of the sales proceeds to agreed purposes. It was suggested that the (local currency) sales proceeds could be deposited in a special account at the Central Bank for subsequent use by the Tunisians as part of the local contribution to the financing of a forthcoming \$12 million agricultural credit project currently being appraised for approval in FY 1971.

- (d) The balance of the loan and credit (2/3 Bank and 1/3 IDA), i.e. up to about \$9 million, should be cancelled as soon as possible.

4. Decision-Issue(a): It was agreed that a mission, including a lawyer, should visit Tunisia in the near future to discuss arrangements for terminating the project on the basis of the proposals noted in paragraph 3 above.

5. Discussion-Issue(b): The meeting considered briefly Mr. Hartwich's recommendation that the \$3 million IDA funds which would become available upon cancellation of the balance of Credit 99-TUN should be earmarked for the proposed agricultural credit project, for which Bank financing only was presently envisaged. The Chairman, while noting that there was probably a good case for increasing the concessionary component of Tunisia's Bank/IDA blend in FY 1971, said that in principle savings in any IDA credit, including Credit 99-TUN, should accrue to the IDA pool for re-allocation. The Tunisians should not assume a prior claim on these funds.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Hartwich/Julin  
Evans/Goffin  
Nurick/Suratgar

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

LM/M/70-28

June 23, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Colombia - Proposed Loan to Banco de la Republica for use by Instituto de Fomento Industrial - Corporacion Financiera (IFI)" held on June 3, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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

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

June 23, 1970

Minutes of Special Loan Meeting to discuss "Colombia - Proposed Loan to Banco de la Republica for use by Instituto de Fomento Industrial - Corporacion Financiera (IFI)" held on June 3, 1970 at 9:00 a.m. in Conference Room B.

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1. Present: Messrs. Knapp (Chairman), Cope, Alter, Mathew, Sella, Wiese, Cabezas, Flood, Mirski, Hughes and Pearce (Secretary).

2. Issue: The meeting had been called to consider a draft letter to the Colombian Minister of Development and the manager of Instituto de Fomento Industrial Corporacion Financiera (IFI), outlining the Bank's position on the principal issues which had arisen in recent discussions with the Colombians concerning a proposed \$5 million loan to IFI.

3. Discussion: In reviewing the draft letter, the meeting noted that:

- (a) While IFI was by statute a mixed company, 99.5% of its shares were owned by the Government. Some of its business was similar to that of private development finance companies, but it was mainly responsible to the Government for implementing the latter's industrial development policy, in which capacity it invested substantial amounts of equity and loan capital in individual large-scale enterprises.
- (b) IFI's promotional role was essential to Colombian industrial development but conflicted potentially with the conventional financial conditions required by the Bank for loans to development finance companies. This raised basic questions whether, and how far, the Bank should insist on changes in IFI's policies as conditions for a proposed \$5 million loan; whether the Bank should lend to IFI at all; or whether a loan for specific pre-appraised projects should be considered.
- (c) The possibility of IFI establishing a subsidiary, as a recipient of a Bank loan on conventional DFC terms, had been rejected by IFI during the discussions. A so-called callable capital arrangement, described in the draft letter, would clarify the extent of the Government's willingness to protect IFI against major risks and simultaneously leave IFI's management with primary responsibility, in a manner acceptable to the Bank, for assuring the financial soundness of its operations. If the callable capital proposal were unacceptable to the Government, an acceptable alternative might be a loan to IFI, guaranteed by the Government, for particular industrial projects agreed upon in advance.

- (d) The proposed \$5 million loan was small in relation to IFI's volume of operations; consequently, it probably did not provide an adequate incentive for the Government to change its relationship and responsibilities towards IFI.

4. Decision: The Chairman agreed that further discussions with the Colombians should proceed on the basis of the proposals described in the draft letter.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Mathew/Mirski  
Alter/Wiese/Flood

cc: Loan Committee  
Participants

# LOAN COMMITTEE

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SEP 05 2014

LM/M/70-27

WBG ARCHIVES

June 22, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider the Peruvian Government's request for Bank Assistance for Disaster-related Reconstruction Projects held on June 15, 1970 in Room C1006.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

### Committee:

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



June 22, 1970

Minutes of Special Loan Meeting to consider the Peruvian Government's Request for Bank Assistance for disaster-related Reconstruction Projects held at 2:15 p.m. on June 15, 1970 in Room C1006.

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1. Present: Messrs. Knapp (Chairman), Broches, Demuth, Alter, Chadenet, Knox, Wiese, Franco-Holguin, Scheiner, van Helden, Zimman and Pearce (Secretary).
  
2. Issues: The meeting had been called to discuss the Peruvian Government's request, following the recent severe earthquake, for a \$150 million loan to its fund for disaster-related reconstruction projects. The question of an appropriate Bank response, which had already been considered informally by the Chairman with the departments concerned, was particularly difficult in this case because, apart from the probable difficulty of finding a project suitable for Bank financing, Peru's creditworthiness was in doubt and the Government had so far made no progress with respect to the payment of compensation for its expropriation of the International Petroleum Company (IPC). On the other hand, the Inter-American Development Bank had agreed to consider assistance from its Fund for Special Operations and the United States, the main contributor to this Fund, was prepared to support such emergency assistance provided that this was not construed as a modification of its position on the IPC issue. Moreover, the United Nations Secretary-General had asked the Specialized Agencies to consider means of helping Peru. Accordingly, there were two main issues for discussion: (a) whether, and in what form, the Bank should consider assistance to Peru, and (b) the terms of reference of the Bank's participation in a UNDP reconnaissance mission which was about to leave for Peru.
  
3. Discussion-Issue(a): The South America Department, noting that the Bank had hitherto not had to confront the IPC expropriation issue because of continuing doubts concerning Peru's creditworthiness, said that, until the Bank was prepared to resolve these doubts, it favored emergency assistance to Peru from IDA but not from the Bank. In its view, a Bank loan of whatever amount at this time would be inappropriate because, even if it were made as an exceptional measure and without prejudice to the Bank's position concerning Peru's future creditworthiness, a precedent would be established and the Bank would later find it difficult to sustain, on creditworthiness grounds, its refusal to lend for other priority projects; the Bank might then reluctantly have to confront the IPC expropriation issue. In view of these considerations, an IDA credit was the most logical form of Bank Group assistance at this time. Moreover, the scarcity of IDA funds would help justify the Bank Group's inability to consider assistance on anywhere near the scale requested by the Peruvians (\$150 million). The Chairman replied that the existing pressure on available IDA resources through FY 1971 made it most doubtful whether there would be any scope for even a small credit to Peru.

4. Decision-Issue(a): It was agreed that this issue should be studied further and a decision be postponed until the reconnaissance mission had returned from Peru.

5. Discussion-Issue(b): The meeting considered briefly terms of reference for the Bank's participants in the UNDP reconnaissance mission to Peru. In response to the Transportation Projects Department's questions concerning possible departures from the Bank's standard procedures in this special case, the Chairman offered the following general guidance:

- (a) if a suitable project could be identified, some Bank financing of local expenditures (not, however, 100%) could be justified;
- (b) while the Bank's mission included only a transport sector expert, it should not exclude reconnaissance of, for example, a power or water supply project, if this were suitable or more urgent;
- (c) any project identified as suitable for Bank financing should be related as closely as possible to the disaster area;
- (d) the possibility of redefining the Oroya-Aguaytia road project (Loan No. 425 PE), and providing a supplementary loan to finance its local costs, should not be considered at this time.

6. Decision-Issue(b): It was agreed that the Bank members of the UNDP mission should be guided generally by the considerations noted in paragraph 5 above.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Alter/Zinman  
Knox/van Helden

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LM/M/70-26

June 19, 1970

## MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Congo (Brazzaville) - Compagnie des Potasses du Congo" (Loan No. 480-COB) held on June 15, 1970 in Room C1006.

David Pearce  
Secretary  
Loan Committee

### - DISTRIBUTION -

#### Committee:

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

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

June 19, 1970

Minutes of Special Loan Meeting to discuss "Congo (Brazzaville) - Compagnie des Potasses du Congo" (Loan No. 480-COB) held at 3:30 p.m. on June 15, 1970 in Room C1006.

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1. Present: Messrs. Knapp (Chairman), Broches, Chadenet, Chaufournier, Kalmanoff, Delaume, Finzi, Glenshaw and Pearce (Secretary).

2. Issue: The meeting had been called to review the status of the Congo (Brazzaville) - Potash Mining project, for which a \$30 million loan (480-COB) had been approved on January 9, 1967.

3. Discussion: The meeting considered a supervision mission's back-to-office report dated June 2, 1970 and Mr. El Darwish's memorandum of June 11, 1970 to Mr. Kalmanoff and noted that:

- (a) Construction had been completed on schedule but with a \$20 million cost overrun which was being financed by interest-free advances from the Entreprise Miniere et Chimique (EMC) - the French Government-owned shareholder/guarantor of Compagnie des Potasses du Congo (CPC). CPC would be unable to meet its cash obligations after October, 1970 without external financial assistance and EMC was itself in financial difficulties, thus necessitating a further intervention by the French Government.
- (b) Owing to the unexpected structure of the ore body, a question had arisen to what extent economic exploitation of the mine would be possible. Production, expected to reach only 20% of planned capacity in 1970, was unlikely to exceed 25% in the near future. CPC's prospects were clouded further, albeit not critically, by a recent world market surplus of potash and an accompanying fall in prices.
- (c) CPC's exploitation methods and technical study of the project needed some reorientation to ensure improvement of the situation in the next two years and as a basis for longer-term solutions.
- (d) Aside from the regular guarantee by the Congolese Government, the loan was guaranteed by CPC's principal French shareholders, on whom the Bank should be able to rely for the payment of debt service if the need arose. Interest during construction had been paid and the first installment of the loan was due for repayment in December, 1970.

4. Decision: It was agreed that the Bank should continue to follow closely the situation. The Chairman asked Mr. Kalmanoff to prepare a brief statement of the project's problems and current status for the information of the President.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Chaufournier  
Chadenet/Kalmanoff

cc: Loan Committee  
Participants

# LOAN COMMITTEE

DECLASSIFIED

SEP 05 2014

WBG ARCHIVES

LC/M/70-5

June 10, 1970

Minutes of Loan Committee Meeting held at  
11:30 a.m. on Wednesday, May 27, 1970 in  
the Board Room.

A. Present:

Mr. J.B. Knapp, Chairman	Mr. E. Gutierrez
Mr. S.R. Cope	Mr. M.L. Lejeune
Mr. G. Alter	Mr. F.R. Poore
Mr. W.C. Baum	Mr. H.N. Scott
Mr. M.P. Benjenk	Mr. A. Stevenson
Mr. R. Chaufournier	Mr. G.W. Votaw
Mr. R.H. Demuth	Mr. D. Pearce, Secretary
Mr. D.J. Fontein	

In Attendance:

Mr. A.J. Davar	Mr. K. Kanagaratnam
Mr. R. Gulhati	Mr. T. King
Mrs. Singh Hardy	Mr. K.S. Krishnaswamy
Mr. E.K. Hawkins	Mr. H. Wyss
Mr. M.L. Hoffman	Mr. G.C. Zaidan

B. Jamaica - Population Project

1. The Committee considered a memorandum dated May 25, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/O/70-80) and the accompanying redraft of paragraphs 6.01-10 and Annex 9 of the appraisal report (PP-2). At a meeting on April 30 (cf. LC/M/70-3), the Chairman had proposed that the Committee should reconsider these revised sections of the appraisal report before recommending whether or not they should be included in the final report for presentation of the proposed \$2 million loan to the Executive Directors.

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Committee:

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

2. Mr. Cope (in the Chair for the first part of the meeting) advised the meeting that, since this was the Bank's first venture in a new and potentially controversial field and in view of the uncertainties of existing methodologies for analyzing the economic benefits of population projects, the President had provisionally decided that Annex 9 should not be distributed to the Executive Directors in support of the proposed \$2 million loan and that the section of the appraisal report concerning the project's economic justification and benefits (paragraphs 6.01-10) should be brief, couched in very broad and qualitative terms and omit the detailed quantitative analysis.

3. The Committee then considered two issues: (a) the merits of the methodology employed in paragraphs 6.01-10 and Annex 9, and (b) the form this material should take in the final appraisal report.

4. The main methodological question raised was whether, in conventional analysis of aggregate costs and benefits, so-called private cost savings (represented by the avoided costs of child raising as a result of the project) could appropriately be regarded as part of the project's benefits, except insofar as their effect on per capita incomes (discussed in Annex 9) led to a redistribution of national income amongst the resultant smaller population. The Population Projects Department replied that the cost savings measures used as part of the cost benefit analysis of Bank projects in other sectors (i.e. estimates of total private and public resource savings generated by project expenditures) were also applicable to population projects; in this case, they showed, on the basis of aggregate benefits and costs, that the Jamaican project constituted a highly attractive use of economic resources. However, while conventional cost-benefit analysis always assumed that a favorable balance of benefits over costs would generate additional development (secondary benefits) outside the project, it did not ordinarily attempt to quantify such benefits. In addition, conventional analysis did not express cost benefit measures in per capita terms since non-population projects did not affect the number of people amongst whom costs and benefits were shared. In population projects, therefore, it was desirable to base cost benefit tests on per capita values since these illustrated the distinctive economic effect which such projects produced - i.e. their direct contribution to the raising of per capita incomes through the reduction in population growth.

5. The procedural question (paragraph 3(b) above) was considered briefly. A majority of Committee members favored distributing paragraphs 6.01-10 and Annex 9 'in toto' to the Executive Directors as part of the loan presentation. They argued that, while the case for Bank financing of the Jamaican population project might be obvious for a variety of reasons, this did not remove the need to present an economic justification based on the appropriate data; the fact that this was the Bank's first venture in this field made it particularly desirable to advance the strongest possible case, supported by a full economic analysis.

The President, in his public pronouncements on this issue, had specifically linked the problem of population growth with economic development and it was important that the Bank's first population project should demonstrate in practical terms the validity of this viewpoint. Moreover, possible criticism of population programs could best be answered by full disclosure of the appropriate facts.

6. The Chairman said that he supported the President's view in this matter. He would draw the President's attention to the revised paragraphs 6.01-10 and Annex 9 and report to him the views expressed by members of the Committee.

C. Adjournment

7. The meeting adjourned at 12:20 p.m.

N.B.: At a subsequent meeting with Messrs. Knapp and Chadenet to consider the views expressed by the Loan Committee on May 27, the President decided that Annex 9 should be excluded from the final appraisal report and that paragraphs 6.01-10 should be redrafted to reflect the project's 'socio-economic considerations' in very broad and qualitative terms.

Secretary's Department  
June 10, 1970



# LOAN COMMITTEE

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**LM/M/70-25**

**June 3, 1970**

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Pakistan - East Pakistan Tubewells Irrigation Project" held on May 22, 1970 in Conference Room B.

David Pearce  
Secretary  
Loan Committee

- DISTRIBUTION -

Committee:

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

June 3, 1970

Minutes of Special Loan Meeting to discuss "Pakistan - East Pakistan Tubewells Irrigation Project" held at 4:00 p.m. on May 22, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Sadove, Sella, Votaw, Wapenhans, Haynes, Iverson, Feldman, McCulloch, Reese and Pearce (Secretary).
2. Issues: The meeting had been called to consider Mr. Votaw's memorandum of May 22, 1970 to the Chairman, which described the status of negotiations for a proposed \$12 million credit to Pakistan to help finance the foreign exchange costs of an East Pakistan Agricultural Development Corporation (EPADC) project to construct 3,000 tubewells for irrigation during the period 1971-74. There were two issues for discussion: (a) the Pakistan delegation's inability to accept a covenant in the draft credit agreement requiring EPADC not to undertake additional tubewell construction unless the Association was satisfied that expansion of the program would not impede the "prompt and efficient completion of the (IDA) project works," and (b) the Pakistan delegation's proposal that an increase in water rates, from Rs 300 per annum per tubewell to a level sufficient to cover operation and maintenance costs, be implemented over ten years, rather than five years as proposed by the Association.
3. Discussion-Issue(a): It was generally agreed that EPADC's proposed expansion program to construct 15,000 tubewells during the next five years, requiring an installation rate of 3,000 tubewells per annum compared with only 400 tubewells per annum actually installed during the last two years, was probably too ambitious. EPADC was a small organization with inexperienced staff and, in the Agriculture Projects Department's view, inefficient implementation of this program would result in a waste of substantial resources and, if EPADC's physical capacity were over-extended, jeopardize the tubewells program to be financed under the proposed IDA credit. The Agriculture Projects Department argued that, in these circumstances, IDA should insist on a covenant that would enable it, before the event, to judge whether EPADC's expansion program would jeopardize the IDA project and, if necessary, to take appropriate action. Under compromise language proposed by the South Asia Department, and accepted by the Pakistanis, the East Pakistan Government could proceed with an expansion program but would be in default under the credit agreement if its action adversely affected the IDA project. The Agriculture Projects Department felt that this was inadequate in that IDA would be able to act only after the expansion program had started, i.e. when the damage had been done; furthermore, the proposed language would not give IDA the unilateral right to determine whether in fact the IDA project was being adversely affected.

4. The Chairman, noting the positions advanced by both the South Asia and Agriculture Projects Departments, considered an alternative intermediate formula providing that if, after a full exchange of views EPADC's implementation of its expansion program would, in the judgement of the Association, prejudice the IDA project, EPADC would be in default under the IDA credit agreement.

5. Decision-Issue(a): It was decided that negotiations should resume on the basis of the compromise language proposed by the South Asia Department.

6. Discussion-Issue(b): The meeting considered in some detail the water rates question and noted that, while the Pakistanis had agreed to the concept of accelerating payments from farmers for operation, maintenance and replacement costs, they could not accept IDA's proposed target of increasing payments for operation and maintenance from Rs 300 per annum to about Rs 2,100 per annum over five years. The Pakistanis had argued that, since the project farmers were already heavily indebted, they should be allowed additional time to improve their financial positions; the Pakistanis had proposed that the increase in payments be implemented over ten years.

7. Decision-Issue(b): The Chairman, noting that the Pakistanis might be able to accept a compromise target, suggested that negotiations be resumed to this end. If a compromise target could not be agreed, the Association should accept the Pakistanis' proposal of payments over ten years.

David Pearce  
Secretary

Cleared by: Messrs. Knapp  
Chadenet  
Wapenhans  
Feldman

cc: Loan Committee  
Participants