Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. P-1989-PAK

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
OF THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT
AND OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN AND CREDIT
TO
THE ISLAMIC REPUBLIC OF PAKISTAN
FOR A
TENTH RAILWAY PROJECT

February 9, 1977

CURRENCY EQUIVALENTS

Currency Unit	=	Pakistan Rupee (Rs)
Rs 9.90	=	US$1
Rs 1.00	=	US$0.1
Rs 1.0 million	=	US$101,000

WEIGHTS AND MEASURES

Pakistan Unit		Metric Equivalent
1 (long) Ton	=	1.0161 Tons
1 Maund	=	0.0373 Tons
1 Mile	=	1.6093 Km
1 Foot	=	0.3048 Meter
1 Cubic Foot	=	0.0283 Cubic Meters

GLOSSARY OF ABBREVIATIONS

Organizations:

CIDA	-	Canadian International Development Agency
GOP	-	Government of Pakistan
KPT	-	Karachi Port Trust
MOC	-	Ministry of Communications
MOR	-	Ministry of Railways
NTRC	-	National Transport Research Center
PR	-	Pakistan Railways
PTT	-	Pakistan Telegraph and Telehone Department
PWR	-	Pakistan Western Railways
USAID	-	United States Agency for International Development

Technical:

BG	-	Broad Gauge
CTR	-	Complete Track Renewal
DRF	-	Depreciation Reserve Fund
GDP	-	Gross Domestic Product
mph	-	Miles per Hour
N tons	-	Nutrient Tons
POL	-	Petroleum, Oil and Lubricants

FISCAL YEAR

July 1 and June 30

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT
AND LOAN TO THE ISLAMIC REPUBLIC OF PAKISTAN
FOR A TENTH RAILWAY PROJECT

1. I submit the following report and recommendation on a proposed development credit for the equivalent of US$25 million and a loan for the equivalent of US$35 million to the Islamic Republic of Pakistan to help to finance a tenth railway project. The credit would be on standard IDA terms; the loan would be for a term of 20 years, including a 4-1/2 years' grace period, at 8.5% interest. Proceeds of both the loan and credit would be passed on to the Pakistan Railways (PR) as Beneficiary on essentially the same terms and conditions as the Bank loan, except that portion of the loan/credit used by PR to finance additional (as opposed to replacement) investment would, as is customary in Pakistan, be added to PR's capital-at-charge and not repaid to the Government.

PART I - THE ECONOMY

2. The most recent economic report "Recent Trends and Development Prospects" (1023-PAK, dated March 1, 1976) was distributed to the Executive Directors on March 10, 1976. Country data sheets are attached as Annex I.

3. The economic development of Pakistan since 1970 compares somewhat unfavorably with the record of rapid growth of output and exports of the 1960's. Starting with the war with India and the separation of Bangladesh, there followed a series of poor monsoons and floods, and consequently poor harvests. Added to this were the twin effects of deteriorating terms of trade and world recession. The magnitude of the problem was intensified by the loss of momentum of the "green revolution" which had been one of the mainstays of the favorable economic period of the late 1960's. In addition, industrial development was discouraged by changed attitudes toward the private sector and a series of nationalizations, beginning with the nationalization of a large part of private industry in 1972. As a result, the basic productive sectors have had an average growth of about 2% per year since 1970, although total GDP has grown by about 4% per annum because of the rapid expansion of construction, government and other service industries.

4. The stagnation of agricultural production during the 1970's contrasts with the rapid growth attained during the 1960's. This slowdown is the result of many factors, including unfavorable growing conditions, a slower rate of adoption of high-yielding varieties, and adverse pricing policies. Heavy rains and floods in August 1976 have once again lowered output levels below potential in the summer season. Cotton has been particularly affected, and production is liable to be barely sufficient to meet domestic demand. Rice and sugarcane, which reached record levels last year, show slight declines due to flood damage. Wheat production in the winter season,

on the other hand, could achieve another record as a result of increased fertilizer consumption, residual moisture left in the ground after the floods and the use of water from the Tarbela Dam. Fertilizer consumption, which leveled off at about 400,000 tons when retail distribution was taken over by the Provincial Governments, reached 570,000 tons last year and is expected to expand to 680,000 tons this year. This is a result of government policy changes which have lowered fertilizer prices, increased output-procurement prices, and permitted the return of the private sector to the retail distribution field.

5. For the next few years, further improvements from the extension of the "green revolution" technology can be expected, particularly through increased use of fertilizer and pesticides, improved seeds and further development of the groundwater potential. Growth thereafter will require more fundamental change in on the farm practices regarding land and water management, particularly in terms of increasing the efficiency of the watercourse distribution system. Central to improved farmer techniques is an upgraded, more effective extension service, with greater emphasis on reaching the small farmer, and with better linkages to an effective research program. In order to increase the basic productivity of the land, a major effort needs to be made to increase investments in projects designed to reverse waterlogging and salinity.

6. After agriculture, which accounts for about 32%, manufacturing is the second largest sector of the economy, contributing about 16% of GDP and 50% to 60% of total exports. Since 1973, the major change in the industrial sector has been the expansion of the public sector, from about 10% to about 25% of industrial assets. In January 1972, the Government took over ownership of 31 private companies in 10 basic industrial categories. This was followed by takeovers of the vegetable ghee industry, the cotton and rice export trade, commercial banks, shipping, life insurance and gas and oil distribution. The most recent action occurred in July 1976 when the Government nationalized the larger units in rice and flour milling, as well as all of the cotton gins. These actions have adversely affected the climate for private investment, particularly in the industrial sector. It remains to be seen what their effect on agricultural production will be.

7. While industrial growth averaged close to 10% per annum during the 1960's, since 1970 it has been only about 3% per annum. The decline in the growth rate is a result of a number of factors including lower private investment during the late 1960's and early 1970's and the problems with agricultural production which reduced the availability of some raw materials. Since FY74, the international recession has had a major impact by reducing demand for Pakistan's exports, particularly textiles. Output of both cotton yarn and cloth is estimated to have been lower in FY76 than in FY74.

8. Exports have remained depressed for the past few years in part because of the international recession while imports have increased rapidly. Import prices increased 36% in FY74 and 27% in FY75, but in FY74 the rise was offset by increases in major export prices, particularly of cotton and rice. In FY75 the full effect of earlier petroleum price increases, combined with falling export prices for most products, produced an 37% decline in the terms

of trade, although a slight improvement is estimated to have taken place in FY76. As a consequence of these developments, the deficit on the current account of the balance of payments increased from $130 million in FY73, an exceptionally good year, to $950 million in FY76. It is expected to rise to a level of about $1.2 billion in FY77. These large deficits have been financed by expanded borrowings from foreign sources. Domestic resource mobilization, on the other hand, has declined markedly, with the overall saving rate falling from about 10% of GDP in 1973 to 4% in FY75, and public savings turning negative. The decline in private savings can be traced to lower corporate profits as well as the lag of interest rates behind the rate of inflation. While annual price increases have averaged over 20% during the past three years, deposit interest rates at banks have averaged only about 7-8%. In FY76, however, the rate of inflation was brought down to only 8%, and the domestic saving rate increased to 8.5%.

9. In the past few years the contribution of the public sector to domestic savings has been quite unsatisfactory. Recently a number of steps have been taken to improve public sector resource mobilization, including substantially higher prices of electric power, cement, petroleum products, railway and air fares, and import tariffs. Steps have also been taken to simplify the income tax and improve its enforcement. Subsidies of various types which amounted to Rs 3 billion in FY75, or about 15% of current government expenditures, are estimated to have been reduced to Rs 1.5 billion in FY76. These revenue efforts have not been sufficient, however, to fully meet the Government's increased spending. While public saving was positive in FY76, the overall budget had a deficit of Rs 4.0 billion.

10. For the longer term, the Government has drafted a new Plan for FY78-83 which calls for substantially higher levels of output, exports and domestic savings. Investment levels would amount to about 19% of GDP. With an expected decline in foreign capital available, particularly from OPEC sources, this target can be reached only by sharply increasing the rate of domestic savings to 15% of GDP by 1983. Large investments are contemplated in infrastructure, particularly power and transport, as well as in heavy industry. Investments in steel, machinery, fertilizers and chemicals would seek to reduce dependence on imports, and encourage a greater reliance on domestic raw materials. A substantial increase in exports will depend largely on a rapid growth of agricultural output, particularly rice and cotton. The agricultural strategy focuses on increased use of fertilizer and pesticides, further mechanization, expansion of the extension service, and programs to reduce waterlogging and salinity.

11. The balance of payments and debt management position will be difficult for the next few years. By the end of FY76, the total debt outstanding, including undisbursed amounts, was about $7 billion. Debt payments as a ratio of export earnings and workers' remittances will be only about 15%, as a result of $650 million of debt relief which is being given by the Consortium countries for the years 1975-78. The debt service ratio can be expected to rise to 20% or more after 1978 since the end of the debt relief arrangement coincides with a sharp increase in repayments owed to the OPEC countries and the IMF. On the positive side, workers' remittances have risen

sharply and totalled $350 million last year; they could exceed $400 million this year. Nevertheless, it is important that borrowing on conventional terms should be held to the minimum. For this reason the major part of Bank Group operations in Pakistan consists of IDA credits. Including undisbursed amounts, Pakistan's debt to the Bank and IDA now represents about 16% of its external public indebtedness; by 1980 this ratio is likely to fall to about 13%. The share of the Bank Group in total debt service (after taking account of the debt relief which Pakistan will receive from other creditors) is now about 23%, but is expected to decrease to about 9% in 1980.

PART II - BANK GROUP OPERATIONS IN PAKISTAN

12. The cumulative total of Bank/IDA commitments to Pakistan (exclusive of loans and credits or portions thereof which were disbursed in the former East Pakistan) now amounts to approximately US$1.4 billion. During its long association with Pakistan, the Bank Group has been involved in almost all sectors of the economy. Through FY76, 43% of total commitments were for public services, 24% for agriculture, 32% for industry, of which 12% was for industrial imports, and 1% for education. Lending for public services has amounted to more than $600 million and has included loans and credits for railways, electric power, gas pipelines, Karachi Port, highways, telecommunications and water supplies. A large part of past lending for agriculture was for Indus Basin projects. Lending for industry has been mainly through the Pakistan Industrial Credit and Investment Corporation (PICIC). For most projects for which loans and credits are being disbursed, construction is now going ahead satisfactorily. The principal problems being encountered are that the rates charged by some of the public services have not kept pace with inflation and, hence, some utilities are not earning the return which they need. Annex II contains a summary statement of Bank loans and IDA credits as of December 31, 1976, and notes on the execution of ongoing projects.

13. Lending operations in Pakistan have three main objectives. One of these is to support the directly productive sectors of the economy, and, in particular, to increase production of import substitutes such as foodgrains, edible oils, fertilizer and engineering goods and to sustain export growth in cotton yarn and textiles, rice and a large number of other industrial and agricultural products. The main part of Bank Group assistance for industry will continue to be through financial intermediaries, such as PICIC, which finances the medium and large-scale private sector and will thus contribute to exports and industrial growth, the Industrial Development Bank of Pakistan (IDBP) for the small and medium scale industrial sector, with possible participation by commercial banks, and the National Development Finance Corporation (NDFC) for industries in the public sector. The most important part of future lending for agriculture is expected to be for the Government's new program to increase productivity in the Indus Basin by controlling salinity and improving the utilization of surface irrigation and groundwater. The Bank is the Executing Agency for a UNDP technical assistance grant for improving agriculture and water planning in the Indus Basin.

14. Another objective is to support the necessary expansion and to improve the institutions which are responsible for the principal public services which have benefitted from Bank Group lending in the past, namely, the Telegraph and Telephone Department, Karachi Port, Water and Power Development Authority, Pakistan Railways, Sui Northern Gas Pipelines Company and the Lahore Water and Sanitation Agency. In most of these, institutional improvements are being made with technical assistance financed by the Bank Group.

15. A third objective is to expand lending operations in other fields, particularly those which reflect the Government's efforts to bring economic development to the poorest strata of the population. This shift implies increased lending for agriculture and rural development and will involve significant lending for projects complementary to the Indus/Tarbela works. In the urban sector, Bank missions have been working with municipal authorities on the plans for the urban development of Karachi, whose population now exceeds 4 million. A Karachi master plan was completed in 1974 with the assistance of consultants financed by UNDP, and urban projects are being developed within the framework of this plan. A project for urban upgrading in the Lyari section of the city has been appraised. The Government has also asked the Bank to study urbanization problems in Lahore, Pakistan's second largest city. Planning in Lahore is at a much earlier stage than in Karachi and the immediate need is for technical assistance. A credit for the second Lahore water supply, sewerage and drainage project includes provision for the financing of urban-studies in Lahore.

16. Other projects which have also been appraised are a fertilizer project, a flood damage restoration project and the SCARP VI irrigation and drainage project. Preparatory work is proceeding on another irrigation and drainage project, a Karachi water supply project and projects involving agricultural extension and rural development. A further loan to PICIC and one for a livestock project as well as a credit for a third education project have already been approved in the current fiscal year.

17. IFC has made investments in nine Pakistani enterprises for a total of US$30.2 million, of which US$22.9 million was by way of loans and US$7.3 million by equity participations (these are shown in Annex II). About US$12 million remains outstanding. The enterprises assisted by IFC include three in the field of pulp and paper products, two in textiles, and one each in steel, cement and fertilizers. IFC is also a shareholder of PICIC.

PART III - THE TRANSPORT SECTOR IN PAKISTAN

18. The development of the transport system and traffic patterns in Pakistan reflects the long (1000-mile) south-to-north axis of the country, extending from Karachi, the country's only port and a major industrial center, through the rich agricultural areas of Sind and Punjab in the Indus Basin to the population and administrative centers of Lahore and Rawalpindi/Islamabad. Virtually all imports and exports of the country pass through Karachi. Inland transport services are operated by the Pakistan Railways (PR), four provincially-owned and many privately-owned bus companies, myriad private trucking

firms and the semi-public Pakistan International Airlines which provides domestic and international service.

19. Although historically PR has handled the bulk of freight traffic, especially long-haul movements, and considerable passenger traffic, its share of both freight and passenger traffic has declined in recent years. Between 1961 and 1975, estimated total passenger miles by road and rail increased from 12.7 to 38.7 billion, while total freight ton-miles rose from 5.7 to 12.0 billion; road transport accounted for 93% and 84% respectively of the increase in each category. Rail passenger traffic increased by 2.1% p.a. and freight traffic by 1.6% p.a. during this period. Road transport's capture of most of the traffic increase reflects its efficiency, which has been promoted by competition resulting from generally unregulated rates and liberal licensing policies toward the industry. Intermodal cost comparisons, however, indicate that rail transport, if efficiently operated, continues to have a major role to play in the sector, particularly in transporting bulk commodities between the Karachi area and upcountry, and in their internal distribution over medium and long distances.

20. To provide a basis for rational transport planning and coordination, a transport study was financed under the Second Highway Project (Loan 578-PAK of December 20, 1968). In accordance with the recommendations of the study, GOP established the National Transport Research Center within the Planning Commission in 1973/74 with the principal tasks of helping to improve operational efficiency of the various transport modes and fostering economic allocation of traffic. The Bank has been supporting the Center in the training of staff by helping to formulate curricula and sending instructors to it. Technical assistance is being sought by the Government from UNDP and the UK for designing and supervising the Center's work program.

21. A comprehensive Six-Year Plan (FY78-83) is now under preparation. In the transport sector the Government proposes to give the railways higher priority than in the past vis-a-vis other modes. This shift in emphasis reflects, in part, the recent increases in fuel prices. Other important areas of proposed expenditure are the expansion of the farm-to-market road network; extension of transport facilities to remote areas; the expansion of domestic vehicle assembly plants; construction of a second port east of Karachi; and increasing the share of the country's international cargo handled by Pakistan-flag carriers.

22. A Five-Year Investment Plan for PR, covering the period 1976/77 to 1980/81, forms the basis for the proposed project. The Bank reviewed this Investment Plan while it was being prepared and suggested a number of modifications which PR accepted. The Plan's main objectives are to carry out required rehabilitation and replacement of PR's present plant and equipment in order to improve operational efficiency and to enable PR to obtain and carry a projected annual increase of 6% in freight ton-miles and 2.7% in passenger miles. Capital expenditures over the five-year period are estimated to amount to US$391 million equivalent, including US$153 million in foreign exchange. In addition, at the direction of GOP, PR intends to undertake,

outside the Investment Plan, construction of three new lines (totalling 134 miles) and one gauge conversion (88 miles) at a total estimated cost of about US$50 million, equivalent, spread over five years. The Bank has reservations regarding the economic justification of these additional works, but has received assurances from GOP in a Supplemental Letter that their execution will not be allowed to interfere with implementation of the Investment Plan.

23. The Bank/IDA has extended substantial support to the transport sector in Pakistan over the past several years. A total of $122 million has been provided through six Bank Group operations to assist PR and its predecessor organization, the former Pakistan Western Railways (PWR). The first three loans were made in the 1950s, jointly to Eastern and Western Railways, the latter's share amounting to about US$51.0 million. The next two loans and one IDA credit, totalling US$57.0 million, were exclusively to PWR. These were designed mainly to rehabilitate railway facilities and equipment. Physical completion was satisfactory, but operations did not improve as much as had been hoped, due in part to the transfer of control of the Railways from the central government to the Province of West Pakistan. The latest loan (Loan 621-PAK, US$14.5 million) was made in 1969 to support part of the then PWR's Third Five-Year Plan (1965-66 - 1969-70) and provided principally for track renewal and line-capacity works on the main Karachi-Lahore line. Because of the limited improvements in operational efficiency achieved under the previous loans, this loan also provided for consulting services to assist with the improvement of management and operations. Implementation of this project was slow, largely due to delays in finding a suitable location for a marshalling yard. This matter was resolved in 1974, and the yard is now under construction.

24. Until about two years ago, there was continued delay in PR's introducing much needed improvements in operations and in the utilization of its plant and equipment. As a consequence of giving operational priority to passenger services, PR was unable to increase freight traffic and to improve its financial position, despite the introduction of certain line improvements and the acquisition of 65 new diesel locomotives in 1970/71. At the Bank's suggestion, PR engaged consultants in 1974 to assist in implementing measures to improve PR's over-all efficiency and in November, 1975, PR introduced the grouping of mail and express passenger trains, thus enabling through-freight trains to run more smoothly. This has resulted in encouraging operational improvements, as reflected in the statistics for locomotive-miles per day, wagon turnaround time and length of average haul and in a reduction in the average number of passenger trains per day on the Karachi-Rawalpindi line (see paragraph 28). Following procurement of additional diesel locomotives in 1975/76, there was further improvement and the traffic level reached new highs last year. Although as discussed below, major problems remain, considerable progress has recently been made in the operational area. In restropect, however, it would have helped if at the time Loan 621-PAK was committed, operational targets had been more clearly specified. With past experience in mind, PR and the Bank have designed this project to assist PR in improving its operations and finances throughout the period of project execution.

PART IV - THE PROJECT

25. The proposed project, to be implemented during FY78-81, was appraised in June, 1976. The Appraisal Report (No. 1283a-PAK) on the project is being distributed separately. A loan/credit and project summary is attached as Annex III. At negotiations, which took place in Washington during December 1976, the Pakistan delegation was led by Mr. H. U. Beg, Secretary of the Ministry of Railways.

Project Description

26. Like the earlier railway projects in Pakistan, the proposed project is designed to complete important ongoing works and to initiate selected new ones required to meet projected increases in demand for freight and passenger services and to contribute to the further improvement of railway operations. Without the project, a large tonnage of bulk commodities and some other freight and passenger traffic would be diverted to road transport at higher ultimate cost to the economy.

27. The proposed project consists of two main components, the physical rehabilitation and improvement of PR's plant and equipment and the carrying out of an Action Plan to improve railway operations and financial performance. The physical component includes about 185 miles of complete track rehabilitation; about 70 miles of rail renewals; bridge works and civil engineering works; completion of the Pipri marshalling yard; line capacity work including completion of the second railway bridge at Kotri and terminal facilities; completion of a backbone microwave route from Karachi to Rawalpindi including related communication and signalling equipment; acquisition of marshalling yard equipment; re-engining 20 overage diesel locomotives and provision of spare parts; manufacture of about 220 second/third class passenger coaches and conversion into 800 bogie wagons of 1,600 overage four-wheeler wagons; and the acquisition of plant and machinery together with improved facilities for workshops, sheds and depots. This part of the project, except for the telecommunication and related signalling scheme and the provision of spare parts for diesel locomotives, is primarily a two-year slice of PR's current Five-Year Investment Plan.

28. The Action Plan would include, inter alia, rationalization of passenger services; improvement in freight train operations; strengthening maintenance procedures for diesel-electric locomotives; reduction in PR staff; and other activities related to railway operations. Technical assistance and staff training would be provided under the project to support the Action Plan. Analysis of PR's operational performance reveals much scope for improvement in passenger train operations. This will be crucial to the release of train paths and motive power to enable PR to handle the expected growth of freight traffic. To achieve this objective some little-patronized passenger trains will be eliminated, while additional coaches will be added to existing popular trains. As an initial step in this direction, PR reduced the average number of passenger trains per day on the Karachi-Rawalpindi line

from 90 to 74 last November. Similarly, PR's freight services require improvement with respect to transit times, terminal operations and the transport of major bulk commodities. Through-freight train speeds should be increased, and this, in turn, will require improved wagon maintenance. PR should also introduce more unit and block trains and implement measures to limit destinations and loading points for commodities such as wheat, rice, cement, fertilizer and POL.

29. During negotiations, agreement was reached on reasonable and specific measures with respect to the improvement of passenger- and freight-train operations. These measures should enable PR to achieve savings in the cost of operating passenger services and, more importantly, free capacity for handling a considerably greater volume of freight than would otherwise be possible without additional investments. Implementation of these measures may be difficult, but GOP is clearly committed to take the necessary action, as set forth in the Annex to Schedule 2 of the draft Credit Agreement. Achievement of the financial targets would depend on both the success of the Action Plan and the introduction of higher passenger fares to which GOP is also committed.

Cost and Financing

30. The portion of PR's Investment Plan which will form the Bank/IDA project has a total estimated cost of US$247 million equivalent (including taxes and duties), of which US$109 million or nearly 45% would be foreign exchange. The cost estimates are based on December 1975 prices adjusted for physical and price contingencies. The allowance for physical contingencies accounts for 6% of estimated costs, while price contingencies have been allowed at a rate of 9% in 1976 and 8% per annum during 1977-79; together they represent about 20% of project costs (see Annex III).

31. In addition to the proposed loan/credit of US$60 million, the Government is arranging other foreign assistance for the project. The principal source of additional financing is expected to be the Kuwait Fund, which has agreed in principle to provide substantial assistance. France, Canada and Germany are expected to provide a total of approximately US$8 million for various items in the project, and grants and loans are also being negotiated with the U.K. Most of the local costs are expected to be provided by the Government. The financing plan for the project would therefore be as follows:

	Foreign Costs ($ million)	Local Costs ($ million)
Bank	35.00	-
IDA	25.00	-
Bilateral Sources	49.00	-
GOP (including PR)	-	138.00
	109.00	138.00

32. Proceeds of both the Loan and the Credit would be passed on to PR on essentially the same terms and conditions as the Bank loan, but with one exception. In conformity with the general GOP policies with respect to funds lent (or on-lent) to statutory bodies, the portion of the loan and credit proceeds (around 60 percent) to be devoted to replacement works, would be repaid on the same amortization and interest terms as applied to the Bank Loan; however, with respect to the portion devoted to additional investments (about 40 percent) PR would not be required to make amortization payments to the Government and at the end of the notional amortization period the loan would be converted into capital-at-charge. During the first 20 years PR would pay interest on this sum to the Government at the Bank lending rate (8.5 percent per annum) and thereafter would pay the prescribed dividend on capital-at-charge (at the present time, 6.25 percent per annum).

Procurement and Disbursements

33. All items, with the exception of spare parts for diesel locomotives, to be financed under the loan/credit will be procured by PR through international competitive bidding in accordance with World Bank Guidelines. The diesel spare parts will be purchased from established spare parts suppliers. However, certain critical spare parts may be purchased on the basis of quotations from original locomotive manufacturers in consultation with the Bank/IDA. The aggregate amount of diesel spares should not exceed US$5 million equivalent.

34. Disbursements would cover 100% of the foreign expenditures for imported items to be financed from the loan/credit. So as not to discourage employment of local consultants where these are available, disbursements for technical assistance (US$500,000) will cover either 100% of foreign expenditures or 70% of local expenditures. The major project items to be financed under the loan/ credit and the amounts expected to be disbursed against each category are: track rehabilitation, US$13.9 million; telecommunications and signalling, US$13.8 million; motive power and rolling stock, US$14.1 million; plant and machinery for workshops, US$3.7 million; diesel locomotive spares, US$5.0 million; technical assistance and staff training, US$1.0 million. Disbursements are expected to be virtually completed by June 30, 1981.

Project Organization and Management

35. PR will be responsible for the implementation of the project. It will collaborate with Pakistan Telegraph and Telephone, which owns and maintains PR's present communications network, in carrying out the telecommunications and related signalling schemes. PR operates under the direction of a four-member Board whose chairman reports to the Ministry of Railways. The Board serves both as a secretariat to the Ministry and as an executive body responsible for railway operations, exercising its power through six zonal divisions which handle day-to-day activities.

36. The earlier deterioration in operating performance, together with inflation, has resulted in a worsening in PR's financial position. To improve the position, the Government authorized three general and various selective increases in freight rates since 1974 but only one general increase in fares

for passenger services, with the result that the general level, if not the structure, of freight rates appears appropriate and is remunerative, whereas most passenger services are operated at a substantial loss. In FY76 PR's operating ratio is estimated to have been 94%. The Government has agreed that beginning in FY78 PR should generate sufficient funds to cover all operating expenses, including depreciation allowances calculated on the basis of revalued assets, and debt service obligations and in subsequent years a surplus which should rise progressively so that by FY82 it would be equivalent to the prescribed dividend on PR's capital-at-charge. In addition, PR has established a unit to carry out costing and tariff studies for restructuring rates and fares and adopting proper user charges. These studies are expected to be completed by December 1977, and within the following 12 months a tariff structure based on these studies is to be implemented. A general passenger-fare increase is to be introduced this year and subsequent fare adjustments will reflect the revised tariff structure and the undertaking to generate the required surplus (Credit Agreement Sections 4.04-4.05).

37. Under the previous project, efforts were made to improve and modernize PR's accounting methods and procedures and a number of steps in this regard have been agreed and are now being implemented. These include a revaluation of PR's fixed assets on or before July 1, 1977, and within one year thereafter provision of an adequate annual depreciation charge based upon revalued assets (Credit Agreement Section 4.03). The proposed project includes provision for staff training in connection with the ongoing modernization of PR's accounting procedures.

Project Benefits and Risks

38. As already indicated, the primary objective of the proposed project is to assist PR in improving its operational performance, particularly to enable it to carry a substantially larger volume of freight traffic. Expected improvements in PR's operations resulting from Plan investments and concurrent organizational changes should generate economic benefits in the form of savings in PR's operating costs and avoidance of diversion of traffic to road transport, and make it possible for PR to carry the projected freight and passenger traffic with significantly less new investment than would be required in the absence of major operational improvements. The estimated economic return on the investment as set out in the Plan is about 24%. In addition, there should be non-quantifiable benefits resulting from savings in passenger and freight time, reduced inventories and improvements in the reliability and quality of service. Should the economic cost of the Plan be higher than estimated by 15%, the economic rate of return would drop to 20%. If operating costs increase at 4% or 5% p.a., rather than 3% p.a. as assumed in these calculations, the rate of return would be depressed to 18% or 13%, respectively. The assumption of a 3% increase in operating cost depends on PR achieving the planned operational improvements specified in the Annex to Schedule 2 of the draft Credit Agreement; the achievement of the 24% rate of return is therefore crucially dependent upon the successful implementation of the Action Plan, which, in turn, is reasonable and has been discussed and agreed with PR. There are no other significant risks which might affect the success of the project.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

39. The draft Loan Agreement and Development Credit Agreement between the Islamic Republic of Pakistan and the Bank and the Association, respectively, the Report and Recommendation of the Committees provided for in Article III, Section 4(iii) and in Article V, Section 1(d) of the Articles of Agreement of the Bank and of the Association and the text of Resolutions approving the proposed Loan and Development Credit are being distributed to the Executive Directors separately.

40. Special conditions of the project are listed in Section III of Annex 4.

41. I am satisfied that the proposed loan and credit would comply with the Articles of Agreement of the Bank and Association.

PART VI - RECOMMENDATION

42. I recommend that the Executive Directors approve the proposed loan and credit.

Robert S. McNamara
President

Attachments
February 9, 1977

TABLE 3A
PAKISTAN - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM2)

TOTAL	803.9
AGRIC.	243.9

	PAKISTAN			REFERENCE COUNTRIES (1970)		
	1960	1970	MOST RECENT ESTIMATE	INDIA	THAILAND	TURKEY**
GNP PER CAPITA (US$)	50.0	100.0	140.0	110.0	210.0	480.0
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR, MILLION)	45.0	59.8	69.2	542.7	36.3	35.7
POPULATION DENSITY						
PER SQUARE KM.	56.0	74.0	86.0	165.0	71.0	46.0
PER SQ. KM. AGRICULTURAL LAND	..	240.0	268.0	290.0	..	67.0
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	49.2	47.6	47.4	42.7	44.3	40.6
CRUDE DEATH RATE (/THOU,AV)	26.3	20.1	16.5	18.8	13.7	14.4
INFANT MORTALITY RATE (/THOU)	142.0 /a,b	124.3	113.0	..	80.0	145.0
LIFE EXPECTANCY AT BIRTH (YRS)	42.1	47.4	49.8	47.2	55.5	54.4
GROSS REPRODUCTION RATE	3.2	3.7	3.6	2.9	3.2	2.6 /a,b
POPULATION GROWTH RATE (%)						
TOTAL	2.3	2.9	3.0	2.4	3.1	2.5
URBAN	5.0	4.9	..	3.2	4.9	4.9 /c
URBAN POPULATION (% OF TOTAL)	23.0	26.8	..	19.8	15.0	38.5
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	42.0 /a,c	43.4	..	41.6	45.0	41.8
15 TO 64 YEARS	52.0 /a,c,d	52.7	..	55.3	52.0	53.9
65 YEARS AND OVER	6.0 /a,c,d	3.9	..	3.1	3.0	4.3
AGE DEPENDENCY RATIO	0.9 /a,c	0.9	..	0.8	0.9	0.9
ECONOMIC DEPENDENCY RATIO	1.8 /a,e	1.6 /a	..	..	1.1	1.1 /d
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)	..	..	..	11308.0	470.0	..
USERS (% OF MARRIED WOMEN)	..	..	..	..	10.0	8.2
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSAND)	13000.0	18000.0	20800.0	..	16700.0	14500.0 /e
LABOR FORCE IN AGRICULTURE (%)	59.0	58.0	56.0	..	79.0	67.0
UNEMPLOYED (% OF LABOR FORCE)	..	..	2.0 /a,b	..	..	4.0 /f
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF HOUSEHOLDS	20.3 /f	17.8	17.3 /c	25.0 /a	..	32.8 /g
HIGHEST 20% OF HOUSEHOLDS	45.3 /f	41.8	41.5 /c	53.1 /a	..	60.6 /g
LOWEST 20% OF HOUSEHOLDS	6.4 /f	8.0	8.4 /c	4.7 /a	..	2.9 /g
LOWEST 40% OF HOUSEHOLDS	17.5 /f	20.2	20.6 /c	13.1 /a	..	9.4 /g
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	46.2	..	..	..	..	53.0
% OWNED BY SMALLEST 10% OWNERS	0.4	..	..	..	..	0.9
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	7450.0 /g	4250.0 /b	4010.0 /b,d	4850.0	8420.0	2250.0
POPULATION PER NURSING PERSON	14860.0 /h	8320.0 /b	7350.0 /b,d	5170.0	7020.0	1770.0 /h
POPULATION PER HOSPITAL BED	2070.0 /i	1840.0	..	1600.0	890.0	500.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)	84.0	99.0	93.0 /e	93.0	105.0	110.0
PROTEIN (GRAMS PER DAY)	55.0	59.0	56.0 /e	53.0	52.0	78.0
-OF WHICH ANIMAL AND PULSE	13.0 /a,j	14.0 /e	..	16.0	17.0 /a	22.0 /i
DEATH RATE (/THOU) AGES 1-4	..	..	..	..	..	15.0 /b
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	31.0 /k	39.0 /c	..	68.0	82.0	111.0
SECONDARY SCHOOL	10.0 /k	12.0 /c	..	..	16.0	28.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	10.0 /l	10.0 /d	10.0 /f	12.0	12.0	11.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	1.0	1.0	1.0 /b	6.0 /b	14.0 /b	14.0
ADULT LITERACY RATE (%)	16.0 /m	20.0	21.0	33.0	79.0	55.0 /j
HOUSING						
PERSONS PER ROOM (URBAN)	3.1 /a,n	..	..	..	..	1.9
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)	..	..	..	..	..	64.0
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	..	..	..	..	..	41.0
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	..	..	..	..	18.0
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	6.0	14.0	16.0	21.0	78.0	89.0
PASSENGER CARS (PER THOU POP)	1.0	3.0	3.0	1.0	5.0	4.0
ELECTRICITY (KWH/YR PER CAP)	22.0	67.0	137.0	114.0	124.0	247.0
NEWSPRINT (KG/YR PER CAP)	0.1 /a,o	0.6 /a	0.3	0.3	1.0	0.7

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

** Turkey has been selected as an objective country for Pakistan since the natural resources, agricultural basis and economically efficient production and investment programs are likely to be similar in both countries. Moreover, Turkey and Pakistan have similar religious and cultural backgrounds, with many of the same social and cultural barriers to modernization with Turkey being somewhat ahead in this process.

PAKISTAN 1960 /a Includes data for Bangladesh; /b 1962-65. /c Excluding frontier regions; /d 15-59 years and 60 years and over respectively, /e Ratio of population under 15 and 60 and over to total labor force; /f 1963-64, /g Registered, not all practicing in the country, /h Includes midwives; /i Including dispensaries, /j 1960-62; /k 5-9 and 10-16 years of age respectively; /l Up to matriculation (10th grade); /m 5 years and over, the ability to read with understanding a short statement on every-day life in any local language; /n Data refer to households; /o Figure does not include import by land.

1970 /a Ratio of population under 15 and 65 and over to total labor force; /b Registered, not all practicing in the country, /c 5-9 and 10-16 years of age respectively, /d Up to matriculation (10th grade); /e Includes data for Bangladesh.

MOST RECENT ESTIMATE: /a Open unemployment, /b 1972; /c 1971, /d Registered, not all practicing in the country, /e 1969-71 average, /f Up to matriculation (10th grade).

INDIA 1970 /a 1967-68, /b 1967.

THAILAND 1970 /a 1964-66; /b Public schools, which include technical education at the post-secondary level.

TURKEY 1970 /a Excludes 17 eastern provinces; /b 1965-67; /c 1965-70; /d Ratio of population under 15 and 65 and over to labor force 15 years and over, /e 15 years and over, excludes unemployed, /f Registered only, /g Disposable income, /h Including assistant nurses and midwives, /i 1964-66, /j Persons six years old and over who tell the census takers that they can read and write.

RIO, January 5, 1977

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km^2)
Total - Total surface area comprising land area and inland waters.
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960, 1970 and 1975 data.

Population and vital statistics
Population (mid-yr. million) - As of July first: if not available, average of two end-year estimates, 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.
Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics
Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.
Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.
Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.
Life expectancy at birth (yrs) - Average number of years of life remaining at birth, usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.
Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.
Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries
Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.
Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.
Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.
Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.
Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment
Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., definitions in various countries are not comparable.
Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.
Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income Distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition
Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.
Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers, excludes nursing homes and establishments for custodial and preventive care.
Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution, requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day, net supply of food is defined as above, requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein, these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.
Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group, suggested as an indicator of malnutrition.

Education
Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.
Adjusted enrollment ratio - secondary school - Computed as above, secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.
Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.
Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.
Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing
Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas, dwellings exclude non-permanent structures and unoccupied parts.
Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.
Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.
Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption
Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population, excludes unlicensed receivers in countries and in years when registration of radio sets was in effect, data for recent years may not be comparable since most countries abolished licensing.
Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons, excludes ambulances, hearses and military vehicles.
Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.
Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

ECONOMIC DEVELOPMENT DATA
(Amounts in millions of U.S. Dollars)

	Actual			Est.	Projected		1974-1977	1977-1978	1978-1983	1983-1988	1977	1978	1983
	1974	1975	1976	1977	1978	1983							
	At 1976 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of GDY		
NATIONAL ACCOUNTS													
Gross Domestic Product	11925	12749	13083	13684	14792	19309	4.7	8.1	5 5	5 9	100.5	100.6	100.4
Gains from Terms of Trade (+)	-436	+114	-	-62	-95	-71	.	.	.	.	.	.	.
Gross Domestic Income	11489	12863	13083	13622	14697	19238	5.8	7.9	5.5	5.9	100.0	100.0	100 0
Imports incl. NFS	2582	2419	2587	2675	2735	3131	1.2	2.2	2.7	4.7	19.6	18.6	16.3
Exports incl. NFS (import capacity)	1125	1254	1432	1420	1578	2332	8.1	11.1	8.1	6.8	10.4	10.7	12.1
Resource Gap	1457	1165	1155	1255	1157	799	-4.9	-7.8	-7.1	-2.8	9.2	7.9	4.2
Consumption Expenditures	11489	11899	11965	12339	13434	14063	2.4	8.9	0.9	9.4	90.6	91.4	73.1
Investment Exp. (incl. stocks)	1472	1911	2273	2600	2362	3082	20.9	-9.2	5.5	7.3	19.1	16.1	16.0
Domestic Savings	668	833	1117	1283	1263	2412	24.3	-1.6	13.8	8.1	9.4	8.6	12.5
National Savings	787	976	1326	1577	1583	2807	26.0	0.4	12.1	6.8	11.6	10.8	14 6
MERCHANDISE TRADE	Annual Data at Current Prices						Average Annual Growth Rates				As Percent of Total		
Imports													
Capital Goods	579	776	926	1064	1100	1882	22.5	3.4	11.3	11.1	40.2	37.9	41.5
Intermediate Goods (excl. fuels)	446	669	547	726	834	1156	17.6	14.9	6.7	12.0	27.4	28.8	25.5
of which, fertilizers	97	102	58	177	215	45	22.2	21.5	-26.9	-	6.7	7.4	1.0
POL	238	335	359	431	484	778	21.9	12.3	10.0	10.2	16.3	16.7	17.2
Consumption Goods	384	542	507	428	482	715	3.7	12.6	8.2	14.1	16.2	16.6	15.8
Total Merchandise Imports (c.i.f.)	1647	2322	2339	2649	2900	4531	17.2	9.5	9.3	11.7	100.0	100.0	100.0
Exports													
Raw Cotton	38	159	99	18	70	178	-22.0	288.9	20.5	6.9	1.5	5.0	5.8
Cotton Yarn	183	86	144	226	236	361	7.3	4.4	8.9	13.4	19.0	16.8	11.9
Cotton Cloth	143	133	130	142	157	294	-0.2	10.6	13.4	13.4	12.0	11.2	9.7
Rice	212	233	250	182	210	460	-5.0	15.4	17.0	9.1	15.3	14.9	15.1
Others	450	367	539	620	735	1750	11.3	18.5	18.9	16.2	52.2	52.2	57.5
Total Merchandise Exports (fob)	1026	978	1162	1188	1408	3043	5.0	18.5	16.7	14.1	100.0	100.0	100.0
Merchandise Trade Indices	Average 1976 = 100												
Export Price Index	106.9	99.7	100.0	105.4	112.2	162.7	-0.5	6.5	7.7	6.9			
Import Price Index	70.8	105.4	100.0	110.2	119.4	168.0	15.9	8.3	7.1	7.0			
Terms of Trade	150.9	94.5	100.0	95.6	94.0	96.9	-14.1	-1.7	0.6	-0.1			
Export Volume Index	78.6	87.6	100.0	97.8	109.5	162.0	7.6	12.0	8.1	6.8			
VALUE ADDED BY SECTOR	Annual Data at 1976 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of Total		
Agriculture	3804	3719	3897	4000	4360	5351	1.7	9.0	4.2	4.2	31.8	32.1	30.2
Manufacturing	2824	2806	2811	2739	2895	4135	-1.0	5.7	7.4	8.0	21.8	21.3	23.3
Other Sectors	4782	5076	5402	5838	6340	8261	6.9	8.6	5.4	5.9	46.4	46.6	46.5
Total	11410	11601	12110	12577	13596	17747	3.3	8.1	5.5	5.9	100.0	100.0	100.0
PUBLIC FINANCE	Annual Data at 1976 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of GDP		
(Central Government) 1/													
Current Receipts	1948	1859	1991	2100	..	..	2.5	..	..	..	15.3	..	..
Current Expenditures	2021	2216	2258	2263	..	..	3.8	..	..	..	16.5	..	..
Budgetary Savings	- 73	-357	- 267	- 163	..	..	.	.	.	..	-1.2	..	..
Other Public Sector	..	..	..	..	..	..	..	..	..	..	..	..	..
Public Sector Investment	745	1133	1473	1618	..	..	29.5	..	..	..	11.8	..	..

CURRENT EXPENDITURE DETAILS (As % Total Current Expend.)	Actual Data 1974	1975	1976	1977
Education	6.3	7.0	8.1	8.9
Other Social Services	20.5	18.7	12.2	10.6
Agriculture	3.2	3.3	4.1	4.0
Other Economic Services	3.6	3.2	3.0	3.3
Defense	38.0	39.7	40.0	39.1
Administration	8.5	7.5	7.9	8.5
Other 3/	19.9	20.6	24.7	25.6
Total Current Expenditures	100.0	100.0	100.0	100.0

DETAIL ON PUBLIC SECTOR INVESTMENT PROGRAM	At 1976 Prices and Exchange Rates 1974	1975	1976	1977	% of Total 1974-77
Social Sectors	127	187	278	264	17.4
Agriculture 2/	235	295	324	315	23.8
Industry & Mining	105	196	277	495	21.9
Power	107	157	234	223	14.7
Transp. & Communications	149	221	252	262	18.0
Other	22	77	45	59	4.1
Total Expenditures	745	1133	1410	1618	100.0
FINANCING					
Public Sector Savings 4/	- 16	-107	56	154	- 1.8
Domestic Borrowing	298	333	383	254	25.8
Foreign Borrowing	463	907	972	1210	72.4
Total Financing	745	1133	1410	1618	100.0

Note: All years given in this table refer to the Pakistani fiscal year July 1 - June 30. The fiscal year is identified by the calendar year in which it ends.

1/ Consolidated federal and provincial government.
2/ Including expenditure on the Tarbela Dam project.
3/ Includes interest payments.
4/ Adjusted for investment in current budget, transfers of surpluses and self-financing by public sector.

South Asia Department
February 9, 1977

PAKISTAN BALANCE OF PAYMENT, EXTERNAL ASSISTANCE AND DEBT
(amounts in millions of U.S. dollars at current prices)

	Actual 1/				Estimated	Projected					Avg. Annual Growth Rate
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1977/80	1980/81	1981/82	1976/77-81/82
SUMMARY BALANCE OF PAYMENTS											
Exports (incl. NFS)	903	1,202	1,252	1,432	1,496	1,771	2,086	2,462	2,873	3,319	17.3
Imports (incl. NFS)	1,094	1,829	2,551	2,587	2,947	3,265	3,585	3,921	4,246	4,703	9.8
Resource Balance (X-M)	-191	-627	-1,299	-1,155	-1,451	-1,494	1,499	-1,459	-1,373	-1,384	
Interest (net)	-84	-80	-93	-97	-94	-136	-198	-232	-260	-283	25.0
Direct Investment Income (net)	-	8	4	-25	-28	-31	-34	-32	-42	-47	.
Workers' Remittance (gross)	145	150	229	353	445	545	605	745	850	935	16.0
Other Factor Services (net)	...	...	...	-3	-3	-3	-3	-3	-3	-3	-
Current Transfers (net)	...	...	...	...	...	...	...	...	...	...	.
Balance on Current Accounts	130	-549	-1,168	-927	-1,131	-1,119	-1,089	-981	-828	-782	-7.0
Private Direct Investment (net)	..	..	-	41	45	50	55	60	66	73	10.2
Official Capital Grants (net)	46	91	140	120	100	100	100	100	100	100	-
Public M&LT Loans											
Disbursements 1/	356	497	1,019	1,067	842	980	1,016	1,056	1,064	1,123	.
Repayments	-114	-106	-135	-171	-163	-247	-315	-349	377	-403	
Net Disbursements	242	391	884	896	679	733	701	707	687	720	
Other M&LT Loans											
Disbursements	...	...	...	...	288	317	350	233	89	-	.
Repayments	...	...	...	...	-6	-5	-5	-4	-4	-18	
Net Disbursements					282	312	345	229	85	-18	
Capital Transactions n.e.i. 2/	44	44	263	-							
Change in Net Reserves (-Increase)	-202	23	-119	-130							

GRANT AND LOAN COMMITMENTS	1972/73	1973/74	1974/75	1975/76
Official Grants & Grant-like Loans	29	30	116	82
Public M&LT Loans				
IBRD	-	60	60	50
IDA	95	53	82	50
Other Multi-lateral	39	82	71	119
Governments 3/	555	1,064	856	597
Suppliers	5	13	9	-
Financial Institutions	1	57	12	-
Bonds	-	-	-	-
Public Loans n.e.i.	-	-	-	-
Total Public M&LT Loans	724	1,359	1,206	816

EXTERNAL DEBT	Actual Debt Outstanding on December 31, 1975: Disbursed Only	Percent
IBRD	283	6
IDA	484	9
Other Multi-lateral	102	2
Governments	4,000	78
Suppliers	127	2
Financial Institutions	100	2
Bonds	-	-
Public Debts n.e.i.	-	-
Total Public M&LT Debt	5,096	100
Other M&LT Debts	..	..
Short-term Debt (disb. only)	..	..

	Actual			Estimated
DEBT AND DEBT SERVICE	1971/72	1972/73	1973/74	1974/75
Public Debt Outs. & Disbursed	4,666 4/	5,082 4/	6,057	6,888
Interest on Public Debt 5/	48	84	81	105
Payments on Public Debt 5/	75	114	104	144
Total Public Debt Service	123	198	185	249
Other Debt Service (net)	..	..	..	..
Total Debt Service (net)	123	198	185	249
Burden on Export Earnings (%) 6/				
Public Debt Service	15 8	18.9	13.6	16.8
Total Debt Service	.	..	..	..
TDS + Direct Invest. Inc.	18.6	20.7	15.8	19.1
Average Terms of Public Debt				
Int. as % Prior Year DO&D	1.0	1.8	1 6	1.7
Amort. as % Prior Year DO&D	1.6	2.4	2.0	2.4
IBRD Debt Outs. & Disbursed	405 4/	373 4/	405	440
IBRD as % Public Debt O&D	8.7	7.3	6.7	6.4
IBRD Debt Service	47.0	54.3	52.5	44.4
IBRD as % Public Debt Service	38.2	27.4	28 4	17.8
IDA Debt Outs & Disbursed	522 4/	544 4/	558	638
IDA as % Public Debt O&D	11.2	10.7	9.2	9 3
IDA Debt Service	2.3	4.4	4.2	5.7
IDA as % Public Debt Service	1.9	2.2	2.3	2.3

not applicable
not available
not available separately but included in total

staff estimate
nil or negligible
less than half the smallest unit shown

1/ The figures for 1975/76 - 1977/78 include imputed disbursements on account of debt relief already agreed with the Pakistan Aid Consortium.
2/ Including errors and omissions.
3/ Including commitments made for debt relief; figures for 1975/6 estimated.
4/ Including "Bangladesh" debt subsequently transferred or cancelled.
5/ Net of debt relief.
6/ Burden on earnings from exports including NFS and workers' remittances.

South Asia Department
February 9, 1977

STATUS OF BANK GROUP OPERATIONS IN PAKISTAN

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(as of December 31, 1976)

Loan or Credit Number	Year	Borrower	Purpose	Amount Bank	US$ Million (less cancellations) IDA	Undisbursed
Sixty-five loans and credits fully disbursed /a				515.5	367.8	
50	1964	Pakistan	Education	---	8.5	0.3
590	1969	PICIC	Industrial Development (PICIC)	22.0	--	0.7
621	1969	Pakistan	Railways	14.5	--	2.1
177	1970	Pakistan	Industrial Development (IDBP)	--	18.7	1.0
206	1970	Pakistan	Engineering Education	--	4.0	1.4
213	1970	Pakistan	Power Distribution	--	23.0	3.9
422	1973	Pakistan	Karachi Port III	--	18.0	5.6
961	1974	Pakistan	Industrial Investment	25.0	--	6.7
466	1974	Pakistan	Flood Rehabilitation	--	35.0	1.2
988	1974	Pakarab Fertilizer	Multan Fertilizer	35.0	--	6.9
492	1974	Pakistan	Karachi Port IV	--	16.0	15.0
510	1974	Pakistan	Telecommunications III	--	36.0	21.8
1107	1975	SNGPL	Gas Pipeline IV	60.0	--	29.9
546	1975	Pakistan	Industrial Development (NDFC)	--	30.0	20.8

Loan or Credit Number	Year	Borrower	Purpose		Amount Bank	US$ Million (less cancellations) IDA	Undisbursed
1208	1976	Pakistan	Power Transmission		50.0	-	49.7
620	1976	Pakistan	Seeds			23.0	23.0
629	1976	Pakistan	Program Credit			50.0	30.3
1326	1976	PICIC	Industrial Development		25.0		25.0
630	1976	Pakistan	Lahore Water II			26.6	26.6
648	1976	Pakistan /b	Irrigation and Drainage			(14.0)	(14.0)
		TOTAL			747.0	656.6	
		of which has been repaid			306.0	11.6	
		TOTAL now outstanding			441.0	645.0	
		Amount sold		22.3			
		of which has been repaid		22.3	0.0	--	
		Total now held by Bank and IDA /c			441.0	645.0	
		Total Undisbursed			120.9	150.8	271.7

/a Excludes the disbursed portion of loans and credits wholly or partly for projects in the former East Pakistan which have now been taken over by Bangladesh.

/b Not yet effective and not included in totals.

/c Prior to exchange adjustments.

B. STATEMENT OF IFC INVESTMENTS (as of December 31, 1976)

Year	Obligor	Type of Business	Amount in US$ Million Loan	Equity	Total
1958	Steel Corp. of Pak. Ltd	Rolled Steel Products	0.63	--	0.63
1959	Adamjee Industries Ltd	Textiles	0.75	--	0.75
1962 1965	Gharibwal cement Industries Ltd		5.25	0.42	5.67
1963- 1969- 1975	PICIC	Development Financing	--	0.52	0.52
1965	Crescent Jute Products	Textiles	1.95	--	1.95
1965	Packages Ltd	Paper Products	2.31	0.84	3.15
1967- 1976	Pakistan Paper Corp. Ltd	Paper	5.38	2.02	7.40
1969	Dawood Hercules Chemicals Ltd.	Fertilizers	1.00	2.92	3.92
1969	Karnaphuli Paper Mills Ltd	Pulp and Paper	5.60	0.63	6.23
	Total Gross Commitments		22.87	7.35	30.22
	Less: Cancellations, Terminations Repayments and Sales		17.37	0.90	18.27
	Total Commitments Now Held by IFC		5.50	6.45	11.95
	Undisbursed		.05	-	.05

C. PROJECTS IN EXECUTION 1/

Loan No. 548 — Tarbela Dam: US$25.0 Million Loan of July 10, 1968; Effective Date: August 2, 1968; Closing Date: December 31, 1977

The Loan is intended for residual financing, and disbursements began in March 1975. On September 29, 1973, the Indus River was diverted through tunnels on schedule to enable the final stage -- the construction of the closure section of the dam -- to be undertaken. By June 30, 1974, the main embankment had been completed to full height, and the first impoundment began on schedule in July 1974. In early August, difficulties were encountered in the operation of the tunnel gates and damage to one of the tunnels necessitated the emptying of the reservoir, in the course of which further damage was incurred. A program of remedial works is nearing completion. Agreement was reached with the parties to the Indus Basin and Tarbela Development Fund Agreements whereby special contributions were made by a number of the parties and IDA (Credit 581-PAK) to help meet the costs of the repairs and additional remedial works. Meanwhile, the reservoir was filled to within 20 ft. of the maximum pool level in the summer of 1975 and irrigation releases have been made through the Service and Auxiliary Spillways. In the course of tests to the stilling basins further damage was incurred in April 1976. Investigations of the causes of the damage and a program of remedial measures are being prepared.

Loan No. 590 — Development Finance Company - PICIC: US$40.0 Million Loan of March 21, 1969; Effective Date: May 21, 1969; Closing Date: September 30, 1976

This Loan has been fully committed. The original Closing Date of March 31, 1974 was postponed first to September 30, 1975 and then to September 30, 1976, the current date, to enable disbursements to be made for the last sub-project. Less than $1 million remains to be disbursed.

Loan No. 621 — Railways: US$14.5 Million Loan of June 26, 1969; Effective Date: August 28, 1969; Closing Date: June 30, 1978

About 80% of the Loan has been committed, and it is anticipated that the project will be virtually complete by June 1977. To provide for

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

reimbursement of commissioning expenses during the following year, however, the Closing Date, formerly December 31, 1975, has been extended to June 30, 1978. The main outstanding item is construction of the first stage of a new marshalling yard at Pipri, near Karachi. The location of this yard was changed twice following protracted investigations and negotiations between various agencies and planning authorities. Consultants have modified the design of the yard for the new location, selected to reconcile urban planning and railway marshalling objectives, and construction is underway. While progress on improvements to the main line, which will permit removal of speed restrictions has been rather slow, a new timetable for passenger and goods trains was introduced in November 1975. This should help to improve utilization of motive power and rolling stock, especially freight wagons, eventually producing large cost savings.

Credit No. 177 — Development Finance Company - IDBP: US$20.0 Million Credit of February 11, 1970; Effective Date: June 25, 1970; Closing Date: December 31, 1977

Amendments to the Credit Documents became effective on April 25, 1974. These enabled IDBP to resume utilizing IDA funds to finance Pakistan industry without bearing the financial risk, pending settlement of its liabilities with respect to projects it had financed in Bangladesh. The original Closing Date of December 31, 1974 was then postponed to December 31, 1977. The Credit has been fully allocated by IDA and only $1.1 million remained undisbursed as of August 13, 1976. The Bangladesh liabilities issue is no longer a problem. The major problem remaining is the large arrears in IDBP's portfolio and its consequent effect on liquidity. The liquidity problem has been eased with Government assistance but the long-term portfolio prospects will depend mainly on developments in the textile sector which accounts for a large portion of IDBP's outstandings.

Credit No. 206 — Engineering Education: US$4.0 Million Credit of June 29, 1970; Effective Date: July 14, 1971; Closing Date: December 31, 1976

The project is now about 24 months behind schedule. The physical facilities of the project are expected to be complete by the Closing Date (December 1976), except for about 15% of the equipment purchases, which are linked to the Technical Assistance program. This program will require at least two years extension of the Closing Date because of delayed recruitment of experts. Progress in staff development is unsatisfactory, mainly because of low staff salaries, but these have recently been improved. Suggestions for improvement have been made to the Borrower. Project costs on civil works are expected to exceed the appraisal estimates by 85% in rupee terms, but total project costs are unlikely to exceed the appraisal estimate of US$6.3 million due to the 1972 devaluation of the rupee. Disbursement remains slow but is expected to improve with the completion of the physical facilities.

Credit No. 213 — Power Transmission and Distribution: US$23.0 Million Credit of August 13, 1970; Effective Date: December 11, 1970; Closing Date: June 30, 1977

Since the extension of the Closing Date to June 30, 1977, project implementation has been improving. As consultant services will terminate on September 30, 1976, WAPDA will continue supervision of construction until the project is completed.

Credit No. 422-PAK — Third Karachi Port: US$18.0 Million Credit of July 19, 1973; Effective Date: December 14, 1973; Closing Date: June 30, 1979

Work has commenced on both the Juna Bunder shipping berths and Napier Mole Bridge sites. Some contractor organizational and technical problems have delayed commencement of the permanent works at Juna Bunder. Work is now due to start on the south abutment of the new bridge. Permanent way materials and water pipes and fittings are being supplied and 50% have been received to date. Supervisory and study arrangements are being finalized. Over 90% of the Credit allocation has been committed and 59% of the Credit disbursed.

Credit No. 492-PAK — Fourth Karachi Port: US$16.0 Million Credit of July 8, 1974; Effective Date: September 18, 1974; Closing Date: December 31, 1979

The two lowest bids for construction of the oil berth were reviewed in detail by KPT and, since the lowest bidder refused to delete numerous conditions from the bid, an acceptable contract was negotiated with the next lowest and signed by KPT in June 1976. The foreign exchange component of the bid was twice that included in the appraisal estimates. Consultants have not yet been formally appointed by KPT for preparing contract documents for dredging works and dredger procurement. The implementation of oil berth construction is now some 23 months behind the program prepared at the time of appraisal. No disbursement from the Credit has been made to date.

Loan No. 961 — Industrial Investment: US$25.0 Million Loan of January 31, 1974; Effective Date: April 3, 1974; Closing Date: June 30, 1978

The Loan was made to the Government to be administered by PICIC rather than directly to PICIC pending settlement of PICIC's foreign currency liabilities with respect to projects it had financed in Bangladesh. This problem has been solved. PICIC's major problem is a substantial volume of arrears which has accummulated as a result of the difficulties of the private sector over the last few years, particularly textiles. PICIC, in cooperation with GOP, have undertaken a number of remedial measures and the situation is now improving. The loan has been fully committed and disbursements amounted to $15.8 million on August 13, 1976. A new loan is under consideration.

Credit No. 466 — Flood Rehabilitation: US$35.0 Million Credit of January 31, 1974; Effective Date: April 3, 1974; Closing Date: December 31, 1976

The general imports and civil works categories of this credit have been fully disbursed. The original Closing Date of June 30, 1975 has been further postponed to December 31, 1976, to permit completion of procurement of specialized spare parts for the repair of construction and farm machinery.

Loan No. 988 — Multan Fertilizer: US$35.0 Million Loan of May 24, 1974; Effective Date: July 30, 1974; Closing Date: June 30, 1977

The project is proceeding satisfactorily. Work on major offsites such as roads, railroad tracks and utilities is complete and plant construction is proceeding vigorously. Staff recruitment and training is increasing steadily. The most likely potential problem appears to be the late delivery of a few critical items such as heat exchangers and boilers, which could delay startup by several months.

Credit No. 510 — Third Telecommunications: US$36.0 Million Credit of September 12, 1974; Effective Date: October 25, 1974; Closing Date: December 31, 1978

The project covered by this Credit is proceeding satisfactorily though somewhat behind schedule. Procurement action for all the main equipment items is well advanced. T&T was required under Credit Agreements of 145-PAK and of 510-PAK to be reorganized to function more effectively along commercial lines and to be given a greater degree of autonomy. This reorganization has not yet been effected. However, a Government-appointed Committee recently made suitable recommendations which if accepted will meet the Association's requirements. Government approval at Cabinet level is expected shortly.

Credit No. 546 — National Development Finance Corporation (NDFC): US$30.0 Million Credit of May 15, 1975: Effective Date: July 17, 1975; Closing Date: September 30, 1979

During 1975, the National Development Finance Corporation (NDFC) rapidly expanded its level of business with cumulative loan approvals totalling Rs 670 million and has forecast further expansion during the calendar year 1976. To meet the new levels of business, NDFC has substantially increased both its domestic currency resource position and its professional staffing. NDFC forecast that the IDA credit will be fully allocated by mid 1977 and disbursed by December 1978. As at August 13, 1976, US$20.3 million of the credit had been committed and US$2.5 million disbursed.

Loan No. 1107 — Fourth Sui Northern Gas: US$60.0 Million Loan of May 15, 1975; Effective Date: July 5, 1975; Closing Date: December 31, 1979

Pipeline construction work is proceeding on schedule but installation of the two purification and dehydration banks will be delayed beyond the planned date of June 1977 because of delays in preparing tender documents and evaluating bids. One of the banks should be installed by December 1977 and contingency plans have been made for the winter season 1977/78. Costs of pipe and other equipment have been less than estimated in the appraisal report.

Loan No. 1208T — Power Transmission: US$50.0 Million Loan of February 18, 1976; Effective Date: April 30, 1976; Closing Date: December 31, 1980.

This loan was made effective in April 30, 1976 and engineering consultants have been engaged.

Credit No. 620 — Seed Project: US$23.0 Million Credit of March 29, 1976; Effective Date: November 29, 1976; Closing Date: December 31, 1980

This credit became effective on November 29, 1976. The project represents the first phase in the development of a modern seed industry in Pakistan involving research, variety release, seed multiplication, processing, certification, storage and marketing. Commercial scale operations will cover cotton, wheat, rice and maize with lesser quantities of pulses, oilseeds and fodder, all totalling more than 100,000 tons of seed per annum at full production. Pilot scale operations which include potato and vegetable seed trials will lead to further expansion and diversification of the seed industry. Consultants have been appointed to assist in project implementation and to work with the National Seed Certification Agency, Provincial Departments of Agriculture and the Punjab and Sind Seed Corporations.

Credit No. 629 — Program Credit; US$50.0 Million Credit of June 2, 1976; Effective Date: July 8, 1976; Closing Date: September 30, 1977

Credit No. 630 — Second Lahore Water Supply, Sewerage and Drainage; US$26.6 Million Credit of June 8, 1976; Effective Date: September 21, 1977; Closing Date: December 31, 1980

Credit No. 648 — Khairpur Tile Drainage and Irrigated Farming Development Project; US$14.0 Million Credit of July 22, 1976; Closing Date: July 31, 1982:

This credit is not yet effective.

Loan No. 1326 — Development Finance Company - PICIC: US$25.0 million Loan of September 29, 1976; Effective Date: November 29, 1976; Closing Date: December 31, 1980:

PAKISTAN

Tenth Railways Project

Loan, Credit & Project Summary

Borrower:	Islamic Republic of Pakistan
Beneficiary:	Pakistan Railways (PR)
Amount:	Loan - US$35 million Credit - US$25 million
Terms:	Loan - 20 years, including 4-1/2 years' grace, at 8.5% p.a. Credit - Standard
Relending Terms:	Proceeds of the loan and credit will be on-lent to PR on terms equivalent to those of the Bank loan. Funds used to finance replacement investment will be repaid by PR. Funds used to finance additions will be treated as an increase in capital-at-charge.
Project Description:	The project consists primarily of a two-year slice of PR's FY77-81 Investment Plan and includes: track, rail and sleeper renewal; civil works; line capacity works; terminal, workshop and marshalling yard facilities; locomotive reengining; manufacture of coaches and conversion of wagons. In addition, the project will provide for a telecommunications and related signalling scheme, imported spare parts for diesel locomotives and technical assistance and training.

Estimated Cost:	Foreign	Local	Total	Loan/Credit Allocation
	(US$ million)			
New line construction	-	5.2	5.2	-
Track rehabilitation	35.0	16.5	51.5	13.9
Bridge & other civil works	3.2	13.8	17.0	-
Marshalling yards, terminal facilities & line capacity works	6.9	14.0	20.9	-
Telecommunications & signalling	16.0	21.6	37.6	13.8
Motive power & rolling stock	18.2	33.9	52.1	14.1
Workshop & depot facilities	4.7	6.0	10.7	3.7
Technical assistance & training	1.0	-	1.0	1.0
Diesel locomotive spares	5.0	-	5.0	5.0
Contingencies	19.0	27.0	46.0	8.5
Total	109.0	138.0	247.0	60.0

Financing Plan:	Foreign Costs ($ million)	Local Costs ($ million)
Bank	35.00	-
IDA	25.00	-
Bilateral Sources	49.00	-
GOP (including PR)	-	138.00
	109.00	138.00

Estimated Disbursements:	Fiscal Years (US$ million)			
	1978	1979	1980	1981
Annual	13.3	30.2	14.6	1.9
Cumulative	13.3	43.5	58.1	60.0

Procurement Arrangements:	All equipment financed under the loan/credit will be procured by PR under international competitive bidding in accordance with World Bank Guidelines, except for certain critical spare parts for diesel locomotives (US$5 million). The diesel spare parts will be purchased from established spare parts suppliers. However, certain critical spare parts may be purchased on the basis of quotations from original locomotive manufacturers.
Technical Assistance:	The loan/credit will provide US$1 million for technical assistance and staff training for: - telecommunications and related signalling schemes; and - other areas, including freight-train operations, locomotive maintenance and accounting modernization.
Rate of Return:	24% (Economic)
Appraisal Report:	No. 1283a-PAK, February 10, 1977

PAKISTAN - TENTH RAILWAY PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I Timetable of Key Events

(a) Time taken by the country to prepare the project

The project emerged from PR's on-going investment plan and, in particular, from the preparation of its component of Pakistan's fifth Five-Year Plan. Project preparation cannot, therefore, be meaningfully distinguished from PR's other forward planning activities.

(b) The agency which has prepared the project

Pakistan Railways.

(c) Date of first presentation to the Bank and date of the first mission to consider the project

The Ministry of Railways prepared a formal application in December 1974 which was received in the Bank the following February. In March 1975, a Bank mission to Pakistan discussed the application.

(d) Date of departure of appraisal mission

June 1, 1976.

(e) Date of completion of negotiations

December 23, 1976.

(f) Planned date of effectiveness

About April 30, 1977.

Section II Special Bank Implementation Actions

The Bank will collaborate closely with PR in achieving effective, timely procurement -- particularly with respect to the spare parts and telecommunications equipment to be financed under the Loan/Credit. The Bank will also assist PR in identifying particular training needs and areas in which outside technical assistance appears desirable.

Section III Special Conditions

(a) GOP not to allow the execution of certain additional works outside PR's Investment Plan to interfere with implementation of the Investment Plan (paragraph 22).

(b) PR to adopt an Action Plan for the improvement of railway operations. This Plan of Action would include, *inter alia*, rationalization of passenger services; improvement in freight-train operations; strengthening maintenance procedures for diesel locomotives; and reduction in PR staff (paragrap 29).

(c) PR to earn revenues sufficient to cover all operating expenses and debt service obligation in FY78, and thereafter to provide surpluses which by FY82 would be equivalent to the prescribed dividend on capital-at-charge (paragraph 36).

(d) PR to complete a revaluation of its fixed assets by July 1, 1977, and within one year thereafter to provide for an adequate annual depreciation charge based upon revalued assets (paragraph 36).

IBRD-12245R1
JANUARY 1977