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## INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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### REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

EMPRESA NACIONAL PORTUARIA

HONDURAS

August 3, 1966

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON  
A PROPOSED LOAN TO THE EMPRESA NACIONAL PORTUARIA OF HONDURAS FOR  
PORT CONSTRUCTION AND IMPROVEMENT AT PUERTO CORTES

1. I submit the following report and recommendation on a proposed loan in an amount of various currencies equivalent to \$4.8 million to the Empresa Nacional Portuaria of the Republic of Honduras.

PART I - HISTORICAL

2. In 1962, the Bank engaged the consulting firms of TAMS Ingeniera, S. A., Panama and J. C. Buckley, Inc. New York to study a project for the expansion and improvement of the port of Puerto Cortés, the principal port of Honduras, located on the Atlantic Coast. Bank appraisal missions subsequently reviewed the consultants' recommendations and examined the project on visits to Honduras on several occasions between April 1963, and October 1965. The long interval between the initial appraisal and the October 1965 visit resulted primarily from the delay in the establishment of a suitable Honduran institution to manage the project and operate the completed facilities.

3. The issuance of a decree in October 1965, establishing the National Port Authority (ENP) met this prerequisite and negotiations were conducted in January, 1966. The principal negotiator for the Port Authority was Ramón Lobo Sosa, Minister of Communications and Public Works and a Member of the ENP's Board of Directors; the Government (Guarantor) was represented by Roberto Ramirez, President of the Central Bank of Honduras and Ambassador Ricardo Midence, Honduran Ambassador to the United States.

4. Since the completion of the negotiations in January 26, the Government has devoted attention to completing actions prerequisite to signature. Among these actions have been the appointment of a Manager of the Port Authority, the negotiation of contracts for engineering consultant services, initiation of land acquisition, and the agreement between the Government and the Authority with respect to (a) the disposition of existing assets and debts of the port and (b) the future payment of port charges on shipments by the government and presently exempted users. These actions have now been taken.

5. The status of previous Bank loans and IDA credits to Honduras, as of June 30, 1966, is as follows:

Year	Borrower	Purposes	Amount (US million)		
			Bank	IDA	Undisbursed
1955	Republic of Honduras	Highway Maintenance	4.2		-
1958	Republic of Honduras	Highway Construction and Improvement	5.5		-

Continued..

Continuation..

Year	Borrower	Purposes	Amount (US million)		
			Bank	IDA	Undisbursed
1959	Empresa Nacional de Energía Eléctrica	Electric Power Development	1.4	-	-
1960	Empresa Nacional de Energía Eléctrica	Electric Power Development	8.8	-	-
1961	Republic of Honduras	Highway Development and Maintenance		9.0	1.8
1965	Republic of Honduras	North Road	6.0		6.0
1965	Republic of Honduras	North Road		<u>3.5</u>	3.4
Total (net of cancellation) of which has been repaid			25.9	12.5	
			<u>6.3</u>		
Total now outstanding			<u>19.6</u>		
Amount sold of which has been repaid		<u>1.76</u> <u>1.51</u>			
			<u>.3</u>		
Net Amount held by Bank and IDA at June 30, 1966			<u>19.3</u>	<u>12.5</u>	
Total undisbursed			<u>6.0</u>	<u>5.2</u>	<u>11.2</u>

6. Two additional projects are in preparation for financing in Honduras in the near future. The first is a project for the paving of the Western Highway. The appraisal report is now in preparation and the size of the loan will be about \$10.0 million. Presentation to the Executive Directors is likely in the 4th quarter of 1966. The second project is for the expansion of the electric power system. The Consultant's report is now being reviewed and project appraisal is likely in September, 1966. The amount of this loan is still undetermined. There are no delays in disbursement under present loans and credits.

PART II - DESCRIPTION OF THE PROPOSED LOAN

7. BORROWER: Empresa Nacional Portuaria (National Port Authority).
- GUARANTOR: Republic of Honduras
- AMOUNT: \$4.8 million

<u>PURPOSE:</u>	To finance the foreign exchange costs of the expansion and improvement of the port of Puerto Cortes and studies of other sea ports in Honduras.
<u>AMORTIZATION:</u>	25 years (including 5 years of grace); 40 semi-annual repayments beginning on June 1, 1971.
<u>INTEREST RATE:</u>	6 percent per annum.
<u>COMMITMENT CHARGE:</u>	3/8 of 1 percent per annum.

### PART III - THE PROJECT

8. An appraisal report entitled "Appraisal of the Puerto Cortes Project" (TO-452A) on the proposed project is attached.
9. Puerto Cortes is the most important port in the country and handles over half of Honduras' foreign trade. It is the major banana export center and leading port for other cargoes. The two other operating Atlantic Coast ports - at Tela and La Ceiba, to the east of Puerto Cortes - are operated by the banana exporting companies and their use is limited by their unprotected location. Puerto Castilla - further east at the mid-point of the Atlantic Coast, is now virtually unused but will require development in the near future should the prospective large pulp and paper project be initiated.
10. The existing highway network is insufficient to serve adequately the present needs of commerce and the Government has extensive improvements underway and in preparation. A 60 km. paved highway, constructed under Bank loan 195-HO and completed in 1962, connects Puerto Cortes with San Pedro Sula, the rapidly growing industrial center. The Western Highway and its extension, also financed by the Bank and IDA, runs southwest from San Pedro Sula to the El Salvador border. A project for the paving of this highway, estimated to cost \$15 million, is now being appraised. To the south, construction is about to commence under Bank Loan 400-HO and IDA Credit 71-HO on a road which will provide Puerto Cortes with a paved highway connection through Tegucigalpa to the Pacific Coast at a cost of \$24.5 million. In addition, the Inter American Development Bank and the Central American Bank for Economic Integration are assisting in the preparation of a project, estimated at \$15 million, for the construction of the Atlantic Highway from San Pedro Sula towards the eastern part of the country. Thus, by the time the port work is completed, a modern road system will connect Puerto Cortes with the main economic centers of the country. Puerto Cortes is also served by a railway line which connects it with San Pedro Sula and the banana producing areas.

11. The Honduran Government has established a National Port Authority (ENP) with wide management powers and financial autonomy, which is responsible for all Honduran public ports. However, its jurisdiction will be limited initially to Puerto Cortes. The Borrower has agreed to hire operations consultants to advise on port administration and organization, prepare a suitable port tariff system and establish a modern accounting system.

12. Existing facilities at Puerto Cortes have been inadequate for some time and the project is necessary to handle the present traffic and expected increases. Loan funds will be used for the construction of two deep water marginal cargo berths, a transit shed and a warehouse, improvements to existing facilities, acquisition of cargo handling equipment, engineering and operational consulting services, and will finance studies to determine the economic, financial and technical feasibility of constructing or expanding other sea ports.

13. Serious congestion in recent years has resulted in expensive delays by general cargo and lumber ships. With the new berths and the provision of modern equipment and other improvements in cargo handling, the net economic benefits expected by 1970, after taking into account a substantial projected increase in traffic, are \$800,000 per annum. Discounting these benefits over the expected useful life of 30 years of the new facilities, the project would provide a rate of return on the current \$6.8 million investment of approximately 12 percent.

14. The new facilities will substantially reduce ship waiting time for berths and the time they have to spend alongside berths for discharge and loading of cargo and will result in lower cargo handling costs. Terminal costs in Puerto Cortes to ocean carriers will thus be reduced. In addition, savings will accrue to shippers and consignees from a reduction in damage and pilferage of cargoes while in port. The cost reductions enumerated should benefit importers, exporters, and the general economy of Honduras.

15. The cost of the construction and improvement program will be about \$6.8 million equivalent (including allowances for physical contingencies and price increases) and about \$350,000 for port feasibility studies. The proposed loan would represent about 66 percent of the total cost of \$7.2 million and would cover the foreign exchange cost of the project. The balance of \$2.4 million will be supplied by the Borrower out of operating revenues.

16. The construction contract will be awarded and equipment will be procured through international competitive bidding. The final designs and bidding documents will be prepared and supervision of construction conducted by qualified consultants contracted by the ENP.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

17. The Draft Loan Agreement between the ENP and the Bank, the Draft Guarantee Agreement between the Republic of Honduras and the Bank and the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank, are being distributed to the Executive Directors separately.

18. The Draft Loan and Guarantee Agreements follow the general pattern of agreements for similar projects. The following provisions are of special interest:

- a. The Borrower undertakes to take the required steps under the Guarantor's laws on land expropriation to acquire all land required for the project by March 31, 1967. (Section 5.09(b) Loan Agreement)
- b. The Borrower agrees not to undertake responsibility for port facilities other than Puerto Cortes or incur any other major capital expenditures unless there is agreement with the Guarantor and the Bank that the Borrower has the administrative and financial capacity to do so. (Section 5.13 Loan Agreement)
- c. The Borrower agrees not to incur any debt with a maturity greater than one year, without the prior consent of the Bank, until the physical facilities are completed; after such time, the Borrower will afford the Bank a reasonable opportunity to exchange views with him before incurring such debt (Section 5.14 Loan Agreement)
- d. The Borrower undertakes to establish and maintain adequate charges for services. (Section 5.15 Loan Agreement)
- e. The Guarantor undertakes that as from January 1, 1967 it will pay to the Borrower all port charges for services rendered to it or any of its agencies, and that it will reimburse the Borrower for services rendered to users to whom the Guarantor has provided exemptions. (Section 3.06 Guarantee Agreement)

PART V - THE ECONOMY

19. An economic report entitled "Current Economic Position and Prospects of Honduras"(WH-158a) was distributed to the Executive Directors on May 20, 1966.

20. Honduras, with a gross national product per capita of approximately \$220, is the poorest of the Central American Republics and one of the poorest in the Western Hemisphere. The rate of economic expansion, however, has accelerated sharply in the past several years, from an estimated 3.5% in 1963 and 6.3% in 1964 to 10.0% in 1965. This growth is attributable largely to sharp gains in export earnings, resulting primarily from expansion in banana, coffee and cotton exports. There are indications however that the rate of increase is likely to slow down appreciably in the near future due to the substantial completion of the expansion program of the banana companies and uncertain prospects for the other major export commodities.

21. After a period of declining gross foreign borrowing and public investment expenditures, the Government has, during 1966, become more active in initiating new projects, largely public infrastructure. The total amount of additional investments which may become eligible for external financing in the next four-five years is in the neighborhood of \$100 million. The highway program is now taking shape, an electric power expansion program is in the offing, and the telecommunications system will be expanded. In the private sector, a detailed feasibility study is now underway to develop a pulp and paper industry to utilize Honduras' vast pine forest resources.

22. Financial management of the economy has been sound. Estimates indicate that public revenues have risen faster than expenditures in each of the past four years. The rise is due largely to the increase in gross national product but has been assisted by the fiscal reforms introduced at the end of 1963. As a result the ratio of tax receipts to gross national product increased from eight percent in 1963 to eleven percent in 1965. However, this level of revenues has proved adequate thus far only because of the country's small public investment endeavors. A substantial additional internal savings effort, and also substantial external financing, will be required if the investment targets for the next few years are to be reached.

23. The total external public debt of Honduras at the end of 1965 amounted to US\$60.2 million. The debt service burden in 1965 amounted to US\$2.8 million, or to 2.3 percent of export earnings. New borrowing of about US\$80 million (four-fifths of the US\$100 million mentioned in paragraph 21 above) on conventional terms would raise the debt service to a peak of about US\$8.5 million, or to an estimated 5.6 percent of export earnings in the early 1970's. Though a debt service burden of this magnitude should be sustainable on balance of payments grounds alone, the rise in debt service payments would be extremely rapid. Honduras is therefore appropriately seeking to obtain some portion of its new assistance over the next five years on concessionary terms.

#### PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

24. I am satisfied that the proposed loan complies with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

25. I recommend that the Executive Directors adopt the following Resolution:

RESOLUTION NO. \_\_\_\_\_

Approval of Loan to Empresa Nacional Portuaria in an amount equivalent to U.S.\$4,800,000 to be guaranteed by Republic of Honduras

RESOLVED:

THAT the Bank shall grant a loan to Empresa Nacional Portuaria to be guaranteed by Republic of Honduras, in an amount in various currencies equivalent to four million eight hundred thousand United States dollars (U. S. \$4,800,000), to mature on and prior to December 1, 1990, to bear interest at the rate of six percent (6%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Loan Agreement (Puerto Cortes Project) between the Bank and Empresa Nacional Portuaria, and the form of Guarantee Agreement (Puerto Cortes Project) between Republic of Honduras and the Bank, which have been presented to this meeting.

George D. Woods  
President

Attachment

By J. Burke Knapp

Washington, D. C.  
August 3, 1966