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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION
O F THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE
REPUBLIC OF CYPRUS
FOR THE
PORT PROJECT

June 5, 1969
REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF CYPRUS FOR THE CYPRUS PORTS PROJECT

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to U.S.$11.5 million to the Republic of Cyprus to assist in financing the construction of a new deep-water alongside berth port at Limassol to replace the present lighterage facilities, and the provision of port equipment for Limassol and the existing port at Famagusta.

PART I. HISTORICAL

2. In January 1968 the Government of the Republic of Cyprus asked the Bank to assist in financing the construction of a new deep-water port at Limassol. A Bank mission visited Cyprus in March 1968 and advised the Government to review and update an existing feasibility study of the country's three main ports. Messrs. Rendel, Palmer and Tritton of the U.K. were engaged to carry out this work. In December 1968 a reconnaissance mission visited the main ports, and soon after the project was appraised by a mission in January and February 1969.

3. Negotiations for the proposed Bank loan were held in Washington between May 11 and May 26. The Cyprus delegation was headed by Mr. P. Kazamias, Director General, Ministry of Communications and Works, and included Mr. A. Andronicou, Senior Coordination Officer, Planning Bureau, Mr. M. Christodoulides, Senior Engineer, P.W.D., Ministry of Communications and Works, Mr. K. Talarides, Senior Legal Counsel of the Republic, and Mr. T. Georghiou, Director, Department of Customs and Excise.

4. The Bank has so far made only two loans to Cyprus, both for power development. The projects for which they were made have been carried out satisfactorily. The status of their loans as of April 30, 1969, was as follows:
<table>
<thead>
<tr>
<th>Loan or Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>335</td>
<td>1963</td>
<td>Electricity Authority of Cyprus</td>
<td>Electric Power</td>
<td>15.3</td>
<td>-</td>
</tr>
<tr>
<td>494</td>
<td>1967</td>
<td>Electricity Authority of Cyprus</td>
<td>Electric Power</td>
<td>2.8</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Total (less cancellations) of which has been repaid to Bank and others 18.1 1.7

Total now outstanding 16.5

Amount sold of which has been repaid 2.0 1.2 .8

Total now held by Bank 15.7

5. No other loan proposal for Cyprus is expected to come to the Executive Directors for approval within the next six months.
PART II. DESCRIPTION OF THE PROPOSED LOAN


Amount: Various currencies equivalent to U.S.$11.5 million.

Purpose: To finance the foreign exchange cost of the construction of a new deep-water port at Limassol and the provision of port equipment at Limassol and Famagusta.

Amortization: In 25 years including a 5 year period of grace, through semi-annual installments beginning June 1, 1974 and ending June 1, 1994.

Interest Rate: 6-1/2 per cent.

Commitment Charge: 3/4 of 1 per cent.

PART III. THE PROJECT

7. An appraisal report entitled - Appraisal of Port Project - Cyprus" (PTR-22a dated June 5, 1969) is attached.

8. The Project consists of the construction of a new deep-water, alongside berth port at Limassol, two miles southwest of the existing lighterage port which it will replace, and involving: (i) a main and a secondary breakwater; (ii) two passenger berths and four general cargo berths, with a total length of 800 m, and 11 m depth of water; (iii) a passenger terminal and offices for the Port Administration and Customs; (iv) two transit sheds and two produce inspection sheds; (v) the necessary roads, with parking, sorting and storage areas; (vi) dredging of the harbor basin and turning circle to a depth of 11 m; (vii) reclamation of additional areas for shore facilities; (viii) procurement of cargo-handling equipment; and (ix) an access road of approximately two miles from Limassol to the new port together with water mains and electrical connections. The project also includes cargo-handling equipment for the port of Famagusta, and provision of engineering, operational and accounting consulting services and personnel training schemes for port administration.

9. An important condition of the proposed loan is the creation by the end of 1971 of a national port authority to take over and manage all the public ports in the country. Consultants financed from the
proceeds of the proposed loan will assist the Government in improving the operations and accounting systems and will review the tariff structure and rates of the ports. The proposed port authority will:

(i) centralize operations and management;

(ii) undertake responsibility for maintenance of port facilities and equipment;

(iii) have control over cargo handling on ship and shore, and cargo movements on shore, in transit sheds and in stacking areas;

(iv) employ a permanent staff of engineers, accountants, and other technical and professional staff as needed; and

(v) maintain a separate commercial accounting system.

The proposed port authority will adopt port charges based on costs, which is not the case at present. Uniform tariffs will be applied at all public ports, even prior to the establishment of the proposed port authority, to produce revenues assuring a financial rate of return on average net fixed assets of not less than 7 per cent by 1978 and higher thereafter. All fixed assets will be determined by an inventory to be completed by December 31, 1970 in which they will be valued at current replacement cost and will be assigned effective economic lives.

10. Total estimated cost of the project is $18.6 million equivalent, of which $11.5 million is the foreign exchange cost to be financed by the proposed Bank loan. Local costs will be covered by the Government out of budgetary funds. All contracts for construction work and the supply of equipment will be awarded on the basis of international competitive bidding. Retroactive financing is proposed for payments made to the engineering consultants for their work after July 1, 1968, on the feasibility study, preliminary engineering, detailed engineering and bidding procedures; the amount involved is expected to be about $150,000.

11. The main quantifiable benefits to be derived from the project consist of reduction in the costs of handling cargo by elimination of lighterage, less damage to cargo, shorter ship servicing time and reduced inland transport costs. Additional benefits would result from increasing passenger traffic. Projected over the assumed economic life of the project, these benefits yield an economic return of 15 per cent on the investment.
PART IV. LEGAL INSTRUMENTS AND AUTHORITY

12. The draft Loan Agreement, the Report of the Committee provided for in Article III Section (iii) of the Article of Agreement and the text of a draft Resolution approving the proposed loan are being distributed to the Executive Directors separately.

13. The draft Loan Agreement is substantially in the form which has been used for recent loans for port projects. The following provisions of the draft Loan Agreement are of particular interest:

(a) Section 5.08 provides that the Borrower shall establish and maintain such charges for services at its public ports as shall produce a reasonable annual return on the average value of net fixed assets in operation at such ports. (see paragraph 9 of this Report).

(b) Section 5.09 provides that the Borrower shall establish not later than December 31, 1971 a national port authority which would (i) be responsible for the construction, operation, maintenance and development of its public ports, (ii) function under a law and regulations satisfactory to the Borrower and the Bank, and (iii) have such powers, management, resources, capital structure and financial policies as are necessary to enable it to carry out its responsibilities efficiently.

(c) Section 5.12 provides that the Borrower shall ensure (without derogation from its own obligations under the Loan Agreement) that the national port authority, once established, would also be required to carry out the Borrower's obligations and responsibilities under the Loan Agreement with due diligence and efficiency.

PART V. THE ECONOMY

14. The report "Current Economic Position and Prospects of Cyprus" (EA 174a) circulated to the Executive Directors on October 31, 1968 recorded the impressive growth of the economy under the First Five Year Plan (1961-1966) in spite of internal difficulties. The report concluded that Cyprus was justified in borrowing externally and was creditworthy for the expected port loan in view of its good economic performance and prospects, its excellent debt service record and low debt service payments. External debt is modest. The amount outstanding is about $30 million and service payments in 1968 were 2 per cent of gross foreign exchange earnings.

15. An economic mission visited Cyprus in February 1969 and a "Memorandum on the Economic Situation of Cyprus" (EC/0/69-52/1) dated June 5, 1969 is attached. The mission's findings confirm the favorable assessment of Cyprus' economic prospects formulated in the previous
report. Economic growth has recently continued on a substantial scale and the country has good potential for further growth particularly in tourism and agriculture. The Second Five Year Plan (1967-71) proposes consistent policies to promote growth: its target average rate of growth (7 per cent) is likely to be achieved and has been exceeded in its first two year period (1967/1968).

16. The difficult internal situation has also been improving. Discussions have continued between representatives of the Greek and Turkish communities and, although no breakthrough has yet been achieved, there is a general feeling that a negotiated solution of the political problem may be reached in the not too distant future. While there is always a danger of new disruptive incidents, tension has been reduced and relations between the communities are slowly becoming more normal.

PART VI. COMPLIANCE WITH ARTICLES OF AGREEMENT

17. I am satisfied that the proposed Bank Loan complies with the requirements of the Articles of Agreement of the Bank.

PART VII. RECOMMENDATION

18. I recommend that the Executive Directors approve the proposed Loan.

Robert S. McNamara
President

Attachment

Washington, D.C.
June 5, 1969