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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

THE REPUBLIC OF KENYA

FOR A

FOREST PLANTATIONS PROJECT

October 15, 1969

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED LOAN TO THE REPUBLIC OF KENYA
FOR A FOREST PLANTATIONS PROJECT

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to \$2.6 million to the Republic of Kenya.

PART I - HISTORICAL

2. A forest plantations project was first presented by the Government for IDA financing in 1964, after the adoption of the Kenya Development Plan, 1964-70, of which it forms part. The present project is based on a report of May 1968 by the FAO/IBRD Cooperative Program prepared at the request of the Government, after a reconnaissance mission under the same program visited Kenya in May 1967. The Government has been planting fast-growing exotic pine and cypress species since 1945 to replace the slower-growing indigenous species. This program has been financed with assistance from the United Kingdom, which is now being phased out.

3. The proposed project was appraised in the field in November/December 1968. Negotiations were held in the Bank from July 28 to August 1, 1969. Kenya was represented by Mr. Ojal, Permanent Secretary in the Ministry of Natural Resources; Mr. J.P.W. Logie, Chief Conservator of Forests; Mr. J.D.O. Onyango, Deputy Chief Conservator of Forests; and Mr. J. Gatuiria, Senior Finance Officer, Ministry of Finance.

4. This would be the fourth Bank loan to Kenya and the second after independence. Kenya has received nine IDA credits, and benefits also from four Bank loans granted to East African common service organizations. The position of each of these loans and credits as of August 31, 1969 was given in my Report and Recommendation on the Proposed Loan for the Third Highway Project in Kenya, Report No. P-739, dated September 10, 1969 (R69-191). The following is a summary statement as of September 30, 1969:

PART III - THE PROJECT

6. An Appraisal Report entitled "Forest Plantations Project, Kenya" (PA-11a) on the proposed project is attached. The project consists of the establishment and maintenance of about 48,000 acres of saw-wood plantations and 23,000 acres of pulpwood plantations, and the maintenance of some 7,300 acres of pulpwood already planted. The plantings would be made over the six years, 1970-1975, in accordance with a program agreed with the Bank.

7. The project also includes a marketing study to determine prospective demand for Kenyan timber and pulpwood at home and abroad on the basis of which future planting programs would be prepared. After 30 years, when the first timber is expected to be felled on saw-wood plantations in the proposed project, about half the output would be absorbed domestically and the other half exported. Projections over such a long time span are naturally subject to a wide margin of error and they have, therefore, been based on conservative assumptions. Ecological advantages and relatively short distances provide comparative marketing advantages in the Near East which is a potentially important market for Kenyan saw-wood. It may also be possible for the project to supply some of the European demand for high quality softwood.

8. The pulpwood plantations, which would be operated on a 14-15 years rotation, would produce raw material for a pulp and paper mill to be located at Broderick Falls near the plantations. The International Finance Corporation is supporting the mill project and I expect to present it to the IFC Executive Directors shortly. Output of the proposed paper mill would be consistent with projected domestic demand and the pulpwood planting program is designed to meet the mill's raw material requirement. In the initial years, before plantation timber is ready for felling, the mill would obtain pulpwood from plantations intended for saw-wood located 70-100 miles from Broderick Falls.

9. The rate of return on investment in the mill would, according to IFC estimates, be 13 percent assuming pulpwood prices consistent with those applied in the Forest Plantations Project and paper prices competitive with imports from West Europe and North America.

10. If the pulp and paper mill project should for any reason be dropped or substantially delayed, the pulpwood plantations could be converted into saw-wood plantations, by letting the trees grow on a saw-wood rotation basis, that is, 30 years. In this event, which does not seem very likely at the present time, the economic return for the pulpwood plantation would still be no less than 10 percent.

11. The proposed Forest Plantations Project is estimated to cost about \$4.0 million, and the loan of \$2.6 million proposed would finance some 65% of this cost. The loan would cover the foreign exchange expenditure amounting to \$1.3 million and a similar amount of local currency expenditure, while the Government would provide the remainder. Kenya's need to obtain capital from abroad for development cannot be met by financing only the direct foreign exchange cost of high priority projects. The proposed project would be important in helping to diversify the economy, and I consider that the Association is justified in including some local expenditure in this loan.

12. Execution of the Project would be the responsibility of the Forest Department in the Ministry of Natural Resources. The Department has been in charge of the forest planting program since 1945, but its capacity has recently been reduced by the departure of expatriate officers. The proposed Loan Agreement provides that the Project be managed by three officers whose appointments are subject to approval by the Bank.

13. Procurement will follow the "Guidelines for Procurement under World Bank Loans and IDA Credits" for purchase contracts of \$15,000 or more, and competitive procedures normally used by the Government for smaller contracts.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

14. The draft Loan Agreement between the Bank and the Republic of Kenya, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement and the text of a draft resolution, are being distributed to the Executive Directors separately. The draft Loan Agreement conforms substantially to the pattern of agreements used for certain comparable agricultural projects.

PART V - THE ECONOMY

15. An Economic Report entitled "Prospects for Economic Development in Kenya" (Vol. II of AF-58b, dated August 31, 1967) was distributed to the Executive Directors early in September 1967 (R67-148) and updating memorandum, "Recent Developments in the East African Community, Kenya, Tanzania and Uganda" (AF-74), was distributed to the Executive Directors in April 1968 (R68-52).

16. Comments on the current economic situation were given in my Report and Recommendation on the Proposed Loan for the Third Highway Project, Report No. P-739, dated September 10, 1969 (R69-191). These comments were based on information collected by an economic mission which visited Kenya in April/May this year. The report of the economic mission will be distributed to the Executive Directors shortly.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

17. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

18. I recommend that the Executive Directors of the Bank approve the proposed loan.

Robert S. McNamara
President

Attachment

Washington, D.C.

October 15, 1969