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**Report No. P-5049-MOZ**

**MEMORANDUM AND RECOMMENDATION**  
**OF THE**  
**PRESIDENT OF THE**  
**INTERNATIONAL DEVELOPMENT ASSOCIATION**  
**TO THE**  
**EXECUTIVE DIRECTORS**  
**ON A**  
**PROPOSED CREDIT**  
**OF SDR 31 MILLION**  
**(US\$40 MILLION EQUIVALENT)**  
**TO THE**  
**PEOPLE'S REPUBLIC OF MOZAMBIQUE**  
**FOR THE BEIRA TRANSPORT CORRIDOR PROJECT**

**JULY 18, 1989**

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### CURRENCY EQUIVALENTS

Currency Unit	=	Metical (plural Meticais)
US\$1	=	715 Meticais (Mts) 05/01/89
Mt 100	=	US\$0.14

### MEASURES AND EQUIVALENTS

1 Meter (m)	=	3.28 Feet
1 Square Meter (m.sq)	=	10.76 Square Feet
1 Hectare	=	2.47 Acres
1 Kilometer	=	0.62 Miles

### ABBREVIATIONS AND ACRONYMS

AfDB	=	African Development Bank
BCA	=	Beira Corridor Authority
BTC	=	Beira Transport Corridor
CFM(C)	=	Caminhos de Ferro de Mocambique (Centro)
CFM(N)	=	Caminhos de Ferro de Mocambique (Norte)
CFM(S)	=	Caminhos de Ferro de Mocambique (Sul)
CFM,EE	=	Caminhos de Ferro de Mocambique, Empresa Estatal
CPMZ	=	Companhia Pipeline Mozambique-Zimbabwe
DNPCF	=	Direccao Nacional de Portos e Caminhos de Ferro
EDF	=	European Development Fund
EEC	=	European Economic Community
GDR	=	German Democratic Republic
MBA	=	Machipanda Beira Authority (Zimbabwe)
MIS	=	Management Information System
MT	=	Metric Ton (1,000 kg)
MTC	=	Ministry of Transport and Communications
NRZ	=	National Railways of Zimbabwe
RENFE	=	Red Nacional de los Ferrocarriles Espanoles
RITES	=	Rail India Technical and Economic Services
RSA	=	Republic of South Africa
SADCC	=	Southern Africa Development Coordination Conference
SATCC	=	Southern Africa Transport and Communications Commission
SETEP	=	Secretariate of State for Technical and Vocational Training
UEM	=	University Eduardo Mondlane
U.K.ODA	=	United Kingdom Overseas Development Administration
USAID	=	United States Agency for International Development
WFP	=	World Food Program

MOZAMBIQUE  
BEIRA TRANSPORT CORRIDOR PROJECT

Credit and Project Summary

Borrower: People's Republic of Mozambique

Beneficiary: Ministry of Transport and Communications (MTC), National Directorate of Ports and Railways (DNPCF), The Beira Corridor Authority (BCA), Central Railway System (CFM,C), Northern Railway System (CFM,N), Southern Railway System (CFM,S), Secretariate of State for Technical and Vocational Training (SETEP).

Amount: SDR 31 Million (US\$40 million)

Terms: Standard IDA terms with 40 years maturity

Onlending Terms: 7.65% over 30 years including 5 years grace. DNPCF will bear the foreign exchange risk.

Financing Plan:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----US\$ Million-----		
Mozambique Government	4.3	-	4.3
Proposed IDA Credit		40.0	40.0
Project cofinancing:			
Japan	-	8.0	8.0
Spain	-	3.5	3.5
Portugal	-	1.0	1.0
Canada	-	<u>17.0</u>	<u>17.0</u>
Sub-total Project	4.3	69.5	73.8
Other Parallel financing of the Program:			
EEC	3.0	70.7	73.7
Norway	0.7	16.6	17.3
Sweden	1.0	24.2	25.2
Finland	0.7	19.6	20.3
Denmark	0.8	22.4	23.2
Federal Rep. of Germany	-	1.8	1.8
The Netherlands	1.0	24.4	25.4
Belgium	-	2.3	2.3
Italy	0.8	22.0	22.8
U.K.	-	1.8	1.8
Austria	0.1	4.7	4.8
AfDB	4.3	33.0	37.3
USAID	0.7	9.3	10.0
Canada	1.0	3.7	4.7
UNDP	<u>0.1</u>	<u>0.4</u>	<u>0.5</u>
Total Program	<u>18.5</u>	<u>326.4</u>	<u>344.9</u>

Estimated Disbursements

	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>
Annual	4.0	12.0	10.0	6.0	5.0	2.0	1.0
Cumulative	4.0	16.0	26.0	32.0	37.0	39.0	40.0

Economic Rate of Return: 14% for the whole Beira Corridor Program.

34% for the IDA assisted Project

Staff Appraisal Report:

Report No. 7709-MOZ

Maps:

IBRD No. 20101 (Beira Corridor)  
IBRD No. 20102 (Beira Corridor)  
IBRD No. 21356 (Beira Port)

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT  
OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED CREDIT  
TO THE PEOPLE'S REPUBLIC OF MOZAMBIQUE  
FOR THE BEIRA TRANSPORT CORRIDOR PROJECT

1. The following memorandum and recommendation on a proposed development credit to Mozambique for SDR 31 million (US\$40.0 million equivalent) is submitted for approval. The credit would be on standard IDA terms with 40 years maturity and would help finance a project for rehabilitation of the Beira Transport Corridor. The project would be parallel financed by the Governments of Canada for US\$17.0 million equivalent, Japan for US\$8.0 million equivalent, Spain for US\$3.5 million equivalent and Portugal for US\$1.0 million equivalent.

2. Background and Strategy. In 1987, the Government of Mozambique (GOM) launched an Economic Rehabilitation Program (ERP) aimed at reversing the declining trend of the economy, restoring productive capacity, increasing employment opportunities and developing skilled manpower capable of running the major sectors of the economy. In parallel with the ERP is a major program of investment in the rehabilitation of essential economic infrastructure, particularly in the transport and urban sectors, as a means of restoring economic growth and generating foreign exchange earnings. The primary thrust of GOM's strategy in the transport sector consists of rehabilitating Mozambique's three main transit corridors (Nacala in the north, Beira in the center and Maputo in the south) which, prior to independence, were major foreign exchange earners and the least cost routes to the sea for neighboring landlocked countries. Moreover, they allowed cheap transportation of agricultural production to the main consumption centers in Mozambique.

3. The Beira Corridor is the most advanced of the corridor rehabilitation projects. It stretches 300 km from the Zimbabwe border to the port of Beira and comprises, in addition to the port and railway line operated by CFM(C) - the central region of Mozambique Railways and Ports - a road and a pipeline. The Beira Corridor lost most of its traffic after independence, in 1975, because of very poor rail/port service mainly caused by rundown infrastructure, lack of motive power, severe shortage of trained personnel, a poorly motivated work force and attacks by armed bandits.

4. The Beira Corridor Authority (BCA) was created by GOM in 1985 to oversee and promote the rehabilitation of the Beira Corridor. It now has the assistance of a full-time 10 member Nordic advisory team. BCA prepared a 10-year development plan amounting to some US\$660 million which was reviewed by IDA in 1987 (W.B. Report No. 6698). IDA recommended phasing the rehabilitation and endorsed a first phase development plan of about US\$234 million (1986 prices, now estimated at US\$345 million including contingencies), which was economically viable and generally accepted by BCA and the donors. The plan, which is already underway, includes major port rehabilitation (financed by the EEC), new container and oil terminals (Nordic countries), track and motive power rehabilitation (Canada, USA,

Austria), and manpower development and training with expatriate technical assistance while locals are being trained. These investments are being successfully implemented by BCA and are on schedule for completion of the first phase in 1991. Preliminary improvements in service have already resulted in increased traffic, to the extent that for the first time in many years, CFM(C) covered its operating costs in 1988. An important element of GOM's strategy in the sector is the separation of the three main corridors, currently part of the Ministry of Transport's (MOT) Port and Railway Administration (DNPCF), into an autonomous parastatal to be run on a profitable commercial basis when these corridors become fully operational in the 1990's.

5. Rationale for IDA Involvement. The proposed project forms an integral part of IDA's program to support the ERP: namely, the continuation of a long term effort for institutional development, the improvement of efficiency and capacity of the sector, the development of skilled personnel and the restoration of Mozambique's foreign exchange earning ability. IDA's role in the project has been to assist in ensuring the viability of the whole investment program through (a) analysis of the costs and benefits of each component and of the overall program; (b) acting as a catalyst for other donors, as in the case of locomotives; and (c) as a lender of last resort in the capacity building program to complement assistance provided by other donors. IDA's involvement in the project will help to ensure that program expenditures are kept within economically feasible limits and that the program is financially viable. It will also assist donor coordination and support the Southern Africa Development Coordination Conference (SADCC) strategy of making its member countries less dependent on higher cost transport routes through the Republic of South Africa (RSA) for their overseas trade.

6. Project Objectives. The primary objective of the project is to contribute to the upgrading of the Beira Transport Corridor and institutional development of CFM(C) in order to restore its financial viability and its cost efficient transit functions, which are vital to Zimbabwe and Malawi for least cost access to the sea and constitute an important source of foreign exchange and employment for Mozambique.

7. Project Description. The overall Beira Transport Corridor Program comprises the rehabilitation of all of the elements that make-up the transport corridor linking Zimbabwe with the Indian Ocean at the port of Beira, including deepening of the access channel, rehabilitation of the port and of the railway and road to the border town of Machipanda with capacity building technical assistance and training for the institutions responsible for corridor operations. The proposed IDA assisted project includes: (i) technical assistance to run port and railway operations in the Beira Corridor during the 1989-95 period; (ii) manpower development and training for all levels of staff in the port and railways; (iii) rehabilitation and acquisition of motive power for main line and shunting operations; and (iv) technical assistance for the implementation of a railway/port cost accounting system and a management information system. The total cost of the program is US\$345 million, of which the cost of the proposed project is estimated at US\$73.8 million. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and the categories of disbursement are shown in Schedule B. A

timetable of key project processing events and the status of Bank Group operations in Mozambique are given in Schedules C and D, respectively. The SAR No.7709 -MOZ, dated July 18, 1989 is being distributed separately.

8. Agreements Reached. During negotiations, agreement was reached with the Government of Mozambique (GOM) and BCA, on the following items, (i) the terms and duration of contracts for the key management pos' which are crucial to the successful operation of CFM(C); (ii) an action plan and timetable to design and implement an incentive scheme for CFM(C)'s workers not later than December 1990; (iii) an action plan and timetable to implement the recommendations of the MIS study; (iv) operational targets for port and railway; (v) guidelines for utilization of locomotives by CFM(C); (vi) criteria for future investment proposals and the current composition and phasing of the investment program in the Beira Transport Corridor; (vii) selective adjustment of rail/port tariffs in CFM(C) as improved services become operational, the first phase of adjustments to take place not later than December 1991 to enable CFM(C) to achieve a working ratio of 75% in FY1992; (viii) promulgation of the necessary administrative and legislative measures establishing a legally and financially autonomous entity (CFM,EE) to succeed DNPCF and transforming the CFM South, Central and North systems into separate sub-entities with independent costing, financial, accounting and management units by December 31, 1989; (ix) DNPCF (and its proposed successor CFM,EE) to adopt policies that will lead to financial viability, including a working ratio of 75% in FY1995, the financial target in each of the subsequent years to be determined in agreement with IDA in the light of progress on the Nacala and Maputo Transport Corridors; (x) finalization of a transit agreement with Zimbabwe, by June 1990, for the Beira Transport Corridor; and (xi) proposals to IDA, by December 31, 1990, to formulate feasible ways to increase private sector participation in port and railway related activities such as warehousing and container freight stations. Conditions of Effectiveness are: (i) a signed legal agreement specifying the mutual obligations of all agencies involved in implementation of the IDA assisted project components; (ii) a signed subsidiary loan agreement between the borrower and DNPCF;

9. Benefits. The project is expected to reduce transport costs and increase efficiency, allowing Beira to compete with Durban (RSA) and provide Zimbabwe with a cheaper transport alternative to the sea. It will earn vital foreign exchange for Mozambique and provide productive employment. The economic rate of return of the overall corridor program is conservatively estimated at 14% while that of the IDA assisted project, including technical assistance, and locomotives, is estimated at 35%.

10. Risks. The main risks are: (i) delays in project implementation and consequent inability to provide acceptable levels of service may affect financial and economic viability; and (ii) the security issue: in spite of the presence of forces guarding the Corridor, possible disruptions may occur. Risk (i) is addressed above (in paragraph 8 (i) and (ii)).

Recommendation

11. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed credit.

Barber B. Conable  
President

Attachments

Washington, D.C.  
July 18, 1989



MOZAMBIQUE  
BEIRA TRANSPORT CORRIDOR PROJECT

Summary Cost Estimates of IDA-Assisted Project Component  
(US\$ Million)

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
A. Technical Assistance to Manage:			
(i) the Railway	1.17	8.36	9.53
(ii) the Port	0.15	1.00	1.15
B. Training for:			
(i) the Railway	0.58	3.88	4.46
(ii) the Port	0.55	3.66	4.21
C. Aquisition of Locomotives:			
(i) Main-line	-	25.00	25.00
(ii) Shunters	-	6.00	6.00
D. Rehabilitation of Locomotive.	.45	2.55	3.00
E. M.I.S. and Cost Accounting Systems	0.20	4.00	4.20
F. Locomotive and MIS Studies (PPF)	-	0.20	0.20
G. Studies and TA for Future Investments	.35	3.15	3.50
Total Base Cost	<u>3.45</u>	<u>57.80</u>	<u>61.25</u>
Contingencies:			
Physical	0.36	5.35	5.71
Price	<u>0.44</u>	<u>6.35</u>	<u>6.79</u>
Total Cost	<u>4.25</u>	<u>69.50</u>	<u>73.75</u>

Financing:

GOM	4.25	Local Costs
Japan	6.00	Item C. (i)
Spain	3.50	Item A. (i)
Portugal	1.00	Item G.
Canada	17.00	Item C. (i)
IDA	40.00	The Rest

SCHEDULE BProcurement Arrangements  
(US\$ Million)

<u>PROJECT ELEMENT</u>	<u>IDA FINANCED</u>				<u>FINANCED BY OTHER DONORS/GOM</u>	<u>TOTAL</u>
	<u>ICB</u>	<u>IS/LS</u>	<u>DIRECT CONTRACTING</u>	<u>OTHER PROCEDURES</u>		
<b>A. Goods:</b>						
1. Shunting locomotives	6.0					6.0
2. Main line diesel locomotives					25.0	25.0
3. Spare parts, tools, vehicles, computers and office equipment		2.0	2.0			4.0
<b>B. Technical Assistance and Training:</b>						
1. Railway/Port TA & Training				25.8	8.8	34.4
2. Cost accounting and MIS				4.0	.2	4.2
3. PPF studies				0.2		0.2
<b>Total:</b>	<b>6.0</b>	<b>2.0</b>	<b>2.0</b>	<b>30.0</b>	<b>33.8</b>	<b>73.8</b>

Disbursement Arrangements

The IDA credit will be disbursed on the following basis:

<u>Category</u>	<u>Item</u>	<u>Amount</u> (US\$ million)	<u>Disbursement</u>
1	Shunting Locomotives	5.00	100% of foreign and 70% of local expenditures.
2	Vehicles, Spare Parts, Computers, office Equipment, materials and Supplies.	4.80	100% of foreign expenditures.
3	Consultant Services, Training, Studies, and External Audit Services	23.20	100%
4	Materials, Equipment, Furniture and Supplies for Provision of Housing	1.50	100% of foreign expenditures and 70% of local Expenditures.
5	PPF Refund	1.20	Amount Due
6	Unallocated	4.30	
	<b>Total</b>	<b>40.00</b>	

SCHEDULE C

MOZAMBIQUE  
BEIRA TRANSPORT CORRIDOR PROJECT

Timetable of Key Processing Events

- |                                      |  |
|--------------------------------------|--|
| (a) Time taken to prepare:           | 18 months  |
| (b) Prepared by:                     | The Government of Mozambique and the Beira Corridor Authority (BCA) with the assistance of IDA, the EEC and the Governments of France, the Netherlands, Portugal, Spain and the U.K. |
| (c) First IDA mission:               | October, 1987  |
| (d) Appraisal mission departure:     | October 19, 1988   |
| (e) Negotiations:                    | April 24, 1989   |
| (f) Planned date of effectiveness:   | December 31, 1989/January 31, 1990   |
| (g) List of relevant PCRs and PPARs: | None   |

STATUS OF BANK GROUP OPERATIONS 'N MOZAMBIQUE  
 SPNRO25 - SUMMARY STATEMENT OF LOANS AND IDA CREDITS  
 (LOA DATA AS OF 6/30/89 - MIS DATA AS OF 07/20/89)

SCHEDULE D  
 Page 1 of 2

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US\$ million (less cancellations)		Undis- bursed	Closing Date
				Bank	IDA		
<b>Credits</b>							
0 Credits(s) closed							
C16100-MOZ	1985	MOZAMBIQUE	REHABILITATION PROGR		45.00	1.33	03/31/89(R)
C18060-MOZ	1987	MOZAMBIQUE	ENERGY TA & REHAB.		20.00	17.06	12/31/92
CA0330-MOZ	1988	MOZAMBIQUE	REHAB.II		18.60	6.87	12/31/89(R)
C18410-MOZ	1988	MOZAMBIQUE	REHAB.II		70.00	7.20	12/31/89(R)
C19070-MOZ	1988	MOZAMBIQUE	EDUC. I		15.90	13.58	12/31/95
C19490-MOZ	1989	MOZAMBIQUE	URBAN REHAB		60.00	47.39	12/31/95
‡ C19890-MOZ	1989	MOZAMBIQUE	HEALTH & NUTRITION		27.00	26.18	12/31/94
‡ C20210-MOZ	1989	MOZAMBIQUE	REHAB.III		90.00	85.03	04/30/91
C20330-MOZ	1989	MOZAMBIQUE	HSEMOLD EGY CREDIT		22.00	21.32	12/31/96
TOTAL number Credits = 9					368.50	225.96	
TOTAL*** of which repaid					368.50		
TOTAL held by Bank & IDA Amount sold of which repaid					368.50		
TOTAL undisbursed						225.96	*****

NOTES:

- ‡ Not yet effective
- ‡‡ Not yet signed
- \*\*\* Total Approved, Repayments, and Outstanding balance represent both active and inactive Loans and Credits.
- (R) indicates formally revised Closing Date.

The Net Approved and Bank Repayments are historical value, all others are market value.

The Signing, Effective, and Closing dates are based upon the Loan Department official data and are not taken from the Task Budget file.

**MOZAMBIQUE**  
**Statement of IFC Investments**  
**as of March 31, 1989**

Invest Number	FY	Obligor	Type of Business	-----US\$ Million-----		
				Loan	Equity	Total
864-MOZ	1987	LONACO	Food & Food Proc	2.5		2.5
978-MOZ	1988	Xai Xai Oil Chem & Petrochem			7.8	7.8
<b>Total Gross Commitments</b>				<b>2.5</b>	<b>7.8</b>	<b>10.3</b>
<b>Less: Cancellations, terminations, exchange adjustments, repayments, write-offs, and sales</b>					<b>1.2</b>	<b>1.2</b>
<b>Total commitments held by IFC</b>				<b>2.5</b>	<b>6.6</b>	<b>9.1</b>
<b>Total Undisbursed</b>					<b>5.3</b>	<b>5.3</b>
<b>Total Disbursed</b>				<b>2.5</b>	<b>1.3</b>	<b>3.8</b>