

UNITED STATES GOVERNMENT

Memorandum

6250614- (43)
PD-AA8-652
4p.

TO : SEE DISTRIBUTION *Jale*
THRU : AFR/DS/PDD, Sheldon W. Cole
FROM : REDSO/WA, Laurance W. Bond *LWB*
SUBJECT: Memorandum for the Deputy Administrator

DATE: February 25, 1976

It is requested that you review and submit your comments and/or clearance on the attached draft memorandum by c.o.b. Thursday, February 26, 1976. The memorandum is due in the Deputy Administrator's office by c.o.b. Friday, February 27, 1976.

Attachment

DISTRIBUTION

AFR/DS: Mr. Lyman
AFR/CWR: Mr. Shear
AFR/CWR: Mr. Coker
AFR/CWR: Mr. Ames
✓ AFR/DP: Mr. Govan
GC/AFR: Mr. Tisa



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

DRAFT

INFORMATION

~~MEMORANDUM~~ MEMORANDUM FOR THE DEPUTY ADMINISTRATOR

THRU : ES

FROM : AA/AFR, Stanley S. Scott

SUBJECT: Mali Highway Loan 625-H-007 Status Report

At the time of the loan pipeline review, the Mali Highway Loan, No. 625-H-007, was classified a class B loan. The Loan Pipeline Review Committee was concerned that no progress had been made towards its implementation in the preceding year. The Bureau therefore agreed to submit a plan for implementing this loan by February 28, 1976.

The Mali Highway Loan has had a painful history since its authorization, February 27, 1973. The worldwide inflationary impact of the oil price increases has affected the loan, an error in cost estimating by a consultant caused an underestimation in the cost of construction of the road proposed in the loan, and it has been under Congressional ~~scrutiny~~ ^{scrutiny}.

Since the review by the Pipeline Review Committee, A.I.D. and the Government of Mali have agreed that we will no longer attempt to construct the road, or any portion of it. The costs have become ~~too~~ ^{too} prohibitive, and, in light of the Congressional mandate as dictated by the Foreign Assistance Act of 1973, not within the purview of the Agency. However, we do feel that there is sufficient justification for purchase of highway maintenance equipment. This equipment purchase will enhance the capabilities of the Government's Directorate of Public Works to maintain the country's existing road network, including feeder roads in the rural and food producing areas.

at what?
15 cent?

To this end, the Bureau requested the Regional Economic Development Services Office in Abidjan (REDSO/WA) to assign a Design Officer to the project to prepare an amendment to the loan for review and approval. This has been done and the Design Officer is now in Washington with the project paper amendment. We plan to schedule a review of the project during the week of March 1 and forward the paper with recommendations to you for approval of the amendment the following week.

Assuming there are no unforeseen difficulties in the project review process which could cause a slippage, nor problems in amendment negotiations, the following schedule will be adhered to:

Loan Amendment Paper in Washington	Feb. 15, 1976
Amendment Authorized	March 15, 1976
Loan Agreement negotiated and signed	May 1, 1976
Equipment list finalized by category and estimated cost	May 1, 1976
Initial Conditions Precedent met	June 15, 1976
IFB prepared ^{approved} approval and advertized	June 30, 1976
GOM requests for financing	June 30, 1976
L/COMMS issued	July 1, 1976
Spare parts and Proprietary Procurement ordered	July 1, 1976
Letters of Credit established	August 1, 1976
Bids received	September 1976
First operators and mechanics group in training*	September 1976
Bids evaluated and contracts awarded	October 15, 1976

Final Conditions Precedent _____ October 15, 1976
GOM Requests for Financing _____ October 15, 1976
Spare Parts begin arriving _____ November 1976
L/COMM issued _____ November 1, 1976
Letters of Credit established _____ November 15, 1976
First major equipment arrives _____ March 1977
First Road Maintenance Consultant _____ March 1977
Second operators and mechanics group in training _____ March 1977
Third operators and mechanics group in training _____ September 1977
Remainder major equipment arrives _____ October 1977
Second Road Maintenance Consultant _____ March 1978
Final disbursements (L/C's for spare parts) _____ June 15, 1976

Clearances: AFR/DS: PLYman _____
AFR/CWR: DShear _____
AFR/CWR: ICoker _____
AFR/CWR: HAmes _____
AFR/DP: JGovan _____
GC/AFR: STisa _____
AA/AFR: DSBrown _____

REDSO/WA: LWBond:elj 2/25/76

Adding File
JUN 10 1976 6250614-5

ACTING
ACTION MEMORANDUM FOR THE ADMINISTRATOR

PD-AAB-652

JUN 11 9 06 AM '76

THRU : ES

FROM : AA/PPC, *AS* Philip Birnbaum

EXECUTIVE SECRETARIA

SUBJECT: Amendment to the Authorization for Mali Highway Loan 625-H-007

Problem: The Government of Mali ("GOM") has agreed to amend the Mali Highway Development Loan, the agreement for which was executed in 1973, by reducing the loan amount from \$9,000,000 to \$3,250,000. You are being requested to authorize this amendment in view of the interest which has been shown at all levels, including within the Congress, over the history of this project during the various attempts to restructure its components and commence disbursements.

Discussion: The Mali Highway Loan was originally authorized February 27, and the loan agreement signed June 7, 1973. The loan provided for the rehabilitation of a 155 kilometer trunk road running south from the capit of Bamako to the town of Bougouni. Included in the loan was a provision for maintenance equipment for the Government of Mali's highway maintenanc department. This loan was to be part of a larger highway development effort in which the International Development Association (IDA) was providing financing for a road from Bamako to Segou, related technical assistance, equipment for the road maintenance department's workshops, and engineering services for the two roads being constructed. (See Section II.A. pps. 3-7 for detailed background).

You are already familiar with the various efforts made to restructure thi loan since the dramatic worldwide increases in the costs of construction. These cost increases have made accomplishing the original purpose of the loan impossible. In November 1975, the GOM and AID agreed that the construction element of this project should be abandoned and that the project should be restructured to finance solely the procurement of highway maintenance equipment and spare parts, which was included in the original conception of the project, and the procurement of a limited amount of technical assistance in the form of training for equipment operators and mechanics, plus the services of a highway maintenance consultant. (See Section II.B pps. 7-8).

Procurement: As you know, it has generally been very difficult to obtain adequate after sales servicing and spare parts for U.S. made vehicles and equipment in Africa. The Caterpillar Tractor Co. and Allis-Chalmers, however, have authorized dealers in Bamako. The GOM has already started to standardize their highway maintenance equipment around these two American manufacturers.

The loan amendment will require that all equipment and not less than \$300,000 of spare parts be of U.S. source and origin. However, since Caterpillar and Allis-Chalmers have dealers established from which the GOM has already begun to standardize equipment around these U.S. manufacturers, you are requested to authorize proprietary procurement from these two U.S. manufacturers. The success of the project, to a large extent, will be determined by the efficiency and the degree of standardization that can be built into the GOM's present road maintenance operations. (See Section II.B.1 pp 9-10.)

You are also being requested to increase the per transaction limit on the procurement of shelf items imported from Code 935 countries, as described in Attachment 3H of Handbook 11, from \$2,500 to \$25,000. Caterpillar and Allis-Chalmers have manufacturing facilities in Europe, and as a result of trade preferences and other business factors, these American firms often supply African dealers from European subsidiaries. Except for the proprietary procurement of the \$300,000 of spare parts described in the preceding paragraph, it is believed that the remaining \$800,000 worth of heavy equipment spare parts can be and should be procured on an as needed basis off the shelves of the local dealers.

This procedure will eliminate the need for an arbitrary spare parts list in anticipation of need. Real needs for spare parts are often different from needs anticipated during the planning stage. Procurement on an as needed basis will be more responsive and effective in reducing the deadlined rate on equipment than often inadequate stockpiled spare parts on the basis of anticipated needs. This procedure will also reduce the problems of warehousing and inventory control that accompany stockpiling of spare parts. However, as spare parts for heavy equipment are often quite expensive, it is therefore necessary to increase the per transaction limitation on the procurement of shelf items imported from Code 935 countries from \$2,500 to \$25,000. (See Section II.B.3 pp 11-12.)

Since this is an amendment reducing the amount of the loan agreement executed in 1973, before the requirement of a 25 percent host country contribution was introduced in the Foreign Assistance Act, that requirement is not applicable. Also, since this amendment does not involve an obligation of FY 1976 funds, the requirement of Section 113 of the Appropriations Act is not applicable. Moreover, since the funds obligated for this project in 1973 were authorized and appropriated to remain available until expended, the deobligation/reobligation authority of the Appropriation Act is not being used with respect to this project. Therefore, it is not required by law to notify Congress in advance of the execution of the amendment to the Loan Agreement.

Recommendation: That you approve the attached authorization amendment which includes the waiver for competitive bidding and the raising of the limitation per transaction of shelf item purchases. It is anticipated that final disbursements will be completed by March 31, 1979. The DLSC approved this Amendment by poll vote completed March 25.

Attachment: Loan Authorization
Amendment Project Paper

Clearance: AA/AFR:SSScott SSC
Date 4/21/76
GC:CGladson CG
Date 2/25/76

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

AID-DLC/P-1069

LOAN AMENDMENT AUTHORIZATION

A.I.D. Loan No.: 625-H-007A

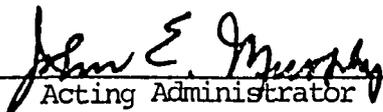
Provided from: Development Loan Funds
Mali: Highway Development: Road Maintenance Equipment

Pursuant to the authority vested in the Administrator of the Agency for International Development by the Foreign Assistance Act of 1961, as amended, (the "Act"), and delegations of authority issued thereunder, I hereby authorize an amendment to the above-captioned loan to the Government of Mali (the "Borrower"), which was established under Part I, Chapter 2, Title I, the Development Loan Fund, reducing the amount of said loan from Nine Million Dollars (\$9,000,000) to Three Million Two Hundred and Fifty Thousand Dollars (\$3,250,000). The amended loan shall be used to assist in financing the foreign exchange and local currency costs involved in procurement of road maintenance equipment, and spare parts, and technical assistance for the training of equipment operators and mechanics and for consulting services to road maintenance crews.

The loan amendment is subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment. The Borrower shall repay the loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the loan at the rate of (a) two percent (2%) per annum during the grace period, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and any unpaid interest accrued thereon.
2. Source and Origin
 - (a) Except as hereinafter provided, goods and services financed under the loan shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book.
 - (b) Consulting services, the road maintenance equipment, and not less than \$300,000 of spare parts procured under the loan shall have their source and origin in the United States.

- (c) Spare parts, and related services, in an amount not in excess of \$800,000 having their source and origin in Mali may be procured under the loan.
 - (d) Based upon the justification set forth in the Project Paper and Action Memorandum to the Administrator, the invoice limitation on single transactions involving shelf items imported from countries included in Code 935 of the A.I.D. Geographic Code Book, as prescribed in paragraph 11B.3 of Chapter 11 of Handbook 15, is hereby increased from \$2,500 to \$25,000.
 - (e) Based upon the justification in the Project Paper, I hereby determine that in order to assure interchangeability and standardization, equipment and spare parts may be procured under this loan, without competitive bidding, from Caterpillar Tractor Company and Allis-Chalmers.
3. The loan amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.



Acting Administrator

6/11/76

Date

UNITED STATES GOVERNMENT

Memorandum

6250614-^{JAN 7 1975}
6
PD-AAB-652

22p.

TO : AFR/DP, James L. Govan

DATE: 1/ 7/75

FROM : AFR/CWR, Hyron Golden

SUBJECT: Mali Highway Development Loan 625-H-007

In early December, the Congress was formally notified of the \$9.7 million that we proposed to add to the original \$9.0 million Mali Highway Development Loan. We received objections to the loan increase from Senator Inouye and Congressman Passman. We have responded to the objections through Messrs. Murphy and Parker with letters of further justifications for the loan increase (see attachments). Our information is that Congressman Passman and, possibly, Senator Inouye may wish to hold hearings on the loan.

On Monday, December 23, AFR/CWR and Don Brown, DAA/AFR met with representatives of A. Pizzagalli, Inc., and briefed them on the status of the loan with respect to their low bid. Pizzagalli indicated continuing interest in the project, and agreed to extend the bid validity date for sixty days through mid-March. He also indicated that the firm is in close contact with Senators Aiken and Stafford of Vermont on the status of the loan.

AFR/CWR is continuing to amend the Capital Assistance Paper on the loan, and if the loan objections are withdrawn by the Congress, we will be ready to move forward with the Agency approval process.

Enclosures

Clearance:
AFR/CWR:JPatterson (draft)



DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

DEC 17 1974

Honorable Otto E. Passman
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
House of Representatives
Washington, D. C. 20525

Dear Mr. Chairman:

This is in response to your letter of November 27, 1974, in which you expressed a protest to the authorization of an additional \$9,700,000 for the Mali Highway Development Loan. The purpose of this letter is to provide additional information on that loan amendment.

The Mali Highway Development project, which was originally authorized in 1973 as a conventional AID infrastructure loan, has now assumed even greater importance, because of the impact of the drought over the last four years, on the economy of Mali and its production of foodstuffs. The existing highway has become the lifeline between the port of Abidjan in the Ivory Coast and Mali itself which is located 600 miles from the sea. The only other access to the sea is via a low-capacity railroad from the port of Dakar in Senegal. The Malian government, therefore, views the building of an all-weather route from Bamako to Abidjan as of the utmost importance in maintaining access to emergency supplies for its population and in increasing the capacity of this route for normal commerce. Between November 1973 and November 1974, over 64,000 tons of U.S.-financed grain were moved from Abidjan to Mali over this and alternate routes at great cost because of the difficult road conditions encountered. Twice this amount in other donor assistance and commercial food imports was moved along this road during the same period. This route, therefore, must be kept open and augmented as soon as possible and is also vital to the longer-term development of the country.

Completion of this route will also have a direct impact upon effective utilization of the Special Sahel Emergency appropriation. A.I.D. has

agreed to assist Mali with several very important livestock programs which will directly assist some 500,000 nomadic herdsmen and their families, and will foster the export of Malian beef to the richer, coastal countries. The Bamako-Bougouni road is expected to carry up to 90 percent of these Malian beef exports which account for 40 percent of the country's foreign exchange earnings. The road construction program is, therefore, directly related to and in support of U.S. humanitarian assistance which is aimed at meeting emergency and longer-term development needs. While no price can be placed on this aspect of the project, the fact that the Government of Mali, one of the poorest in Africa, is prepared to incur a further debt of \$9.7 million is an indication of the importance it places upon the successful completion of this project. A.I.D. shares with the Government of Mali the view that despite the very considerable cost increases involved, the project purposes remain valid; the benefits have increased commensurate with the costs.

The Mali Highway Development project is a multi-donor effort to assist the Government of Mali to improve a major element of its basic road transport infrastructure and improve the Government's capability to effectively maintain and utilize this road system. The project consists of the IBRD Second Highway Project, financing the continuation of an ongoing IDA highway maintenance and feeder road improvement program, including technical assistance; reconstruction of the 223 km. Faladie-Segou trunk road running northeast from Bamako; detailed engineering required for improvement and/or reconstruction of the 120 km. road from Bamako to Kilokani; and engineering supervision during reconstruction of the Faladie-Segou-Bamako-Bougouni road. The A.I.D. portion of the project consists of the reconstruction of the 155 km. trunk road running southeast from the capital of Bamako to the town of Bougouni, and the supply of U.S. road maintenance equipment.

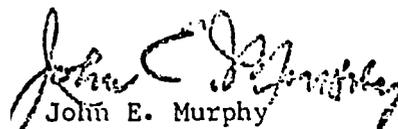
The roads to be reconstructed under this project represent Mali's two major land transport routes. The roads radiate from Bamako to the regional centers of Bougouni and Segou, with the first 7 km. from Bamako to Faladie being common to both roads. The Faladie-Bougouni section serves the cultivated region to the south and forms part of the important international link with the Ivory Coast, Mali's only major road outlet to the sea. The African Development Bank and the World Bank are currently financing the upgrading of the road links in the Ivory Coast which will complete Mali's all-weather access to the sea. The Faladie-Segou section links the capital with the cotton-producing areas around Segou and comprises part of the only all-weather link with Mopti, the gateway to the Niger River Basin and the Sixth Region -- the area most severely afflicted by the drought.

I have attached an annex to this letter which provides additional information concerning A.I.D.'s review of the contract tenders and a discussion of the relationship of the increased costs of the project to the rate of economic return for Mali. In reviewing this annex, I am satisfied that U.S. Government guidelines for AID-financed contracts have been carefully and prudently followed and that the internal rate of return of approximately 15 percent provides sufficient economic justification for the United States to proceed with the project.

I appreciate the point in your letter that in these times of recession the President is proposing deferral of a number of important projects because of increasing costs. I do not recommend such action in this case because completion of the road is essential to maintaining the pace of Malian development and because this road is a critical link in any emergency recovery effort which may again become necessary. Indeed, going ahead with this road with already appropriated funds will also help the badly hit U.S. construction industry, since a U.S. construction firm will be receiving this major contract. However, as indicated in your letter, we have held up commitments on this project until you have received the information in this letter justifying the increase.

I hope that this information will assure you that this loan is of sufficiently high priority to justify the requested increase, and that I can count on your support in proceeding with it. If after reviewing these documents, you or your staff have any additional questions, please contact me. I will be happy to meet with you.

Sincerely yours,


John E. Murphy
Deputy Administrator

Enclosure

ANNEX

AID's Regional Economic Development Services Office in Abidjan, together with the consulting engineering firm of Louis Berger, has reviewed the low bid for the AID-financed Bamako-Bougouni road and finds it to be a reasonable bid if the following points are taken into account:

1. Only two American firms and no bona fide local firm bid on the project;
2. the continuing world-wide inflationary situation; and
3. high cost of AID Code 941 source/origin reinforcing steel and concrete plus delivery time of nine to twelve months for U.S. steel.

Three principal items to be financed in the construction contract are cement, asphalt, and labor: between April-June 1974 the cost of cement in Bamako increased 80 percent; asphalt increased 72.2 percent; and labor cost increased 19.7 percent. Currently there is no cement for sale in Bamako at any price and we have no information as to when it will be available again. Labor costs increased again in August as a result of a government wage decree.

The method used by Berger to examine unit prices was to compare those bids by the low bidder (A. Pizzagalli Inc. of Vermont) with the unit prices bid on the IDA-financed Faladie-Segou road construction project. The apparent low bid is misleading because of the Faladie-Segou construction was bid on by a European firm rather than an American one; the Faladie-Segou contract is rather open ended in permitting cost escalations in contrast with the Pizzagalli contract and will undoubtedly cost at least \$4 million more than the \$11.5 million contract price. There have been unusually high inflationary trends which have drastically increased costs since the Faladie-Segou project was bid in April 1974. The most apparent variations in unit prices are those pertaining to units in the earthworks and pavement sections. The Pizzagalli prices in these two areas reflect higher American standard requirements versus those of the locally established contractors which were utilized by Berger.

The Berger firm acting as the GOM's agent has determined in conjunction with the Pizzagalli Company that \$2,000,000 can be reduced from the original bid if certain contract specifications are changed and the road standards reduced.

Although the Pizzagalli tender may appear to be high, AID has been advised by Berger in their analysis of offers received that the company sent a very competent team from the United States to Mali in order to

review on the spot all the aspects and problems of the reconstruction effort. Various members of the team visited Abidjan and Dakar to evaluate the off-loading facilities at the ports. They also traversed the haulage roads from both ports to Bamako while other team members surveyed the road from Bamako to Bougouni checking on terrain, barrow pits, stream crossings and points for bridge demolition and reconstruction. This effort obviously provided the contractor's team with an insight into any pitfalls and problem areas.

The AID Loan Agreement and IDA credit were both signed in the summer of 1973. At that time it was hoped that one American firm might bid successfully on both road segments. Unfortunately, no American firms chose to bid on the Faladie-Segou road in April 1974 and only three U.S. firms bid on the AID financed Bamako-Bougouni road when it was tendered in August 1974. Not unusual with IBRD projects, the Malians, apparently with IDA approval, awarded in May 1974 an \$11,500,000 contract to a European construction firms (ABU) even though this exceeded the IDA financing by about \$4.5 million. Currently IDA is preparing to field an appraisal team which will determine the total amount of new credit to the GOM to finance (a) the increased costs of reconstructing the Faladie-Segou road, (b) the amount of technical assistance required for the Mali Highway Road Maintenance department over the next few years, (c) GOM maintenance equipment requirement, (d) increased supervisory engineering costs for the Bamako-Bougouni Road if the United States decides to finance this project in view of increased construction costs. It is worth noting that the economic return on the Segou-Faladie road was estimated at about 27 percent when the final feasibility study was completed in 1972.

We believe that while it is most desirable for the entire Segou-Bougouni road to be upgraded at the same time, IDA's commitment to their portion of the project is not contingent on AID participation in reconstructing the road segment from Bamako to Bougouni.

The original Capital Assistance Paper (CAP) outlined the results of the Internal Economic Rate of Return (IRR) analysis undertaken by the engineering consultants and then refined by AID and the IBRD to test for upward revisions in construction costs and concurrently in benefits accruing to road users. In no case was the IRR of any section of the road below 21 percent and it reached 37 percent for the major Segou-Bougouni segment.

Almost two years have passed since this analysis. The construction cost of the road has risen over 100 percent. At the same time road user costs in the West Africa area have risen over 50 percent. Daily traffic on the highway far exceeds the 1972 daily traffic and the existing road is now in much poorer condition than it was in 1972.

We believe the increase in road traffic coupled with the potential for higher average user cost savings will offset the much higher construction expense. Since it now costs at least 50 percent more per mile to operate a vehicle than it did in 1972, the potential for savings is considerably greater now than it was then. Also, the present poor condition of the road, which has deteriorated since 1972, can only result in an even greater potential for user savings if the road is reconstructed. While we have not yet completed the full scale analysis needed to fully determine if these assumptions are accurate, we do have evidence of increased traffic on the road and do know in general terms the magnitude of the increase of road user costs in West Africa. The project's internal rate of return is now approximately 15 percent. In addition, the road, if put in good condition, would provide a reliable low cost access-egress route to large portions of drought stricken areas of Mali.

The U.S. consulting firm of Louis Berger Inc., through negotiations with the contractor Pizzagalli, has determined that about \$2,000,000 can be reduced from the \$18,700,000 bid price if the quality of the road is downgraded and the contractors credit squeeze is somewhat alleviated by an increased mobilization payment at the beginning of construction. A.I.D. has tentatively agreed to those modifications and expects that they will also be acceptable to the Malian Government if the project goes forward.

The reduced road standards would consist of the following major modifications:

- (a) reducing the standard of the road from a hot mixed asphaltic concrete surface to a double layer surface treatment;
- (b) stabilization with 3 percent cement-in-place in lieu of at a centralized mixing plant;
- (c) crushed river bed screening in lieu of crushed quarry rock for coarse aggregates. This solution would then allow the Malians to award Pizzagalli the construction contract at about \$16,700,000 with the \$2,000,000 savings to be used as contingency throughout the 33 month contract period.

An alternative to reconstruction of the Bamako-Bougouni road at the present time would be increased road maintenance. This is, however, less than an optimum solution to the problems faced by the Government of Mali for the following reasons: The Faladie-Segou and Bamako-Bougouni road links were constructed in the early fifties and are Mali's oldest paved road links. As traffic has increased and heavier trucks put into use, the pavement of both roads has started to break up, necessitating intensive maintenance and partial reconstruction. In several sections,

the base and sub-base are structurally inadequate, and current maintenance works of patching and sealing are of limited effectiveness. Should Mali not be able to reconstruct the Bamako-Bougouni road now, she runs the risk of further deterioration of the road to the point where a completely new road would be required and continued limitations on the size of vehicles which can travel the route due to several one lane bridges between Bougouni and Bamako which cannot support the weight of the heavier 20-30 trucks now using the route. In addition to increased maintenance being only a very short term solution to Mali's overall transportation problem, studies of West African transportation routes show that stop-gap maintenance on older roads in lieu of reconstruction generally means higher vehicle operating cost which in turn increases the cost of delivered goods.

Summary Table of KEZ International January 1973 cost estimate - Louis Berger Inc., May 1974 cost estimate and actual bids received (in U.S. dollars) in August 1974.

BAMAKO-BOUGOUNI ROAD

<u>Bid Items</u>	<u>KEZ Estimate</u> (Jan. 1973)	<u>Berger Estimate</u> (May 1974)	<u>Pizzagalli Inc. Offer</u> (8/16/74)	<u>Grove's Offer</u> (8/16/74)
Description				
Mobilization <u>3/</u>	958,294		2,475,000	
General <u>4/</u>	220,688	480,570	913,800	1,153,262
Earthworks	2,248,328	4,739,368	8,904,131	16,468,257
Pavement	2,040,659	3,191,292	4,610,380	5,276,633
Structures	848,432	1,595,176	1,653,056	2,509,272
Signalisation	72,231	92,452	174,835	295,111
Total	6,388,635	10,098,858 <u>1/</u>	18,731,202 <u>5/</u>	25,702,535

1/ Total not taking into account inflation since March 1974 and reinstatement of mobilization costs.

2/ Total reduced telegraphically by \$4,500,000 following notification of reinstatement of mobilization-advance clause, giving revised total of \$21,202,533.

3/ Mobilization as an advance was removed from the contract documents at the time the Louis Berger cost estimate was being prepared and subsequently reinstated in July 1974 in the hopes of attracting as many bidders as possible.

4/ This category consists of the construction and relocation of work camp housing and offices as the project construction advances, as well as the provision and maintenance of U.S. vehicles.

5/ As a result of negotiations between the Government of Mali's consultant on the project, Louis Berger, Inc., and the contractor, the contract price will be reduced by at least \$2,000,000.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

Attachment

OFFICE OF
THE ADMINISTRATOR

DEC 5 - 1974

Honorable Daniel K. Inouye
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D. C. 20510

Dear Senator Inouye:

When members of your staff met with representatives of the Africa Bureau on November 21, 1974, a series of questions were asked about the Mali Highway Development Loan. The purpose of this letter is to provide information to respond to the reservations you have expressed to the authorization of an additional \$9,700,000 for that loan.

The Mali Highway Development project, which was originally authorized in 1973 as a conventional, if important, AID infrastructure loan, has now assumed even greater importance, because of the impact of the drought over the last four years, on the economy of Mali and its production of foodstuffs. The existing highway has become the lifeline between the port of Abidjan in the Ivory Coast and Mali itself which is located 600 miles from the sea. The only other access to the sea is via a low-capacity railroad from the port of Dakar in Senegal. The Malian government, therefore, views the building of an all-weather route from Bamako to Abidjan as of the utmost importance in maintaining access to emergency supplies for its population and in increasing the capacity of this route for normal commerce. Between November 1973 and November 1974, over 64,000 tons of U.S.-financed grain were moved from Abidjan to Mali over this and alternate routes at great cost because of the difficult road conditions encountered. Twice this amount in other donor assistance and commercial food imports was moved along this road during the same period. This route, therefore, must be kept open and augmented as soon as possible and is also vital to the longer-term development of the country.

Completion of this route will also have a direct impact upon effective utilization of the Special Sahel Emergency appropriation of \$85 million voted by the Congress on July 6. Since that time, A.I.D. has agreed to assist Mali with several very important livestock programs which will directly assist some 500,000 nomadic herdsman and their families, and will foster the export of Malian beef to the richer, coastal countries. The Bamako-Bougouni road is expected to carry up to 90 percent of these Malian beef exports which account for 40 percent of the country's foreign exchange earnings. The road construction program is, therefore, directly related to and in support of U.S. humanitarian assistance which is aimed at meeting emergency and longer-term development needs. While no price can be placed on this aspect of the project, the fact that the Government of Mali, one of the poorest in Africa, is prepared to incur a further debt of \$9.7 million is an indication of the importance it places upon the successful completion of this project. A.I.D. shares with the Government of Mali the view that despite the very considerable cost increases involved, the project purposes remain valid; the benefits have increased commensurate with the costs.

The Mali Highway Development project is a multi-donor effort to assist the Government of Mali to improve a major element of its basic road --transport infrastructure and improve the Government's capability to effectively maintain and utilize this road system. Specifically, the project consists of the IBRD Second Highway Project, financing the continuation of an ongoing IDA highway maintenance and feeder road improvement program, including technical assistance; reconstruction of the 223 km. Faladie-Segou trunk road running northeast from Bamako; detailed engineering required for improvement and/or reconstruction of the 120 km. road from Bamako to Kilokani; and engineering supervision during reconstruction of the Faladie-Segou-Bamako-Bougouni road. The A.I.D. portion of the project consists of the reconstruction of the 155 km. trunk road running southeast from the capital of Bamako to the town of Bougouni, and the supply of U.S. road maintenance equipment.

The roads to be reconstructed under this project represent Mali's two major land transport routes. The roads radiate from Bamako to the regional centers of Bougouni and Segou, with the first 7 km. from Bamako to Faladie being common to both roads. The Faladie-Bougouni section serves the cultivated region to the south and forms part of the important international link with the Ivory Coast, Mali's only major road outlet to the sea. The African Development Bank and the World Bank are currently financing the upgrading of the road links in the Ivory Coast which will complete Mali's all-weather access to the sea. The Faladie-Segou section links the capital with the cotton-producing areas around Segou and comprises part of the only all-weather link with Mopti, the gateway to the Niger River Basin and the Sixth Region -- the area most severely afflicted by the drought.

I am attaching three annexes to this letter. The first will provide additional information concerning A.I.D.'s review of the contract tenders and a discussion of the relationship of the increased costs of the project to its rate of economic return for Mali. In reviewing this annex, I am satisfied that U.S. Government guidelines for AID-financed contracts have been carefully and prudently followed and that the internal rate of return of approximately 15 percent provides sufficient economic justification for the United States to proceed with the project.

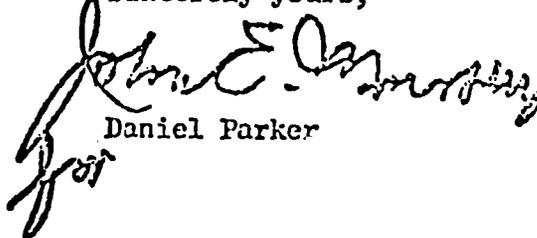
The second annex, which lists our most recent estimate of commitments for \$85 million of African Drought and Disaster Relief assistance, is in response to the question raised concerning why the loan amendment could not be funded from that account. As you can see, there are already planned uses for all of these funds. In addition, our discussions with the Congress on the Relief appropriation were based on an understanding that the funds would be used on a grant rather than a loan basis. This project we believe to be more suitable for loan rather than grant financing. For these reasons we feel that the fund should come from the Selected Development Problems category

A further question concerned loans that would be authorized in FY 1975 from the Selected Problems category if the Mali Amendment were included. The third annex lists loans currently being considered for FY 1975 authorization in that category. The list totals some \$52.4 million, compared with a Congressional request level of \$39.5 million. AID does not plan to exceed the Congressional request level for loans in this category, and so will defer or reduce particular loans, as necessary, to stay at, or below the \$39.5 limit, based on total availabilities after final passage of FY 1975 foreign assistance legislation and the relative program priorities at the time of the various loans.

I am specifically directing our field staff that in negotiating this loan amendment, there be specific language in the agreement to the effect that the total U.S. contribution to the activity will not exceed \$18.7 million, and that the cost of any additional increases will be the responsibility of the Government of Mali.

I hope that this and the preceding data will assure the Committee of our feeling that this loan is of sufficiently high priority to justify the requested addition, and that I can count on your support in proceeding with it. If after reviewing these documents, you or your staff have any additional questions, please contact me. We will be happy to meet with you.

Sincerely yours,



Daniel Parker

ANNEX .

AID's Regional Economic Development Services Office in Abidjan, together with the consulting engineering firm of Louis Berger, has reviewed the low bid for the AID-financed Bamako-Bougouni road and finds it to be a reasonable bid if the following points are taken into account:

1. Only two American firms and no bona fide local firm bid on the project;
2. the continuing world-wide inflationary situation; and
3. high cost of AID Code 941 source/origin reinforcing steel and concrete plus delivery time of nine to twelve months for U.S. steel.

Three principal items to be financed in the construction contract are cement, asphalt, and labor: between April-June 1974 the cost of cement in Bamako increased 80 percent; asphalt increased 72.2 percent; and labor cost increased 19.7 percent. Currently there is no cement for sale in Bamako at any price and we have no information as to when it will be available again. Labor costs increased again in August as a result of a government wage decree.

The method used by Berger to examine unit prices was to compare those bids by the low bidder (A. Pizzagalli Inc. of Vermont) with the unit prices bid on the IDA-financed Faladie-Segou road construction project. The apparent low bid is misleading because of the Faladie-Segou construction was bid on by a European firm rather than an American one; the Faladie-Segou contract is rather open ended in permitting cost escalations in contrast with the Pizzagalli contract and will undoubtedly cost at least \$4 million more than the \$11.5 million contract price. There have been unusually high inflationary trends which have drastically increased costs since the Faladie-Segou project was bid in April 1974. The most apparent variations in unit prices are those pertaining to units in the earthworks and pavement sections. The Pizzagalli prices in these two areas reflect higher American standard requirements versus those of the locally established contractors which were utilized by Berger.

The Berger firm acting as the GOM's agent has determined in conjunction with the Pizzagalli Company that \$2,000,000 can be reduced from the original bid if certain contract specifications are changed and the road standards reduced.

Although the Pizzagalli tender may appear to be high, AID has been advised by Berger in their analysis of offers received that the company sent a very competent team from the United States to Mali in order to

review on the spot all the aspects and problems of the reconstruction effort. Various members of the team visited Abidjan and Dakar to evaluate the off-loading facilities at the ports. They also traversed the haulage roads from both ports to Bamako while other team members surveyed the road from Bamako to Bougouni checking on terrain, barrow pits, stream crossings and points for bridge demolition and reconstruction. This effort obviously provided the contractor's team with an insight into any pitfalls and problem areas.

The AID Loan Agreement and IDA credit were both signed in the summer of 1973. At that time it was hoped that one American firm might bid successfully on both road segments. Unfortunately, no American firms chose to bid on the Faladie-Segou road in April 1974 and only three U.S. firms bid on the AID financed Bamako-Bougouni road when it was tendered in August 1974. Not unusual with IBRD projects, the Malians, apparently with IDA approval, awarded in May 1974 an \$11,500,000 contract to a European construction firms (ABU) even though this exceeded the IDA financing by about \$4.5 million. Currently IDA is preparing to field an appraisal team which will determine the total amount of new credit to the GOM to finance (a) the increased costs of reconstructing the Faladie-Segou road, (b) the amount of technical assistance required for the Mali Highway Road Maintenance department over the next few years, (c) GOM maintenance equipment requirement, (d) increased supervisory engineering costs for the Bamako-Bougouni Road if the United States decides to finance this project in view of increased construction costs. It is worth noting that the economic return on the Segou-Faladie road was estimated at about 27 percent when the final feasibility study was completed in 1972.

We believe that while it is most desirable for the entire Segou-Bougouni road to be upgraded at the same time, IDA's commitment to their portion of the project is not contingent on AID participation in reconstructing the road segment from Bamako to Bougouni.

The original Capital Assistance Paper (CAP) outlined the results of the Internal Economic Rate of Return (IRR) analysis undertaken by the engineering consultants and then refined by AID and the IBRD to test for upward revisions in construction costs and concurrently in benefits accruing to road users. In no case was the IRR of any section of the road below 21 percent and it reached 37 percent for the major Segou-Bougouni segment.

Almost two years have passed since this analysis. The construction cost of the road has risen over 100 percent. At the same time road user costs in the West Africa area have risen over 50 percent. Daily traffic on the highway far exceeds the 1972 daily traffic and the existing road is now in much poorer condition than it was in 1972.

We believe the increase in road traffic coupled with the potential for higher average user cost savings will offset the much higher construction expense. Since it now costs at least 50 percent more per mile to operate a vehicle than it did in 1972, the potential for savings is considerably greater now than it was then. Also, the present poor condition of the road, which has deteriorated since 1972, can only result in an even greater potential for user savings if the road is reconstructed. While we have not yet completed the full scale analysis needed to fully determine if these assumptions are accurate, we do have evidence of increased traffic on the road and do know in general terms the magnitude of the increase of road user costs in West Africa. The project's internal rate of return is now approximately 15 percent. In addition, the road, if put in good condition, would provide a reliable low cost access-egress route to large portions of drought stricken areas of Mali.

The U.S. consulting firm of Louis Berger Inc., through negotiations with the contractor Pizzagalli, has determined that about \$2,000,000 can be reduced from the \$18,700,000 bid price if the quality of the road is downgraded and the contractors credit squeeze is somewhat alleviated by an increased mobilization payment at the beginning of construction. A.I.D. has tentatively agreed to those modifications and expects that they will also be acceptable to the Malian Government if the project goes forward.

The reduced road standards would consist of the following major modifications:

- (a) reducing the standard of the road from a hot mixed asphaltic concrete surface to a double layer surface treatment;
- (b) stabilization with 3 percent cement-in-place in lieu of at a centralized mixing plant;
- (c) crushed river bed screening in lieu of crushed quarry rock for coarse aggregates. This solution would then allow the Malians to award Pizzagalli the construction contract at about \$16,700,000 with the \$2,000,000 savings to be used as contingency throughout the 33 months contract period.

An alternative to reconstruction of the Bamako-Bougouni road at the present time would be increased road maintenance. This is, however, less than an optimum solution to the problems faced by the Government of Mali for the following reasons: The Faladie-Segou and Bamako-Bougouni road links were constructed in the early fifties and are Mali's oldest paved road links. As traffic has increased and heavier trucks put into use, the pavement of both roads has started to break up, necessitating intensive maintenance and partial reconstruction. In several sections,

the base and sub-base are structurally inadequate, and current maintenance works of patching and sealing are of limited effectiveness. Should Mali not be able to reconstruct the Bamako-Bougouni road now, she runs the risk of further deterioration of the road to the point where a completely new road would be required and continued limitations on the size of vehicles which can travel the route due to several one lane bridges between Bougouni and Bamako which cannot support the weight of the heavier 20-30 trucks now using the route. In addition to increased maintenance being only a very short term solution to Mali's overall transportation problem, studies of West African transportation routes show that stop-gap maintenance on older roads in lieu of reconstruction generally means higher vehicle operating cost which in turn increases the cost of delivered goods.

BUREAU FOR AFRICA

DROUGHT RELIEF ASSISTANCE
FY 1975 ESTIMATED OBLIGATIONS
(\$000)

<u>Country</u>	<u>Emergency Assistance</u>	<u>Recovery and Rehabilitation</u>	<u>Project Assistance</u>	<u>Total</u>
Central African Republic		1,200	-	1,200
Chad	1,100	1,100	1,694	3,894
Ethiopia	2,000	8,000	-	10,000
Gambia, The	-	1,200	-	1,200
Ghana	-	1,000	-	1,000
Guinea	-	300	-	300
Kenya	-	-	1,000	1,000
Mali	200	1,400	14,400	16,000
Mauritania	800	2,300	2,363	5,463
Niger	300	3,000	6,102	9,402
Senegal	-	400	5,583	5,983
Tanzania	-	5,000	-	5,000
Upper Volta	16	2,000	5,490	7,506
Central and West Africa Regional	<u>2,495^a</u>	<u>-</u>	<u>14,557</u>	<u>17,052</u>
	<u>6,911</u>	<u>26,900</u>	<u>51,189</u>	<u>85,000</u>

^{a/} Amounts shown under countries are commitments to date. Amount under Regional is available for reprogramming as needed to meet emergency requirements.

Summary Table of KEZ International January 1973 cost estimate - Louis Berger Inc., May 1974 cost estimate and actual bids received (in U.S. dollars) in August 1974.

BAMAKO-BOUGOUNI ROAD

<u>Bid Items</u>	<u>KEZ Estimate</u> (Jan. 1973)	<u>Berger Estimate</u> (May 1974)	<u>Pizzagalli Inc. Offer</u> (8/16/74)	<u>Grove's Offer</u> (8/16/74)
Description				
Mobilization <u>3/</u>	958,294		2,475,000	
General <u>4/</u>	220,688	480,570	913,800	1,153,262
Earthworks	2,248,328	4,739,368	8,904,131	16,468,257
Pavement	2,040,659	3,191,292	4,610,380	5,276,633
Structures	848,432	1,595,176	1,653,056	2,509,272
Signalisation	72,231	92,452	174,835	295,111
Total	6,388,635	10,098,858 <u>1/</u>	18,731,202 <u>5/</u>	25,702,535

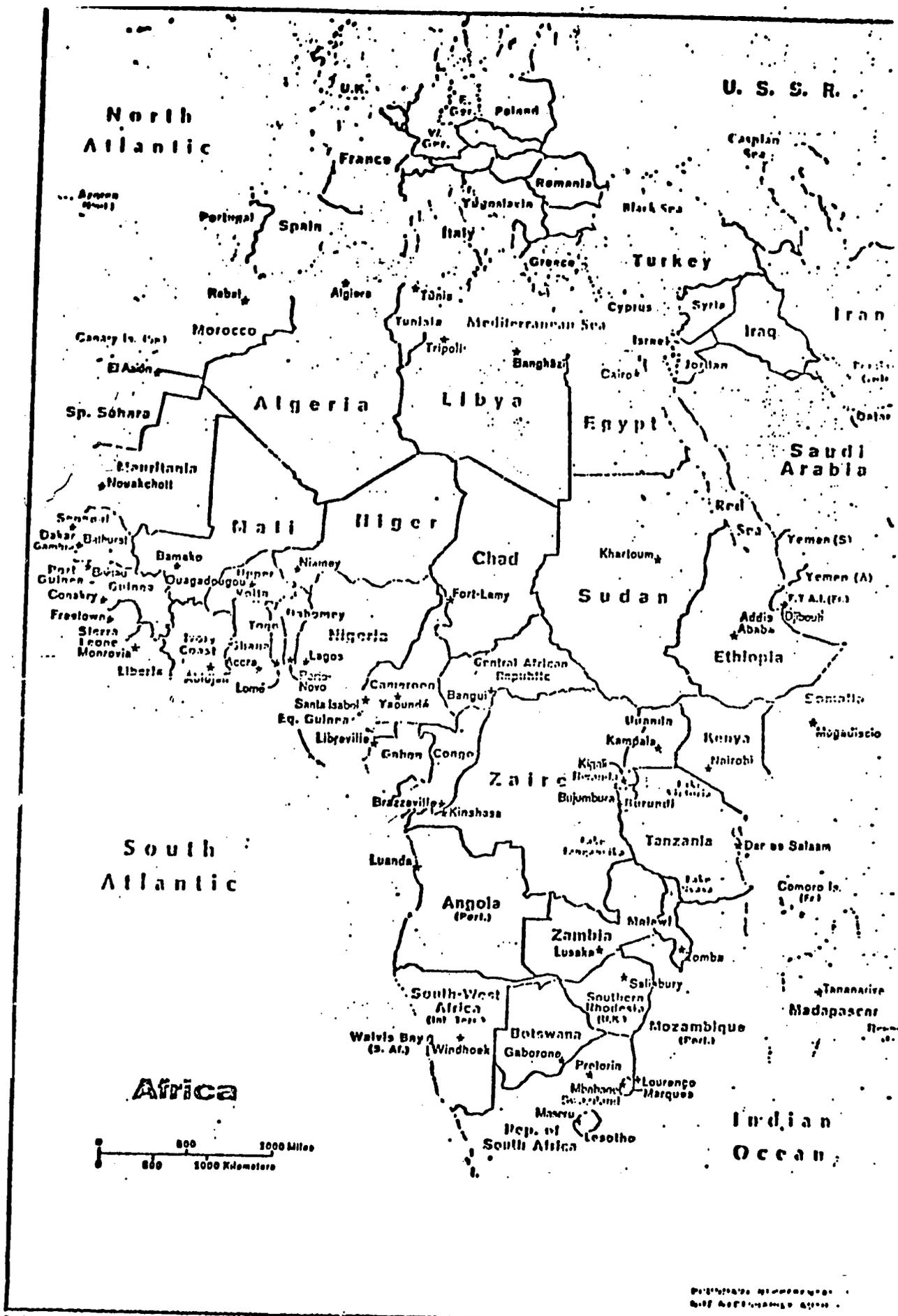
1/ Total not taking into account inflation since March 1974 and reinstatement of mobilization costs.

2/ Total reduced telegraphically by \$4,500,000 following notification of reinstatement of mobilization-advance clause, giving revised total of \$21,202,533.

3/ Mobilization as an advance was removed from the contract documents at the time the Louis Berger cost estimate was being prepared and subsequently reinstated in July 1974 in the hopes of attracting as many bidders as possible.

4/ This category consists of the construction and relocation of work camp housing and offices as the project construction advances, as well as the provision and maintenance of U.S. vehicles.

5/ As a result of negotiations between the Government of Mali's consultant on the project, Louis Berger, Inc., and the contractor, the contract price will be reduced by at least \$2,000,000.



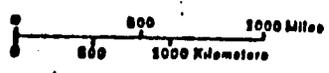
North Atlantic

U. S. S. R.

South Atlantic

Africa

Indian Ocean



LEGEND

-  RAILROAD
-  FINAL DESIGN & RECONSTRUCTION TO BE FINANCED BY IBRD
-  MALI'S PRINCIPAL OUTLET TO THE SEA
-  RECONSTRUCTION OF 155 KM PROPOSED FOR AID FINANCING
-  IBRD FINANCING RECONSTRUCTION, RECONSTRUCTION IS CURRENTLY UNDERWAY
-  AFED FINANCING BOTH DESIGN AND CONSTRUCTION OF THE OUANGOLODOUGOU, I.C./MALI BORDER ROAD



Cabo Barbas

La Guera
Cap Blanc
Cap Lévrier

Ile Tidra
Cap Timiris
1529

Nouakchott

St. Louis

Banjul

Bissau

Conakry

Freetown

Monrovia

Accra

Auser

Tichla

Nouamrhar

Moudjéria

Dagana

Kedougou

Suba

Forécarie

Pujehun

Robertson

Greenville

Ybket Tjill

Fderik

Ouadane

Tichit

Kiffa

Bafoulabé

Labé

Kissidougou

Bomi Hills

Sastou

Grand Cess

El Mreiti

Agueraktem

El Mrayer

Aratane

Oualâta

Néma

Sikasso

Odienné

Borotou

Agboville

Soubre

Terhazza

Tagnou Chagguere

Bir Ounâne

Mabroûk

Araouane

Boû Djébâha

Tombouctou

Goundam

Diré

Saraféré

Boré

Birel Ksib

Niger

Niamey

Nampala

Lac Débo

Sokolé (Soala)

Koutiala

Koulikoro

Bobo Dioulasso

Yagha

Quagac

Mopti

Bandiagara

Quahigouya

Kaya

Bédougou

Koudougou

Quagac

WASIN

**Selected Development Problems Loans
Under Consideration for FY 1975 Authorization**

(\$ in millions)

<u>Country</u>	<u>Loan</u>	<u>Amount</u>
Afghanistan	Kajakai Hydroelectric Amendment	\$ 2.0
Central West Africa	Mali Highway Amendment	9.7
Africa Regional	Trans Cam Road Amendment	0.7
	Tan Zam Road Amendment	6.0
Nicaragua	Managua Reconstruction	20.0
Honduras	Savings and Loan	4.0
Korea	Industrial Standalone	5.0
Colombia	Small Industries	<u>5.0</u>
	Total	\$ 52.4

625-0614⁶²⁵⁰⁶¹⁴⁻ (7)
DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

PD-AAB-652

2p.

OFFICE OF
THE ADMINISTRATOR

AID-DLC/P-1069

LOAN AMENDMENT AUTHORIZATION

A.I.D. Loan No.: 625-H-007A

Provided from: Development Loan Funds
Mali: Highway Development: Road Maintenance I

Pursuant to the authority vested in the Administrator of the Agency for International Development by the Foreign Assistance Act of 1961, as amended, (the "Act"), and delegations of authority issued thereunder, I hereby authorize an amendment to the above-captioned loan to the Government of Mali (the "Borrower"), which was established under Part I, Chapter 2, Title I, the Development Loan Fund, reducing the amount of said loan from Nine Million Dollars (\$9,000,000) to Three Million Two Hundred and Fifty Thousand Dollars (\$3,250,000). The amended loan shall be used to assist in financing the foreign exchange and local currency costs involved in procurement of road maintenance equipment, and spare parts, and technical assistance for the training of equipment operators and mechanics and for consulting services to road maintenance crews.

The loan amendment is subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment. The Borrower shall repay the loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the loan at the rate of (a) two percent (2%) per annum during the grace period, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and any unpaid interest accrued thereon.
2. Source and Origin
 - (a) Except as hereinafter provided, goods and services financed under the loan shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book.
 - (b) Consulting services, the road maintenance equipment, and not less than \$300,000 of spare parts procured under the loan shall have their source and origin in the United States.

- (c) Spare parts, and related services, in an amount not in excess of \$800,000 having their source and origin in Mali may be procured under the loan.
 - (d) Based upon the justification set forth in the Project Paper and Action Memorandum to the Administrator, the invoice limitation on single transactions involving shelf items imported from countries included in Code 935 of the A.I.D. Geographic Code Book, as prescribed in paragraph 11B.3 of Chapter 11 of Handbook 15, is hereby increased from \$2,500 to \$25,000.
 - (e) Based upon the justification in the Project Paper, I hereby determine that in order to assure interchangeability and standardization, equipment and spare parts may be procured under this loan, without competitive bidding, from Caterpillar Tractor Company and Allis-Chalmers.
3. The loan amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.



Acting Administrator



Date