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

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CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

ETHIOPIA - HAILE SELASSIE I UNIVERSITY EXPANSION

PHASE II

AID-DLC/P-960/2

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

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AID-DLC/P-960/2

April 19, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ethiopia - Haile Selassie University Expansion - Phase II  
Amendment

Attached for your review are the recommendations for increasing by \$1,200,000 a loan (No. 663-H-019) made to the Imperial Ethiopian Government in an amount of \$3,700,000 to assist in financing the foreign exchange and local costs of goods and services required to construct dormitories, a classroom building and a cafeteria/auditorium for Haile Selassie I University.

Please advise us as early as possible but in no event later than close of business on Thursday, April 27, 1972, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:  
Memorandum for the DLC  
ANNEXES I and II

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April 19, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE:

SUBJECT: Ethiopia - Haile Selassie I University Expansion,  
Phase II (A.I.D. Loan No. 663-H-019)

Problem: Additional funds of approximately \$1.6 million are required to finance the construction of facilities at Haile Selassie I University. The Imperial Ethiopian Government (IEG) has requested that A.I.D. provide \$1.2 million of the additional funds required, based on the original understanding that A.I.D. would finance 75% of project costs.

Discussion: A loan of \$3.7 million for the Phase II Haile Selassie I University Expansion project was authorized on May 27, 1971 (see Capital Assistance Paper AID-DLC/P-960 dated May 11, 1971). Total project costs were estimated at that time to be \$4,883,592, including \$3,819,080 for construction, \$244,000 for movable furnishings and equipment, \$183,000 for construction supervision and a contingency item of 15 percent, or \$637,512. A.I.D. was to finance 75% of total project costs, or \$3,662,694 (rounded to \$3.7 million); the remainder of \$1,220,898 was to be financed by the IEG. The project financing was based on preliminary cost estimates prepared by the architectural/engineering firm, Dalton-Dalton-Little (DDL) of Cleveland, Ohio, in March 1971.<sup>1/</sup> The final cost estimates completed by DDL in September 1971 projected a somewhat higher construction cost of \$4,462,000.

A.I.D. approved prequalification of six construction contractors in November 1971. The six contractors included one U.S. firm, one Korean firm, and four local Ethiopian firms. Bid documents were issued to all firms in early December and bids were opened on February 10, 1972. Three of the prequalified contractors, including the U.S. and Korean firms and one local firm, failed to submit bids. The three remaining local firms submitted bids of \$6,046,000, \$6,259,000 and \$6,509,000. The extent to which these bids exceeded the final cost

<sup>1/</sup> A.I.D. decided to proceed with authorization of the original loan in May 1971 on the basis of the preliminary cost estimates to save time and money. The IEG Parliament recesses in June and reconvenes in November, but does not take action on regular business until some months later. By obtaining IEG parliamentary ratification in June 1971, at least four months were saved in processing the Invitations to Bid. Consequently, construction will begin earlier and the facilities will be completed in time for the beginning of the 1973/74 academic year. (For the original implementation schedule, see Section VI of the Capital Assistance Paper.)

estimate reflected at least two factors which were beyond the control of DDL and the University. The major factor was the change in the U.S. Dollar/Ethiopian Dollar exchange rate, effective December 15, 1971 from U.S. \$1 = Eth. \$2.50 to U.S. \$1 = Eth. \$2.28. This increased costs as expressed in U.S. dollars by 8 percent. The other factor was the IEG's insistence that the unit prices comprising the bid include local turnover taxes, although the cost estimates had been prepared on the assumption that all materials would be free of duties or local taxes. <sup>2/</sup> This added an estimated \$130,000 to project costs. If DDL's final estimate is adjusted to reflect these factors it becomes approximately \$4,949,000. On this basis the low bid of \$6,046,000 exceeded the final estimate by 22%.

Following opening of the bids, the University instructed DDL to determine whether the contractor's unit prices were generally reasonable in the light of conditions in Ethiopia, and if so, to negotiate with the three firms to reach an agreed contract price. After a week of investigations in Addis Ababa, the DDL representative concluded that the unit prices were reasonable and that it would not be in the University's best interest, given the lack of interest by foreign firms and the small number of qualified local firms, to re-open the bidding. In the three following weeks the DDL representative, together with representatives of the University, negotiated a contract price of \$5,443,000 with the low bidder, Luigi Varnero Co. The reduction of about \$600,000 from the original bid price was achieved primarily through redesign of some items, changes in specifications and consequent substitution of cheaper materials, and negotiation of lower rates of profit and overhead on the contractor's procurement and installation of fixed equipment such as beds, wardrobes, lecture hall seating and kitchen equipment. Although this negotiated amount still exceeded the adjusted DDL final cost estimate of September 1971 by \$494,000, or 10%, the DDL representative and the University concluded that the negotiated price was reasonable, and that the DDL estimate had failed to take into account rates of inflation applicable to building materials in the U.S. and Ethiopia and had been based on insufficient knowledge of Ethiopian conditions.

2/ A.I.D. agreed that turnover taxes could be included in the unit prices, since the IEG has no machinery for exempting local purchases of materials from the IEG turnover tax. The tax will be shown as a separate item on the contractor's monthly invoices and will be reimbursed by the IEG. Since the tax is not a true construction cost and is included as a convenience to the IEG, the reimbursement for local taxes will not count toward the IEG contribution of 25% of total project costs. (See Annex I, page 3 for detailed calculation.)

DDL recommended on March 9, 1972 that the University award a contract to Luigi Varnero Co. on the basis of the negotiated price of \$5,443,000. On March 13, the University requested that A.I.D. approve the award and requested that the IEG Council of Ministers approve additional IEG financing for the project as well as a request to A.I.D. for an amendment to the project loan increasing the amount by \$1.2 million. A.I.D. approved the contract award on March 23, 1972; and the contract was signed on March 24. The IEG Ministry of Finance submitted a formal loan amendment request on April 4, 1972.

Regarding the contract with DDL for construction supervision, the actual amount for the cost-plus-fixed-fee contract signed on March 24, 1972 is \$422,857, as against an original estimate of \$183,000. The original estimate was based on a standard percentage (4.5%) of the construction cost and did not take into account the fact that DDL would have a U.S. architect/engineer stationed at both Addis Ababa and the Alemaya Campus. Also, the construction period was lengthened from 18 to 24 months since no contractor was willing to submit a bid based on an 18-month construction period. Given the number of U.S. and Ethiopian personnel to be employed and the estimated length of the construction period, A.I.D. believes that the cost of the construction supervision services is reasonable.

Based on the above costs, the new project financial plan is as follows (for details see Annex I, Detailed Cost Estimate - Revised): 3/

	Foreign Exchange Costs	Local Costs	Total
Original AID Loan	1,500,000	2,200,000	3,700,000
Amendment	200,000	1,000,000	1,200,000
Original IEG contribution	-	1,200,000	1,200,000
Additional IEG contribution	-	400,000	400,000
	<u>1,700,000</u>	<u>4,800,000</u>	<u>6,500,000</u>

The funds provided under the proposed loan amendment would be made available on the terms applicable to the original loan, i.e., principal repayable over 40 years, including a 10-year grace period, with interest of 2 percent during the grace period and 3 percent thereafter.

The Statutory Criteria were satisfied in the original Capital Assistance Paper and are applicable to this amendment.

3/ All figures rounded to nearest hundred thousands.

Recommendation: That the committee approve the Loan Amendment Authorization (Annex II) to provide an additional \$1,200,000 to finance 75 percent of the increased costs of the Phase II Haile Selassie I University Expansion Project.

HAILE SELASSIE I UNIVERSITY  
DETAILED COST ESTIMATES - REVISED  
(U.S. \$)

SIDIST KILO

<u>Dormitories (4)</u>	<u>Foreign Exchange</u> <u>Costs</u>	<u>Local</u> <u>Costs</u>	<u>Total</u>
1. Foundations & Excavations	-	231,000	231,000
2. Reinforcing steel	-	469,128	469,128
3. Concrete, Forms	10,000	340,385	350,385
4. Masonry	12,000	167,940	179,940
5. Windows, Doors, Hardware	189,800	213,873	403,673
6. Finishes, Miscellaneous	107,600	248,100	355,700
7. Roofing	8,800	20,370	29,170
8. Wardrobes	3,000	205,620	208,620
9. Movable Furnishings & Equipment	-	128,000	128,000
10. Mechanical	85,000	83,820	168,820
11. Electrical	106,000	82,000	188,000
12. Site Work	7,000	123,600	130,600
Total U.S.\$	<u>529,200</u>	<u>2,313,838</u>	<u>2,843,038</u>

Cafeteria-Auditorium Building

1. Foundations & Excavation	-	25,400	25,400
2. Reinforcing Steel	-	48,300	48,300
3. Concrete, Forms	800	53,000	53,800
4. Structural Steel	44,000	53,500	97,500
5. Masonry	600	8,700	9,300
6. Windows, Doors, Hardware	24,200	42,600	66,800
7. Finishes and Miscellaneous	46,000	52,000	98,000
8. Roofing	4,000	24,500	28,500
9. Kitchen Equipment	65,000	21,000	86,000
10. Movable Furnishings & Equipment	17,000	15,000	32,000
11. Mechanical	28,000	23,000	51,000
12. Electrical	20,000	20,200	40,200
13. Site Work	(Included under Sidist Kilo Dormitory - Item 12)		
Total U.S.\$	<u>249,600</u>	<u>387,200</u>	<u>636,800</u>

HAILE SELASSIE I UNIVERSITY  
DETAILED COST ESTIMATES - REVISED  
U.S.\$)

ALEMAYA

<u>Dormitory (1)</u>	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total</u>
1. Foundations & Excavation	-	57,000	57,000
2. Reinforcing Steel	-	112,000	112,000
3. Concrete, Forms	4,500	102,000	106,500
4. Masonry	3,000	50,000	53,000
5. Windows, Doors, Hardware	47,000	67,000	114,000
6. Finishes, Miscellaneous	25,500	84,000	109,500
7. Roofing	5,000	7,500	12,500
8. Wardrobes	-	51,000	51,000
9. Movable Furnishings & Equipment	-	32,000	32,000
10. Mechanical	22,000	51,500	73,500
11. Electrical	26,500	30,500	57,000
Total U.S.\$	<u>133,500</u>	<u>644,500</u>	<u>778,000</u>

Classroom Building

1. Excavation, Concrete, Forms	600	165,000	165,600
2. Reinforcing steel	-	88,000	88,000
3. Masonry	1,400	16,000	17,400
4. Windows, Doors, Hardware	32,000	45,000	77,000
5. Finishes, Miscellaneous	26,000	21,400	47,400
6. Roofing	8,000	5,500	13,500
7. Chalkboards	(included in Item 5)		
8. Laboratory Equipment	110,000	20,300	130,300
9. Fixed seating	(included in Item 8)		
10. Movable Furnishings & Equipment	20,000	-	20,000
11. Mechanical	14,000	35,000	49,000
12. Electrical	29,000	25,000	54,000
13. Site Work	2,500	19,400	21,900
Total U.S.\$	<u>243,500</u>	<u>440,600</u>	<u>684,100</u>

HAILE SELASSIE I UNIVERSITY  
DETAILED COST ESTIMATES - REVISED  
(U.S.\$)

ARAT KILO

<u>Dormitory (1)</u>	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total</u>
1. Foundations & Excavation	-	48,000	48,000
2. Reinforcing Steel	-	125,000	125,000
3. Concrete, Forms	1,500	93,500	95,000
4. Masonry	3,000	42,000	45,000
5. Windows, Doors, Hardware	48,000	54,000	102,000
6. Finishes, Miscellaneous	25,500	65,000	90,500
7. Roofing	3,700	9,000	12,700
8. Wardrobes	-	50,000	50,000
9. Movable Furnishings & Equipment	-	32,000	32,000
10. Mechanical	22,000	51,400	73,400
11. Electrical	26,500	30,400	56,900
12. Site Work	-	15,000	15,000
Total U.S. \$	<u>130,200</u>	<u>615,300</u>	<u>745,500</u>

<u>SUMMARY:</u>	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total</u>
Construction Contract	1,249,000	4,194,436	5,443,436
Less local taxes	-	130,000	130,000
	<u>1,249,000</u>	<u>4,064,436</u>	<u>5,313,436</u>
Movable Furnishings & Equipment	37,000	207,000	244,000
Construction Supervision Contract	276,210	146,647	422,857
Contingency (9%)	140,599	397,627	538,226
Total	<u>1,702,809</u>	<u>4,815,710</u>	<u>6,518,519</u>

The Financial Plan includes AID financing 75% of the total project costs, and 100% of the foreign exchange costs, as follows:

	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total</u>
AID Loan	1,702,809 (110%)	3,186,080 (66%)	4,888,889 (75%)
IEG Contribution	-	1,629,630 (34%)	1,629,630 (25%)
Total	<u>\$ 1,702,809</u>	<u>\$ 4,815,710</u>	<u>\$ 6,518,519</u>

UNCLASSIFIED  
ANNEX II  
Loan No. 663-H-019

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

CAPITAL ASSISTANCE LOAN AUTHORIZATION  
AMENDMENT

Provided from: Development Loan Funds  
Ethiopia - Haile Selassie I University Expansion - Phase II

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the following:

An amendment to increase the above-captioned loan to the Imperial Ethiopian Government ("Borrower") by an amount not to exceed one million two hundred thousand dollars (\$1,200,000) to assist in financing the foreign exchange and local costs of goods and services required to construct dormitories, a classroom building and a cafeteria/auditorium for Haile Selassie I University, subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment. Borrower shall repay the loan in forty (40) years, including a grace period of not to exceed ten (10) years. Borrower shall pay interest on the unrepaid principal and any interest accrued thereon at a rate of (a) two percent (2%) per annum during the grace period and (b) three percent (3%) per annum thereafter.
2. Currency of Repayment. Repayment of the loan and payment of interest shall be made in United States dollars.
3. Other Terms and Conditions.
  - 3.1 Procurement. Goods and services financed under the loan shall have their source and origin in Ethiopia or in countries included in Code 941 of the AID Geographic Code Book.
  - 3.2 Other Terms and Conditions. The loan shall be subject to other terms and conditions as AID may deem advisable.

Assistant Administrator for Africa

Date: \_\_\_\_\_