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VIETNAM PROJECT

The subject-matter of this thesis is an attempt to appraise the methods and standards which the International Bank for Reconstruction and Development has used to evaluate investment projects submitted to it by the borrowing countries.

This appraisal will try to answer two questions:

First, how the Bank's methods and standards have served its continuing and long range function, that of contributing to the development of economic resources and the growth of productive power and standard of living, particularly in the under-developed countries,

Second, to what extent the Bank's practice has contributed to the knowledge of the science of investment.

Analysing a method or a standard can be quite technical. The approach adopted in this thesis will not emphasise on the technical aspect however. Due consideration will be given to the technical aspect only to the extent that this would play an important role in the Bank's process of decision making. For instance, in the case of the Yankee Multipurpose project which will ultimately provide generating capacity of 560,000KW to Thailand, the estimate of the rate of growth of power demand made by the Thai Royal Irrigation Development differed from that of the U.S. Bureau of Reclamation which was hired by the Thai's Government to make the study. The Bank's consultant offered a third estimate which was more than twice the size of the Bureau's. Moreover, the Bank's technical report accepted none of these, but based its calculation on a fourth estimate. It is clear that differences in the estimates of future demand for

electricity will affect importantly the volume of the initial investment to be financed by the Bank. It will also affect the choice of alternatives. In this case, the problem is whether hydro or thermal power would be appropriate to the present stage of economic development of Thailand, given the estimate.

The methods and standards used by the Bank vary, depending on the purpose for which its loans were made and the size of its loans. We will leave out the post war reconstruction loans made to European countries and will direct our analysis to loans made entirely for economic development.

Though the standard of examination may vary from one country to another, all applications for loans have to undergo four examinations prior to the Bank's approval or rejection.

1-The economic examination to determine whether the proposed project has a high development priority within the economy of the country; the viability of the loans comes only as a second consideration.

2-The study of the organization and management of borrowers to assess their managerial and administrative experience which is more serious than the lack of capital and is a major obstacle to economic development.

3-The technical appraisal of project to establish a preliminary work plan and schedules of cost. We will leave out the strictly engineering aspect of the projects as there is no point in doing so.

4-The financial appraisal to determine the best way to finance the project and the schedule of disbursement. The nature of the loan and the status of the borrower require different considerations.

Financing by the Bank is debt financing. In this respect it is not

substantially different from a bonded debt. If the borrowing party is an established private corporation, the impact of the Bank's loan on the structure of its capital will be an important consideration. If the borrower is the government, the relevant consideration would be the impact of the Bank's loan on its future revenues and expenditures, the opportunity costs of the foreign exchange which it would have to earn or sacrifice to finance the project, the opportunity cost of the country's saving released by the Bank's loan and made available to finance other investments, and the burden of the loan on the country foreign debt.

A number of cases will be selected for discussion, each presenting a different problem, either economic, managerial or financial.