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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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REPORT AND RECOMMENDATIONS OF THE PRESIDENT

TO THE EXECUTIVE DIRECTORS ON A PROPOSED

LOAN OF \$20 MILLION TO THE CASSA FOR

DEVELOPMENT PROJECTS IN SOUTHERN ITALY

April 13, 1959



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DEVELOPMENT PROJECTS IN SOUTHERN ITALY

1. Further to my preliminary report (No. 59-24) of March 26, 1959, I submit the following report and recommendations on a proposed loan in various currencies equivalent to \$20 million to the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (Cassa per il Mezzogiorno) to assist in the financing of a power project in Southern Italy and two industrial projects in Sicily.

PART I - THE PUBLIC ISSUE

2. Following the meeting of the Executive Directors on April 2, I advised the underwriters, Morgan Stanley & Co. that in the absence of some major adverse development there seemed no reason to believe that the proposed loan would not be approved by the Executive Directors in time for the proposed public issue. Arrangements to make the public offering on April 22 have been practically concluded except for the determination of price and interest. The underwriters have filed a Registration Statement with the Securities and Exchange Commission for an issue of \$30 million, Southern Italy Development Fund (Cassa per il Mezzogiorno) guaranteed external loan bonds as follows:

\$5 million 4 year bonds due May 1, 1963  
\$5 million 5 year bonds due May 1, 1964  
\$20 million 15 year sinking fund bonds due May 1, 1974

The 4 and 5 year bonds will not be redeemable. The 15 year bonds will be redeemable on or after May 1, 1969 at the option of the Cassa per il Mezzogiorno and also by operation of a sinking fund starting November 1, 1964 and designed to retire the entire issue by maturity. Principal and interest on the bonds will be payable in U. S. dollars.

3. The proceeds of the issue will be applied toward the Cassa per il Mezzogiorno's general program of economic development and rehabilitation in Southern Italy but no allocation has been made to any specific project.

PART II - THE EUROPEAN INVESTMENT BANK LOAN

4. As mentioned in my preliminary report, the European Investment Bank (EIB) will at the same time enter into agreements for a loan to the Cassa per il Mezzogiorno in various currencies of an amount equivalent to Lit. 12.5 billion (\$20 million). The terms and conditions of this loan will be substantially the same as those of the Bank.

PART III - THE BANK LOAN

Terms of the Bank Loan

5. Interest (including commission) would be 5 3/4%. In all other respects the terms would be the same as stated in my preliminary report.

Legal Instruments and Authority

6. The Loan Documents consist of the following: Loan Agreement (No. 1), Guarantee Agreement (No. 2), and Project Agreement (No. 3).

7. The design of the loan follows that of the three previous loans to the Cassa. In this case, however, the Bank's lending has been coordinated with that of the EIB. The terms and conditions of both loans are substantially the same and the two Loan Agreements have been interrelated. Thus the Bank may cancel or require repayment in advance of maturity of a portion of its loan corresponding to any portion of the EIB loan cancelled or repaid in advance of maturity (Schedule 3, paragraph (k) and Section 6.05 (ii)). The Bank will also have the right to require immediate repayment of the principal of its loan if the EIB requires immediate repayment under its Loan Agreement with the Cassa (Section 7.01; Schedule 3, paragraph (i)).

8. As in our previous loans to the Cassa, the Loan and Guarantee Agreements may become effective and be suspended separately with respect to each project and the amount of the loan allocated thereto. There will be the usual Project Agreement, this time with the Societa Meridionale di Elettricit  (SME), Societa Finanziaria Elettrica Nazionale per Azioni ("Finelettrica") and Societa Italiana per le Strade Ferrate Meridionali ("Bastogi") will be additional parties to the Project Agreement, guaranteeing performance of the Agreement and agreeing to become sureties for the performance of all obligations (including financial) of SME to the Cassa.

9. A new feature of this loan is that the Cassa will repay the Bank as it receives repayment from the beneficiary enterprises and this is reflected in the amortization schedule. Due to the fact that the two industrial projects will be repaid by the beneficiary enterprises in 12 years, the average amount outstanding over the life of the loan is substantially reduced. Another new feature is that the Cassa is required to repay both Banks in advance of maturity an amount equivalent to any repayment made by the beneficiary enterprises in advance of maturity (Section 6.05 (i)).

10. We have recently been informed that a general decree of the Government awarding the concession to mine lignite at Mercure to SME is being disputed in the Italian courts. While the EIB and ourselves consider the Government will take steps necessary to give SME a valid concession, the receipt of satisfactory evidence as to the validity of SME's concession has been added as a condition of effectiveness for the Loan and Guarantee Agreements in respect of the power project (Section 8.02).

11. The report of the Committee provided for in Article III, Section 4, paragraph (iii) of the Articles of Agreement of the Bank is attached (No. 4).

The Economy

12. A report on the current economic position and prospects of Italy is attached (No. 5) which shows that the proposed loan is well within Italy's creditworthiness. In view of the unemployment problem and the need to speed up development in the South, it is appropriate for Italy to continue to import long-term capital. However, if the supply of long-term savings from internal sources continues to improve and the capital market to broaden, Italy should need to rely less and less on long-term foreign capital.

The Projects

13. An appraisal report on the projects (R 59-24) was circulated on March 26, 1959 and referred to in my preliminary report.

Compliance with Articles of Agreement

14. I am satisfied that the proposed loan complies with the Articles of Agreement of the Bank.

PART IV - RECOMMENDATIONS

15. I recommend that the Bank at this time make a loan to the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale in an amount in various currencies equivalent to \$20 million to be guaranteed by the Republic of Italy for a term of 20 years with interest, commission and commitment charges and on such other terms as are specified in the attached draft Loan and Guarantee Agreements and that the Executive Directors adopt a resolution to that effect in the form attached (No. 6).

W. A. B. Liff, Vice President  
for Eugene R. Black  
President

Washington, D.C.  
April 13, 1959