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Folder ID:	30486969
Series:	Meeting and event briefing materials
Dates:	03/10/1997 – 03/12/1997
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Meeting: Baroness Chalker

Wednesday, March 12, 1997
4:30 - 6:30 p.m.
JDW Office

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A. CLASSIFICATION

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B. SUBJECT: MEETING: BARONESS CHALKER (B) (Confirmed)
CONTACT: MARTINE DAULTON @ 44-171-917-0410 // FAX: 44-171-582-9968
2/19 - AS CONVEYED BY JDW THRU JANE
2/24 - CFMD. BY FAX
(B) BEING SENT BY BARONESS CHALKER BY FEB. 28 // NO WB BRIEFING PER HA/CM (3/7)
EXC: JDW // ALI (2/24
Brief included:
---Cover note from Callisto Madavo
---Country Updates: Zambia, South Africa, Mozambique, Angola, Malawi, Zimbabwe, Tanzania, Uganda, Kenya, Nigeria, Ghana
---Zambia: Background Note
---Ghana: Hospital Financing

DATE: 03/12/97

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E. COMMENTS:

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The World Bank
Washington, D.C. 20433
U.S.A.

CALLISTO E. MADAVO
Vice President
Africa Region

March 11, 1997

Mr. James D. Wolfensohn

Jim,

As discussed, I have organized a series of meetings for Baroness Chalker with our country directors for those countries that opportunities for consulting work might emerge in the future. We will also look at possibilities at the Regional and subregional levels. But I am staying away from making any specific commitments at this time. Gautam will host a lunch for her Wednesday before she meets with you later that day.

For general background, attached are some notes on countries which we are discussing with the Baroness. Otherwise I have assumed that this will not necessarily be the focus of your personal meeting with her.

Callisto

cc: Mr. Gautam Kaji

Country Updates

BRIEFING NOTE FOR MR. WOLFENSOHN:

MEETING WITH THE RIGHT HONORABLE BARONESS CHALKER OF WALLASEY
MINISTER
OVERSEAS DEVELOPMENT ADMINISTRATION (UK)
MARCH 12, 1997

Meeting Participant

Baroness Lynda Chalker of Wallasey. Minister, Overseas Development Administration

Reasons for a Meeting with Mr. Wolfensohn

- Probably Baroness Chalker's last official visit to Washington in her current capacity.
- We assume that the Baroness will want a personal exchange with you concerning a wide range of topics beyond Africa.

Brief updates on selected African countries

- Prior to this meeting, Baroness Chalker will also meet with Mr. Madavo and Africa regional staff. Given the Baroness' interest in Africa, she may wish to discuss with you some of the countries in which the UK has a particular interest. Brief updates follow.

- **Zambia.**
    - Economic reform program, in place since 1992, is still at risk.
    - Bilaterals have not yet resumed balance of payments (BOP) support.
    - Dialogue - centered on governance issues - between senior Government officials and bilateral representatives is slowly being restored.
    - Government is planning to distribute a document outlining its "governance program" and invite its bilateral and multilateral partners to a meeting in Europe, possibly in April.
    - If successful, that meeting could pave the way for a Consultative Group Meeting around June 1997 and a resumption of some bilateral BOP assistance.
    - Meanwhile, further Bank BOP support for the Zambian program is on hold until one or more bilaterals indicate that at least some bilateral BOP support is likely to resume in 1997 (see attachment 1 for more background info).

- **South Africa.**
    - The Bank's relationship with South Africa is growing stronger, boosted by your recent visit.
    - With the adoption of the GEAR (Growth, Employment, and Redistribution) Program, the Government now has in place a sound framework for growth and poverty reduction.
    - Key challenge: implementation, particularly in improving and expanding service delivery in the poorer urban areas.

- **Mozambique.**
  - Tremendous progress has been made in restoring peace, consolidating democracy, and establishing a sound macroeconomic framework.
  - Need to ensure Mozambique's early access to the HIPC initiative; the decision point is currently planned for mid-1997.
  - Valuation and treatment of debt owed to Russia is a complicating factor.
  - The Bank is considering alternative approaches so that benefits to Mozambique are not delayed in case the current negotiations between Russia and the Paris Club stall.

- **Angola.**
  - Social conditions have significantly worsened as a result of both war and poor economic policies.
  - Formation of the Government of National Unity has been delayed, and everyone is in a "wait and see" mode.
  - Once a new government is in place, special efforts will be needed to put in place a suitable macroeconomic framework and provide a socio-economic environment conducive to reconstruction.

- **Malawi.**
  - The Malawi economic reform program remains on track. GDP grew by more than 9% in 1996 and inflation fell to 7%.
  - Improved priority setting and management of the budget, along with faster progress in civil service reform (an area where the Bank and ODA have been collaborating), need more attention.
  - The Government's program in these areas will be at the center of discussion during the next Consultative Group Meeting in May 1997.

- **Zimbabwe.**
  - Economy has shown strong signs of economic recovery, with GDP up by 8% in 1996.
  - But high fiscal deficits and interest rates persist, and recovery is not likely to be sustainable.
  - Special concern: erosion of social spending, which could undermine Zimbabwe's substantial achievements during the 1980s.
  - Discussions concerning an ESAF program are ongoing, but no agreement has been reached.
  - A Consultative Group Meeting is tentatively planned for late 1997.

- **Tanzania.**
  - Effort over the past 18 months to sustain a stabilization program in Tanzania has made real progress.
  - Recent IMF/IDA mission concluded that the ESAF agreements are being met.
  - IDA is presently finalizing a Structural Adjustment Credit (US$100 million).
  - Updated CAS for Tanzania, emphasizing stabilization, and with growth and poverty reduction as central themes, will be presented to the Board in May.

- **Uganda.**
  - IDA strategy for Uganda continues to focus on sustaining growth and building a stronger poverty reduction program.
  - Macroeconomic program in Uganda remains firmly on track.
  - Next Structural Adjustment Credit (US$100 million) will be negotiated in March/April.
  - Uganda is first in line for the HIPC initiative.
  - Uganda paper for the HIPC Initiative was discussed at the IDA Board on Monday, March 10, and will be discussed at the IMF Board on Wednesday, March 12.

- **Kenya.**
  - 1997 is an election year. In the past, this has led to policy reversals and weakened fiscal controls.
  - Working with other donors, the Bank has been emphasizing the importance of sustaining reform efforts, essential to strengthening private sector confidence.
  - Drought conditions this year have complicated the picture.
  - To help alleviate food shortages, the Bank has agreed with the Government on the lifting of import duties on maize and further steps to liberalize maize marketing (The Baroness may wish to provide an update on her recent visit to Kenya and meeting with President Moi).

- **Nigeria.**
  - Nigeria continues to suffer from poor economic policies and declining incomes.
  - There have been some encouraging signs of late on macroeconomic policy and portfolio implementation.
  - The need to move toward a unified, market-based exchange rate is the chief remaining obstacle in initiating an IMF program.
  - If there were a breakthrough on the economic policy front, a new set of issues would emerge, centered around possible Paris Club debt rescheduling and the feasibility of a limited resumption of Bank lending (there has been no new lending since FY93) even before the political transition scheduled for October 1998.

- **Ghana.**
  - Although recent growth has been reasonable (5% in 1996), inflation has been high, and the macroeconomic situation is shaky.
  - Overspending related to elections contributed to policy slippages in the last year.
  - Through a staff-monitored IMF program, Ghana is moving towards reestablishing a sound macroeconomic framework.
  - An outstanding issue between the British and the Bank has been ODA financing of hospitals with standards that are at odds with our recommendations on health reform policies and investment guidelines (see attachment 2 for more info).

Zambia:
Background Note

Attachment 1: Background on Zambia.

Run- up to November 1996 elections and ESAC II tranche release.

- A strong economic reform program, supported by the Bank, IMF, and bilateral donors, has been in place since 1991. Zambia today has one of the most liberal regimes in Africa (e.g., no capital controls and no import/export controls) and one the most successful privatization programs (over half of 160 parastatals sold; privatization of copper mines underway).

- In recent years, there has been increasing concern from bilaterals on governance issues, primarily related to the conduct of elections, civil liberties, and corruption.

- April 1996 - The Government adopted constitutional amendments precluding former President Kaunda from running (due to non-Zambian ancestry and having already served two terms).

- May 1996 - Kaunda's party UNIP decided to boycott elections; most other parties remained.

- October 1996 - IDA released first tranche (US$45 million) of ESAC II (approved in August 1996) as a bridge to maintain the program in the hope that bilateral financing would resume in 1997. Some donors were concerned that this would undercut their pressure on governance issues.

- November 1996 - National elections were held peacefully. President Chiluba and the MMD party retained office with 80 percent of the vote.

Current Status

- Mid-term review of IMF's ESAF program was approved on February 28, 1997. The economic reform program remains on track (GDP growth of 5% in 1996; inflation down from triple digits in early 1990s to 35% in 1996).

- Next decision point for the Bank will be the US$70 million second tranche release of ERIP (a previous adjustment operation). We have told the Government and the bilaterals that we will not release this money unless there is an indication that some bilateral support will return in 1997 (i.e., we are not prepared to go it alone).

- The Government is attempting to restore dialog on a "one-to-one" basis with key bilaterals in Zambia and is planning to distribute its governance program and invite its bilateral and multilateral partners for a related discussion in April, possibly in London. That meeting could pave the way for a Consultative Group Meeting in June 1997 and the resumption of some bilateral support.

ppomerantz/jtodd *March 10, 1997*

Ghana:
Hospital Financing

Attachment 2: Background on Ghana hospital financing

The Problem. The Bank, along with the ODA and several other donors, is working with the Government to develop a Health Sector Investment Program (HSIP). Project appraisal discovered that three capital projects (regional hospitals) outside of the sector investment program were being financed by British supplier credits at commercial terms. These investments raise four fundamental issues:

- They contradict the sector investment approach which requires all donors and the Government to agree upon a common program (including a common expenditure program);
- They are non-priority investment expenditures with high recurrent costs which will reduce the funds available for other priority health services.
- They are extremely costly with contracts per unit construction costs (per sq. m) of the Cape Coast, Ho, and Sunyani hospitals estimated at $1,890, $2,670, and $2,760 respectively compared with $396-$584 for hospitals built in Ghana and $2,100 for District General Hospitals in the U.K. Procurement was non-competitive and non-transparent.
- They are inconsistent with the fragility of the macroeconomic situation with the total value of these three suppliers credits at about $130m. This will aggravate Ghana's external debt servicing position and undermine its case for non-concessional aid.

The Macroeconomic Constraints. Two critical contraints:

- sharply rising domestic and external debt ("debt trap"). Interest payments (on domestic and external debt) in 1996 were 5.6 percent of GDP forcing the Government to borrow just to finance interest payments in a continuing inflationary environment (inflation averaged 45 percent in 1996);
- international reserves extremely vulnerable, down to only $600m or 3.6 months of imports, due to higher debt-service obligations and lower concessional flows and private transfers. If foreign debt-service exceeds the Government's ability to pay, it will severely jeopardize Ghana's external debt servicing record.

Conclusion. It would be difficult for the Bank and other donors to proceed with a Health SIP unless the donors, including the British, act in accordance with the principles of a SIP and Ghana's macroeconomic constraints.

smichailof *March 10, 1997*