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**Series:** Annual Meetings

**Dates:** 08/30/1988 - 09/28/1988

**Subfonds:** Records of President Barber B. Conable

**Fonds:** Records of the Office of the President

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THE WORLD BANK

Washington, D.C.

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**PUBLIC DISCLOSURE AUTHORIZED**

Annual Meeting - Background

1988



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President Barber Barber Conable - Annual Meeting Files - 1988 - Background

1988 ANNUAL MEETINGS BRIEFName of Country: Nigeria

Date: September 22, 1988

Meeting with: Mr. Alhaji Abubakar Alhaji, Minister of State, Nigeria

Population: 103.1 m (1986)	Estimated Annual Growth Rate: 3.3% (1986-2000)
GNP per capita: \$370 (1987)	
	(\$m)
Total Commitments (by 6/30/88)	3,884.6
of which:	
Bank 67 Operations	3,849.3
IDA 2 Operations	35.3
Total Undisbursed (as of 6/30/88)	1,253.2
Lending Program, FY89-90	2,289.3
	(\$m)
	FY88 Commitments
	342.8
	Disbursements
	139.8
	Amortization
	155.0
	Commitments from
	Special Facility <sup>1/</sup>
	0.0
	Commitments from Special
	Joint Financing <sup>1/</sup>
	0.0
	Commitments from Special
	Program of Assistance <sup>1/</sup>
	0.0

Summary Data	Average		
	1983-87	1988	
GDP growth (%)	-0.3	4.7 <sup>2/</sup>	Aid Group Meeting: None
Export growth (%)	2.4	7.3	Last Meeting: n/a
Import growth (%)	-21.8	-9.4	IMF Status as of: Aug 1988
Current Account Deficit as % GDP	2.3	2.2	(Art. IV; Lapsed Standby)
Gross Debt Service Ratio (%) <sup>3/</sup>	28.1	21.8	
Annual Inflation Rate (CPI)(%)	14.3	25.0	

Background: Nigeria introduced a courageous and comprehensive reform program in 1986 which was supported by a US\$452 million Trade Policy and Export Development Loan in FY86. A second policy based loan of US\$500 million to provide additional support and to help ensure the continued implementation of the reform program is currently scheduled for Board presentation in November/December 1988.

Issues likely to be raised by Delegation

- (1) Timely foreign assistance

Issues to be raised by Bank Management

- (1) IDA eligibility
- (2) Future Bank program
- (3) Implementation problems

Attachments

- (1) Five-year lending program: FY88-92
- (2) Biographical Information
- (3) Capital subscription status

<sup>1/</sup> Not applicable.

<sup>2/</sup> Reflects recovery of agriculture and increase in crude oil production.

<sup>3/</sup> Debt service ratio is from long-term debt and export of goods and non-factor services. Refers to actual rather than scheduled payments; excludes payment of US\$785 million of arrears in 1987 and US\$635 million in 1988.

NIGERIA - 1988 ANNUAL MEETINGS BRIEF

Background

1. Reform Program. Nigeria's Structural Adjustment Program was adopted in June 1986. The keystone of the Program was the introduction of a market-determined exchange rate system in September 1986. Other measures included trade reform and price liberalization. Implementation of the Program's structural measures has been good, but macroeconomic policy management and public expenditure control have been weak. Along with the weakening of oil export revenues, high levels of expenditure has put pressure on the exchange rate, which the authorities have been resisting for domestic political reasons, and this has resulted in a large differential between the exchange rate on the auction and on the interbank market. In addition, sharply rising food prices, resulting from last year's weather-related poor harvest, and the continuing compression of real wages have drawn sharp public criticism. President Babangida took the offensive in late August and made a major policy statement, laying out a broad program of consolidation for the next two years and reaffirming the government's commitment to the policy measures introduced under the 1986 Program. During a recent visit Mr. Jaycox met with the President and was very encouraged by the President's understanding of the issues and his support for reform. It was agreed that the Bank would meet in November with senior government officials to discuss overall development strategy and the Bank's role.
  
2. TIPL Negotiations. We have pursued the continuation and development of the major areas of economic reform -- including supporting macroeconomic policy management and public expenditure control -- through our discussions of the proposed \$500 million Trade and Investment Policy Loan (TIPL). Negotiations are far advanced, but three conditions need to be met before we can present the loan to the Board:
  - (1) A substantial narrowing of the differential between the exchange rate on the auction and the interbank market. The differential is now about 30 percent, indicating that the auction rate is not responding adequately to free market forces.
  - (2) Agreement with the IMF on a new standby arrangement. A central issue in the Fund's negotiations is the domestic credit implications of the fiscal deficit. Discussions with the Fund are far along and are to resume October 10. We hope a letter of intent may be initialled before the end of the month.
  - (3) Satisfactory assurance that the foreign exchange gap for 1988-89 will be closed. Negotiations with the London Club for favorable repayment terms are far advanced and the Paris Club has given a positive indication to the rescheduling of interest on previously rescheduled debt, going beyond its conventional terms. These agreements should be able to close the foreign

exchange gap in 1988-89, estimated on the basis of oil prices at \$15 per barrel. IMF resources that would be made available under a standby would constitute an insurance policy against a further slide in oil prices.

#### Issues Likely to be Raised by the Delegation

1. Timely Foreign Assistance. The delegation is likely to raise the question of the timing of TIPL, arguing that they have done their part and now look to multilateral and bilateral support. You could congratulate them on their policy measures and continuing efforts to maintain and develop the reform program. You might point to the critical issue of foreign exchange management and the need to ensure a sustainable foreign exchange system that is free of administrative controls. This will be necessary to mobilize external financing. You could add that we intend to move quickly on TIPL, as soon as the outstanding matters are resolved, hopefully permitting presentation to the Board in November.

#### Issues to be Raised by Bank Management

The following are a series of talking points that you may wish to draw on:

1. Mr. Jaycox's Visit. You might open discussions by referring to the very productive round of meetings that Mr. Jaycox had during his recent visit to Nigeria (September 12-14), and mention that you are encouraged by the very high level of commitment to the reform program. You should congratulate the delegation on the measures taken and the recent efforts to reach agreement with the London and Paris Clubs. You might ask about the results of the most recent discussions with the representatives of these two Clubs.
2. IDA Eligibility. To provide additional support to maintaining and developing the country's reform program, you were pleased to announce to the Board recently that Nigeria is eligible for IDA funding. They should know that IDA funds are severely constrained, and that currently the Bank is considering an annual amount of up to 75 million SDRs. The situation will have to be further reviewed and a case made in the context of IDA-9. We expect, however, that the Bank's initiative will trigger support from other sources. Nigeria should make the maximum effort to mobilize other resources, including in particular ESAF or SAF support from the IMF, as well as substantial bilateral aid which could be further supported by working toward developing in the near future a concessional aid group.
3. Future Bank Program. As you discussed with the delegation last year, Nigeria's development potential is great and there are a broad range of areas in which the Bank can assist. It is important, however, for us to

work closely with the Government in developing our program to ensure that it has the Government's full support. You may add that you are very glad to hear that there will be a comprehensive review of the Bank's proposed program in early November with senior levels of government. The discussions would cover (1) the size of the Bank's program; (2) the sectoral composition and emphasis of projects and economic work; (3) the role of policy-based lending; and (4) ways to improve the processing and implementation of projects. You might emphasize the need not only to consider the near term income generating sectors and necessary infrastructure support, but, in addition, to assist the longer term development of the social sectors, and to address environmental issues. The population issue is particularly critical. The government took a major step in February this year to approve the National Population Policy and subsequently to establish an institutional base at the Federal level. You should welcome these developments. You may also want to comment that successful implementation of the policy will depend to a large extent on the government's ability to secure broad official and public support and to prepare strong programs involving both government and NGO/private channels. The Bank is now working with the Government to develop a Population Project (FY90).

4. Implementation Problems. You should mention that we are considering an annual lending program of about a billion dollars, but the success of such a program and the ability to transfer substantial resources will ultimately depend on improving implementation performance. The serious delays in the processing and implementation of Bank projects were partly responsible for the slowdown in the Bank's disbursements to Nigeria in FY88, which together with the delay in reaching agreement on TIPL, resulted in a negative resource transfer of about \$250 million. There is now over one billion dollars of undisbursed Bank money in the pipeline. We cannot maintain a large program or assist in mobilizing external financing and concessional aid support with the prospect of such poor performance. You may say that you are pleased that a special task force has been formed to explore these problems and that the Bank will lend whatever assistance it can to help. These matters should be pursued during the proposed joint strategy review in November.

[JW/BF\_AM.nir]

NIGERIA - PROPOSED LENDING PROGRAM FY88-92  
(\$ million)

FY88		FY89		FY90		FY91		FY92	
Tech Education	23.3	Trade Policy II	500.0	Financial Sector	500.0	Adjustment Loan	350.0	Adjustment Loan	150.0
Highway Sector	250.0	Multi-state ADP II	85.2	Tree crops	120.0	Agric. research	50.0	Primary education	100.0
Urban Infrastructure	69.5	Multi-state ADP III	200.0	National Seed	15.0	Health system fund	70.0	Telecommunication	75.0
		Imo Pop/Health	27.6	Nat essential drugs	65.6	National pop.	50.0	Power VIII	250.0
		SME II	270.0	Oyo urban	81.2	Oao condensate	150.0	Water Rehab	240.0
		Refineries rehab.	27.7	Multi-state water I	200.0	Roads (State)	125.0	Multi-state water II	200.0
		Emergency Power	50.0						
		Lagos water supply	173.2						
<b>Total</b>	<b>342.8</b>	<b>Total</b>	<b>1333.7</b>	<b>Total</b>	<b>981.8</b>	<b>Total</b>	<b>795.0</b>	<b>Total</b>	<b>1015.0</b>
No. of projects	3	No. of projects	8	No. of projects	6	No. of projects	6	No. of projects	5
RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM	
None		None		Education univ devt	60.0	Ind training fund	40.0	Railways	150.0
				Energy (Petro. II)	200.0	Rural Finance	100.0	Livestock III	75.0
						Rural Infra.	100.0	Public Enterprise	200.0

a = Standby project

SECTORAL COMPOSITION OF LENDING PROGRAM

	(Number of Operations)		(Amount in US\$ million and percentage shares)			
	FY88-90	FY88-92	FY88-90		FY88-92	
<b>TOTAL</b>	<b>17</b>	<b>29</b>	<b>2658.3</b>	<b>100.0%</b>	<b>4468.3</b>	<b>100.0%</b>
Of which:						
Adjustment loans	2	4	1000.0	37.6%	1500.0	33.6%
Agriculture	4	5	420.2	15.8%	470.2	10.5%
Human Resources (educ/Pl+H)	3	6	116.5	4.4%	336.5	7.5%
Infrastructure (urban/wa)	4	6	523.9	19.7%	963.9	21.6%
Transportation	1	2	250.0	9.4%	375.0	8.4%
Industry	1	2	270.0	10.2%	345.0	7.7%
Energy	2	4	77.7	2.9%	477.7	10.7%

**Alhaji Abubakar Alhaji**

**Minister of State in charge of Budget and Planning, Nigeria**

**Executive Director, MIGA**

Alhaji Abubakar has recently been designated head of the Nigerian delegation to the annual meetings. He was appointed Minister of State in June this year, to be in charge of budget and planning, and to act as a special advisor to the President. He led the Nigerian delegation in the London Club negotiations in August and visited Washington in early September to participate in the MIGA meetings and in operational discussions with the IMF and the Bank.

Prior to this appointment, Alhaji Abubakar served as Permanent Secretary of the Federal Ministry of National Planning from October 1984, after having been Permanent Secretary of the Federal Ministry of Finance for five years.

Alhaji Abubakar is a career civil servant and served as Permanent Secretary with the Federal Ministry of Trade (1975-78) and with the Federal Ministry of Industries (1978-79). He is from a prominent northern Nigerian family and related to the previous Head of State, General Buhari.

Alhaji Abubakar has been very closely associated with and supportive of the Bank since the early 1970s. He was elected Executive Director of MIGA in June (representing Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, Zambia, as well as Nigeria).



Dr. S. P. Okongwu

Minister, Federal Ministry of Finance and Economic Development, Nigeria

Dr. Okongwu was appointed Minister of Finance and Economic Development in January 1986, after serving as Minister for the Federal Ministry of National Planning when the new Government took power in August 1985. His Ministry was later expanded to include planning. In the most recent reorganization, the Ministry's budget and planning functions were transferred to the office of Alhaji Abubakar Alhaji, the Minister of State, leaving Dr. Okongwu limited responsibility for finance and economic development.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had held since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed  
Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982, and during this period has represented the Government in international financial negotiations. He plays a key role in the current discussions with the Paris Club.

After graduating from Barewa College in Zaria in 1959, Alhaji Ahmed worked for the New Nigerian Development Company Limited. He also attended the University of Ife and later studied in England where he earned a diploma in commercial accounting. He served for two years as commissioner for Finance and Economic Development in his home state, Bauchi. Before heading the Central Bank, he served as its Deputy Governor from 1977 to 1982.

Alhaji Ahmed is a Hausa from northern Nigeria and a Muslim. He is married, with four children. He is an associate member of the Association of Certified Accountants.

Alhaji U. K. Bello

Director General, Federal Ministry of Finance and Economic Development

Nigeria

Alhaji U. K. Bello, a career civil servant, was appointed as Permanent Secretary of the Federal Ministry of Finance in October 1984, a position which was recently retitled Director General. Prior to that he was the Economic Secretary in the Cabinet Office, and in the late 1970s Director of External Finance in the Federal Ministry of Finance. In that capacity, he was the Bank's main counterpart in the Federal Government.

## IBRD: CAPITAL SUBSCRIPTION STATUS

AS OF JULY 31, 1988

## NIGERIA

RESOLUTION		SHARES ALLCATED				AMOUNTS TO BE PAID IN FOR UNSUBSCRIBED SHARES B/		NATIONAL CURRENCY UNRELEASED	SUBSCRIPTION	
NO.	ADOPTED	TOTAL	SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US \$ A/ (\$ THOUS.)	PAYABLE IN LOCAL CURRENCY (\$ THOUS.)	FOR SHARES SUBSCRIBED \$ MIL EQ C/	TERMINAL DATE
			NO.	\$ HILLION A/	NO.	\$ HILLION A/				
145	60/09/27	667	667	80.46	0	.00	.00	.00		
218	65/04/30	400	400	48.25	0	.00	.00	.00		
258	70/07/31	85	85	10.25	0	.00	.00	.00		
314	77/02/09	1789	1789	215.82	0	.00	.00	.00		
346	80/01/04	2753	2753	332.11	0	.00	.00	.00		
347	80/01/04	250	250	30.16	0	.00	.00	.00		
395	84/08/30	822	822	99.16	0	.00	.00	.00		
424	88/02/03	235	0	.00	235	28.35	248.06	2,232.50		FEB 3, 89
424A	88/02/03	101	0	.00	101	12.18	106.61	959.50		JUL 12, 89
425	88/04/27	5553	0	.00	5553	669.89	2,009.66	18,086.93		SEP 30, 93
TOTAL		12655	6766	816.22	5889	710.42	2,364.33	21,278.93	50.6	

A/ ON THE BASIS OF THE CURRENT SUBSCRIPTION PRICE OF \$120,635 PER SHARE.

B/ FOR EACH SHARE, THE SUBSCRIBING MEMBER IS REQUIRED TO PAY AT THE TIME OF SUBSCRIPTION A PORTION OF THE SUBSCRIPTION PRICE IN GOLD OR US DOLLAR AND ANOTHER PORTION IN LOCAL CURRENCY. THE LOCAL CURRENCY PAYMENT MAY BE SUBSTITUTED BY NON-INTEREST-BEARING NOTES. THE LOCAL CURRENCY RECEIVED FOR SUBSCRIPTION PAYMENTS, INCLUDING THE PORTION SUBSTITUTED BY NON-INTEREST-BEARING NOTES, CAN BE USED ONLY FOR PAYING BANK'S ADMINISTRATIVE EXPENSES IN THAT CURRENCY UNLESS RELEASED FOR LENDING.

C/ AS OF JUNE 30, 1988.

FRM  
08/10/88  
11.18.15

1988 ANNUAL MEETINGS BRIEFName of Country: Nigeria

Date: September 22, 1988

Meeting with: Mr. Alhaji Abubakar Alhaji, Minister of State, Nigeria

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		Joint Financing <sup>1/</sup>	0.0
		Commitments from Special	
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Gross Debt Service Ratio (%) <sup>3/</sup>	28.1	21.8
Annual Inflation Rate (CPI)(%)	14.3	25.0

Aid Group Meeting: None  
 Last Meeting: n/a  
 IMF Status as of: Aug 1988  
 (Art. IV; Lapsed Standby)

Background: Nigeria introduced a courageous and comprehensive reform program in 1986 which was supported by a US\$452 million Trade Policy and Export Development Loan in FY86. A second policy based loan of US\$500 million to provide additional support and to help ensure the continued implementation of the reform program is currently scheduled for Board presentation in November/December 1988.

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- (1) IDA eligibility
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- (2) Biographical Information
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[JW/BF\_AM.nir]



NIGERIA - PROPOSED LENDING PROGRAM FY88-92  
(\$ million)

FY88		FY89		FY90		FY91		FY92	
Tech Education	23.3	Trade Policy II	500.0	s Financial Sector	500.0	s Adjustment Loan	350.0	Adjustment Loan	150.0
Highway Sector	250.0	Multi-state ADP II	85.2	s Tree crops	120.0	Agric. research	50.0	s Primary education	100.0
Urban Infrastructure	69.5	Multi-state ADP III	200.0	National Seed	15.0	s Health system fund	70.0	s Telecommunication	75.0
		Imo Pop/Health	27.6	s Nat essential drugs	65.6	s National pop.	50.0	s Power VIII	250.0
		SME II	270.0	Oyo urban	81.2	s Oso condensate	150.0	s Water Rehab	240.0
		Refineries rehab.	27.7	Multi-state water I	200.0	Roads (State)	125.0	Multi-state water II	200.0
		Emergency Power	50.0						
		Lagos water supply	173.2						
Total	342.8	Total	1333.7	Total	981.8	Total	795.0	Total	1015.0
No. of projects	3	No. of projects	8	No. of projects	6	No. of projects	6	No. of projects	6
RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM	
None		None		Education univ devt	60.0	Ind training fund	40.0	Railways	150.0
				Energy (Petro. II)	200.0	Rural Finance	100.0	Livestock III	75.0
						Rural Infra.	100.0	Public Enterprise	200.0

s = Standby project

## SECTORAL COMPOSITION OF LENDING PROGRAM

	(Number of Operations)		(Amount in US\$ million and percentage shares)			
	FY88-90	FY88-92	FY88-90		FY88-92	
	-----	-----	-----	-----	-----	-----
TOTAL	17	29	2658.3	100.0%	4468.3	100.0%
Of which:						
Adjustment loans	2	4	1000.0	37.6%	1500.0	33.5%
Agriculture	4	5	420.2	15.8%	470.2	10.5%
Human Resources (educ/PtN)	3	6	116.5	4.4%	336.5	7.5%
Infrastructure (urban/wr)	4	6	523.9	19.7%	963.9	21.6%
Transportation	1	2	250.0	9.4%	375.0	8.4%
Industry	1	2	270.0	10.2%	345.0	7.7%
Energy	2	4	77.7	2.9%	477.7	10.7%

**Alhaji Abubakar Alhaji**

**Minister of State in charge of Budget and Planning, Nigeria**

**Executive Director, MIGA**

Alhaji Abubakar has recently been designated head of the Nigerian delegation to the annual meetings. He was appointed Minister of State in June this year, to be in charge of budget and planning, and to act as a special advisor to the President. He led the Nigerian delegation in the London Club negotiations in August and visited Washington in early September to participate in the MIGA meetings and in operational discussions with the IMF and the Bank.

Prior to this appointment, Alhaji Abubakar served as Permanent Secretary of the Federal Ministry of National Planning from October 1984, after having been Permanent Secretary of the Federal Ministry of Finance for five years.

Alhaji Abubakar is a career civil servant and served as Permanent Secretary with the Federal Ministry of Trade (1975-78) and with the Federal Ministry of Industries (1978-79). He is from a prominent northern Nigerian family and related to the previous Head of State, General Buhari.

Alhaji Abubakar has been very closely associated with and supportive of the Bank since the early 1970s. He was elected Executive Director of MIGA in June (representing Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, Zambia, as well as Nigeria).

Dr. S. P. Okongwu

Minister, Federal Ministry of Finance and Economic Development, Nigeria

Dr. Okongwu was appointed Minister of Finance and Economic Development in January 1986, after serving as Minister for the Federal Ministry of National Planning when the new Government took power in August 1985. His Ministry was later expanded to include planning. In the most recent reorganization, the Ministry's budget and planning functions were transferred to the office of Alhaji Abubakar Alhaji, the Minister of State, leaving Dr. Okongwu limited responsibility for finance and economic development.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had held since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed  
Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982, and during this period has represented the Government in international financial negotiations. He plays a key role in the current discussions with the Paris Club.

After graduating from Barewa College in Zaria in 1959, Alhaji Ahmed worked for the New Nigerian Development Company Limited. He also attended the University of Ife and later studied in England where he earned a diploma in commercial accounting. He served for two years as commissioner for Finance and Economic Development in his home state, Bauchi. Before heading the Central Bank, he served as its Deputy Governor from 1977 to 1982.

Alhaji Ahmed is a Hausa from northern Nigeria and a Muslim. He is married, with four children. He is an associate member of the Association of Certified Accountants.

Alhaji U. K. Bello

Director General, Federal Ministry of Finance and Economic Development

Nigeria

Alhaji U. K. Bello, a career civil servant, was appointed as Permanent Secretary of the Federal Ministry of Finance in October 1984, a position which was recently retitled Director General. Prior to that he was the Economic Secretary in the Cabinet Office, and in the late 1970s Director of External Finance in the Federal Ministry of Finance. In that capacity, he was the Bank's main counterpart in the Federal Government.

## IBRD: CAPITAL SUBSCRIPTION STATUS

AS OF JULY 31, 1988

## NIGERIA

RESOLUTION		SHARES ALLOCATED				AMOUNTS TO BE PAID IN FOR UNSUBSCRIBED SHARES B/		NATIONAL CURRENCY UNRELEASED	SUBSCRIPTION	
NO.	ADOPTED	TOTAL	SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US \$ A/ (\$ THOUS.)	PAYABLE IN LOCAL CURRENCY (\$ THOUS.)	FOR SHARES SUBSCRIBED \$ MIL EQ C/	TERMINAL DATE
			NO.	\$ MILLION A/	NO.	\$ MILLION A/				
145	60/09/27	667	667	80.46	0	.00	.00	.00		
218	65/04/30	400	400	48.25	0	.00	.00	.00		
258	70/07/31	85	85	10.25	0	.00	.00	.00		
314	77/02/09	1789	1789	215.82	0	.00	.00	.00		
346	80/01/04	2753	2753	332.11	0	.00	.00	.00		
347	80/01/04	250	250	30.16	0	.00	.00	.00		
395	84/08/30	822	822	99.16	0	.00	.00	.00		
424	88/02/03	235	0	.00	235	28.35	248.06	2,232.50		FEB 3, 89
424A	88/02/03	101	0	.00	101	12.18	106.61	959.50		JUL 12, 89
425	88/04/27	5553	0	.00	5553	669.89	2,009.66	18,086.93		SEP 30, 93
TOTAL		12655	6766	816.22	5889	710.42	2,364.33	21,278.93	50.6	

A/ ON THE BASIS OF THE CURRENT SUBSCRIPTION PRICE OF \$120.635 PER SHARE.

B/ FOR EACH SHARE, THE SUBSCRIBING MEMBER IS REQUIRED TO PAY AT THE TIME OF SUBSCRIPTION A PORTION OF THE SUBSCRIPTION PRICE IN GOLD OR US DOLLAR AND ANOTHER PORTION IN LOCAL CURRENCY. THE LOCAL CURRENCY PAYMENT MAY BE SUBSTITUTED BY NON-INTEREST-BEARING NOTES. THE LOCAL CURRENCY RECEIVED FOR SUBSCRIPTION PAYMENTS, INCLUDING THE PORTION SUBSTITUTED BY NON-INTEREST-BEARING NOTES, CAN BE USED ONLY FOR PAYING BANK'S ADMINISTRATIVE EXPENSES IN THAT CURRENCY UNLESS RELEASED FOR LENDING.

C/ AS OF JUNE 30, 1988.

FRM

08/10/88

11.18.15

BRIEFS PROVIDED FOR BACKGROUND INFORMATION ONLY  
(NO MEETINGS SCHEDULED WITH MR. CONABLE)

Algeria

Cote d'Ivoire

Ecuador

Hungary

Jordan

Morocco

Nepal

Poland

Portugal

Sri Lanka

Switzerland

Thailand

Tunisia

Venezuela

Zaire

1988 ANNUAL MEETING BRIEFSName of Country: ALGERIA

Date: 09/02/88

Meeting with: Mr. Abdelaziz Khellef  
Minister of Finance and  
Bank GovernorPopulation: 22.9 m. (1987) Estimated Population Growth Rate  
3.06% (1987)GNP per capita: \$2906.9\* (1987) \* At official, highly overvalued  
exchange rate

	(\$m)		(\$m)
Total Commitments to date:	2259.4	FY88: Commitments	391.0
of which (FY 88):		Gross disbursements	174.9
Bank (36 operations)	2259.4	Amortization	99.3
Total Undisbursed:	1202.5		
Lending Program (FY89-90)	818.5		

SUMMARY DATA

	Avg. 84-87*	1988 (est.)	
	(%)	(%)	
GDP growth	3.0	2.0	Aid Group: None
Export growth	3.2	5.3	Last Meeting: n.a.
Import growth	-10.6	-7.5	IMF status:
Current Account Deficit / GDP	0.9	0.8	Only Article IV
*Debt Service Ratio ds/xgs	41.2	51.4	consultation
Inflation Rate	8.4	12.0	
*Including Workers Remittances			

BACKGROUND

The 1986 dramatic decline in oil prices constituted a terms-of-trade shock equivalent to about 15% of GDP and has resulted in severe import compression and much slower economic growth. However, it has also served to accelerate Algeria's pace of economic reform from a planned economy towards a more decentralized incentive-oriented system.

ISSUES

Part I: Issues Likely to be Raised by the Delegation  
1. Bank Support for Algeria's reform program.

Part II: Issues to be Raised by Senior Bank Management  
1. Algeria's reform program.

Attachments

FIVE-YEAR LENDING PROGRAM: FY89-92 (FY88 actual)  
Biographical Information



ALGERIABACKGROUND

1. Between 1965 and 1978, Algeria undertook a massive industrialization program consistent with the country's political and economic philosophy of a highly centralized and planned economy. In the 1970s, the economy enjoyed high GDP growth rates of about 8% p.a. and rapid employment creation, resulting from strong industrial growth, development of the hydrocarbon industry, and high investment and savings rates. During this period, the country also resorted to sizeable external financial borrowing to realize its massive investment program.
2. Since 1979, the emphasis in economic policy has gradually shifted away from investment in heavy industries towards the development of light industries aimed at improving living standards. The eradication of urban and rural poverty, and the development of agriculture and the social sectors were also emphasized. At the same time, the need for industrial and administrative decentralization and the fostering of a small private sector have also been recognized as policy objectives.
3. Hydrocarbons are the dominant natural resource of the country. Given current production levels of about 33-34 million tons p.a., oil production should last for about another 30 years without any significant new discoveries. The country's gas reserves, the fifth largest in the world, are immense and to date only 17% of proven reserves have been depleted. In 1987, the hydrocarbon industry accounted for 13% of GDP (even after the price fall) and petroleum-related products provided over 95% of foreign exchange earnings, and 40% of budgetary revenues.
4. Although the ratio of Algeria's external debt to exports (170%) is relatively low, its debt service ratio is now over 50%. This is due to the relatively high cost of the debt contracted essentially on commercial terms, to a bunching of maturities particularly in 1988 and 1989 and to the decline in oil prices. This liquidity squeeze should gradually be overcome through some restructuring of the debt into longer maturities and the expansion of non-hydrocarbon exports and of workers remittances in the course of the adjustment program. In addition a firming up of petroleum prices would greatly alleviate the pressure on the BP.
5. The 1986 decline in oil prices and export revenues has led to dramatic cuts in imports and investment. It also reinforced the recognition by the country's political decision makers that further structural economic adjustment needed to take place. As a result the Government has already started a program of major economic reform and the period up to the mid 1990s is likely to be one of dramatic transition. The essential feature of this change is to replace tightly centralized economic planning by a much more decentralized system, thus setting the ground for a larger role of market forces in the economy. A parallel effort is to move the economy from near complete dependence on hydrocarbons to a broader base of export earnings and sources of growth.

6. Decentralizing the Algerian economy and allowing market incentives to play a more important role in resource allocation will require a strengthening of macroeconomic management, transparent policies in the area of trade, prices, labor and interest rates, and getting economic actors used to the idea of taking risks and accepting negative results without ultimate recourse to Government "bail-outs". The Government has initiated a series of courageous and far reaching reforms in the agricultural, industrial, and financial sectors aiming at providing a larger autonomy in economic decision-making to farms, enterprises and banks. It will take time to implement such extensive change, and the Government will be vulnerable during the transition period.

7. The accelerated pace of internal economic reform has also affected the nature and scope of the country's relationship with the Bank. Over the past two years our dialogue, though still discreet, has broadened considerably to encompass sector and macro policies, and the level and frequency of Bank staff contacts with key policy makers has been enhanced. The Government is now seeking Bank advice on the design and implementation of various aspects of the reform program and has also expressed an interest in a higher level of financial support from the Bank.

#### ISSUES

##### Part I: Issues Likely to be Raised by the Delegation

1. (a) Bank Support for Algeria's Reform Program: The Algerian delegation is likely to ask for greater Bank support to help it implement major economic reform while coping with resource shortages due to the deterioration of the terms of trade. Specifically, they would like an expanded ESW/Technical assistance program, a substantial and rapid increase in the Bank's overall financial support, as well as the introduction of quick disbursing, non-project lending. At the same time, the Government remains sensitive to "explicit conditionality" particularly if expressed ex ante in legal documents and the delegation may emphasize the need for a subtle and "understanding" approach to this issue.

(b) Recommended Position: You may wish to point out that in recognition of Algeria's commendable reform efforts, the Bank has in fact already stepped up the nature and volume of its support. Lending increased from US\$680 million for three operations during the FY82 to FY86 period to US\$855 in FY87 and FY88 for seven operations. Moreover, an additional US\$300 million was generated in co-financing during this latter period. In so far as higher lending - and in particular quick-disbursing lending - is concerned, we fully recognize the country's tight resource position for the coming years as well as the need to ensure that the economic reform efforts are not unduly constrained by a shortage of foreign exchange. It is in that context that an Agrarian Reform Support Loan is being prepared and a Financial Sector Restructuring Project is under consideration. However, it is also important for both sides to understand each other's constraints so as to work

together to overcome them. On our side, proceeding with a larger and more diversified lending program requires basic agreement on a clearly articulated medium-term macroeconomic framework which would serve as a "context" for our various operations and for our overall dialogue. As regards conditionality, we appreciate the Government's sensitivities on this issue and will seek ways to take these into account in loan documentation. However, it is also a fact that we need to communicate to our Board not only the general objectives for Bank-supported projects but also the specific targets on sector policy or project implementation that have been agreed with the borrower. In short, the path to greater collaboration will not be problem free, but we are confident that practical and pragmatic solutions will be found to resolve these problems as they arise. The key to achieving this will be continued improvement in our policy dialogue and frequent and frank discussions with the principal decision makers on the implementation of the reform program and on its implications for the design and timing of the Bank's support. Finally, you may wish to point out that the Bank's contribution could usefully be complemented by continuing recourse to financial markets.

Part II: Issues to be Raised by Senior Bank Management

1. (a) The Scope and Timing of Incentive Reform: The first phase of the reform program (institutional and organizational change, autonomy and decentralization) is now well underway in the agricultural sector (where large state farms have been replaced by family cooperatives) and is being implemented in the financial and industrial sectors. The Government's strategy is to follow closely with a second phase focussing much more heavily on the liberalization of the incentive system (prices, interest rates, exchange rates). This broad strategy is supported by Regional Management but its success rests on rapid and determined follow up of the second phase.

(b) Recommended Position: You may wish to ask the Minister what are the Government's plans to liberalize the incentive/price system, i.e., what specific measures are planned and when? You may wish to point out that we appreciate the sensitive and difficult nature of reforming prices and other incentives in any economy, but based on the Bank's experience of supporting economic reform programs in other countries, it is also clear that the reform of the process of determination of factor and commodity prices is a key element of the program's overall success.

ALGERIA  
FY88-93 Lending Program  
(in millions of US dollars)

	FY88 (Actual)	FY89	FY90	FY91	FY92	Sector Total (FY88-92)
<u>Agriculture</u>						
Irrigation Engineering	14.0					
Agricultural Credit		110.0				
West Mitidja Irrigation (S)			80.0			
Research & Extension			40.0			
Agrarian Reform Sup. Loan(S)			150.0			
Medium Scale Irrigation (S)				50.0		
Forestry				40.0		
Agricultural Credit II					150.0	
Desert Irrigation (S)					50.0	
ASAL II					200.0	
Sub-total	14.0	110.0	270.0	90.0	400.0	884.0
<u>Human Resources</u>						
Vocational Training	54.0					
Health Management			20.0			
Higher Educ/Science Tech.			50.0			
Family Planning II (S)				20.0		
Sub-total	54.0		70.0	20.0		144.0
<u>Energy/Industry</u>						
Power III	160.0					
Bank Audit Training		15.0				
Pilot Ind. Eff. I		50.0				
Financial Sector			250.0			
Industrial Sector				150.0		
Power IV (S)					100.0	
Telecommunications II (S)					100.0	
Heavy Industry (S)					200.0	
Sub-total	160.0	65.0	250.0	150.0	400.0	1,025.0
<u>Infrastructure</u>						
Rail II	143.0					
Ports III		53.5				
Highways VI (S)				120.0		
Regional Development (S)				100.0		
Railways III (S)					150.0	
Sub-total	143.0	53.5		220.0	150.0	566.5
<u>Other</u>						
"B" Loan	20.0					
Sub-total	20.0					20.0
TOTAL	<u>391.0</u>	<u>228.5</u>	<u>590.0</u>	<u>480.0</u>	<u>950.0</u>	<u>2,639.5</u>
Active Reserve Projects:						
Energy (Sonatrach)			50.0			
No. of Operations <sup>A/</sup>	5	4	6	6	7	35

a/ Excluding Active Reserve Projects.

Attachment II

ALGERIA

BIOGRAPHICAL INFORMATION

Mr.A. Khellef, Minister of Finance and Bank Governor

Personal: Born February 11, 1944.  
Married; three children.

Education: Economist.

Career: 1965-68: Algerian Power Utility (SONELGAZ)  
1969-71: Director, Economics Department, Public Construction  
Materials Company (S.N.M.C.)  
1972-77: Director General, Planning and Industrial Development  
Department, Ministry of Industry and Energy  
1977-78: Secretary General, Ministry of Light Industry  
1979: Central Committee of the National Liberation Front  
(F.L.N.)  
1980-85: Minister of Commerce  
1986 - : Minister of Finance

List of other Delegation members:

- Mr. Nououia, Governor of the Central Bank and Fund Governor.
- Mr. Khelifi, Director of External Financing, Ministry of Finance.
- Mr. Benbitour, Director of Studies and Programs, Ministry of Finance.
- Mr. Oualitsene, Deputy Director of Multilateral Financial Relations,  
Ministry of Finance.
- Mr. Lasli, Protocol Officer, Ministry of Finance.

1988 ANNUAL MEETINGS BRIEF

Name of Country: COTE D'IVOIRE

Date: September 2, 1988

Meeting with: Abdoulaye Koné, Minister of Economy and Finance

Population: 10.4 m (1986)

GNP per capita: US\$720 (1986)

Total commitments to date: US\$1914.22

of which:

Bank: US\$1906.72 million

IDA: US\$7.50 million

Total Undisbursed: US\$275.33

Lending Program: FY89-90: US\$484

Estimated Growth Rate: 3.6 % ;

FY88 Commitments: 57.40 million

Disbursements: US\$261.2 million

Amortization: US\$105.7 million

Commitments from

Special Facility 1/: None

Commitments from Special Joint

Financing 1/: None

Commitments from Special

Program of Assistance 1/: None

Summary Data

	<u>Average</u>	
	<u>1983-87</u>	<u>1988</u>
GDP growth	0.3	1.0
Export growth	2.2	0.7
Import growth	-0.8	-0.4
Current Acc. balance		
% GDP	-6.3	-7.9
Gross Debt Service Ratio	28.1	55.9
Annual Inflation Rate	1.7	5.1

Aid Group Meeting: None

Last Meeting:

IMF Status as of: August 1988,  
Standby is inoperative

Background: Côte d'Ivoire is going through a severe financial crisis, largely due to external factors. The Public Sector gap is being financed through the accumulation of domestic and external arrears. The CAISSTAB is withholding cocoa sales since July 1987 in an effort to drive up world prices, the stockpiling being financed through money creation. The Government is still reluctant to take measures associated with political risks. Meanwhile, the Bank's financial support is on hold awaiting decisions to resolve the financial crisis.

Issues likely to be raised by delegation:

- Bank's net transfers.
- SECALs.
- Support to growth.
- The cocoa dilemma.

Issues to be raised by Bank Management:

- Financial strategy.
- Structural adjustment.
- Capital subscription status.

Attachments:

- Five-year lending program: FY88-92.
- Biographical information.
- Status of ESAL.
- Capital subscription status.

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1/ Africa Region Only

Côte d'Ivoire

Annual Meeting Brief

I. Background

1. Since the end of 1986, Côte d'Ivoire has been going through a severe financial and economic strain, largely due to a sharp decline in the international prices for its major export crops, cocoa and coffee, as well as to a depreciation of the US dollar. Since May 1987, it has reached agreements with the Paris and London Clubs and adopted an IMF program, but in the face of a continuing unfavorable external environment and lax implementation of domestic policies, the country complied neither with IMF conditionality nor with agreements signed with the Clubs. The IMF program is inoperative and the Bank's adjustment lending is on hold.

2. Côte d'Ivoire's financial crisis is mounting by the day as fiscal revenues are falling short of expected levels, largely due to lower economic activity but also alarming fraud and tax evasion. At the same time the banking system is becoming illiquid because of shrinking public sector net deposits and larger capital outflows.

3. The public sector gap, estimated at about CFA 150 billion for 1988, is being financed mainly through the accumulation of arrears (both domestic and external, mainly vis-à-vis the London Club) and BCEAO financing of cocoa stocks (about 150,000 tons) that the President hopes to sell over the next months for a "good price".

4. In response to the Bank's/IMF call for an additional fiscal effort amounting to CFA 100 billion, a Government committee has submitted proposals to the President, who continues, however, to entertain a less pessimistic view of the country's financial and economic situation. He believes, in particular, that assistance from RCI's main partners and his policy of withholding cocoa sales to drive prices up will eventually be sufficient to ease the financial strain. Hence, it is very likely that the Ivorian delegation will bring to the fore the need for stronger Bank assistance. The Bank, on the other hand, is stressing the need for a viable financial and macroeconomic framework which would be conducive to renewed higher investment and growth.

II. Issues likely to be raised by the delegation

5. Bank's Net Transfers. The Ivorians are likely to indicate that the Bank's net transfers to RCI are significantly negative and that the country is encountering enormous difficulties in servicing its debt to the Bank. The President, however, has instructed the Government to service the Bank's debt albeit often with substantial delays. The delegation is likely to express the view that the Bank does not seem to be sensitive enough to the country's difficult political and social constraints.

- o You may wish to emphasize that while we are very sympathetic and recognize the implications of the collapse of commodity prices, it is urgent for Côte d'Ivoire to take new domestic measures to strengthen revenue collection and reduce public expenditures.
6. SECALs. The delegation is expected to press for quicker conclusion of negotiations of the sector adjustment programs--for agriculture, energy and water--which have been prepared.
- o You may wish to indicate that a satisfactory macroeconomic framework will need to be elaborated first; in addition a number of technical issues need to be addressed.
7. Support to growth. The delegation might ask for advice on how to eventually compensate farmers for the loss of income and for support towards the agricultural medium-term development program which is based mainly on food crop development.
- o You may wish to indicate that the Bank has been supportive of development in areas of comparative advantage (rubber, oil palm) and will continue to do so. The ASAL, under preparation aims also at bringing about reforms conducive to higher growth. Over the few coming years, the Bank intends to provide funding for the agricultural sector through three main projects i.e.: forestry, agricultural services and young farmers. The latter project should help resettlement of the youth in rural areas and stem migration to urban areas.
8. The cocoa dilemma. The world price of cocoa has been plummeting, largely due to an expected growing excess supply. In RCI cocoa continues to expand because it is very profitable for the farmer to produce cocoa at the present farm gate price level of CFA 400 per kg, much more so than coffee which the farmer sells at the same price. As a consequence, coffee production has declined to the point where RCI is not meeting its quota, while the net losses on cocoa sales are expected to amount to CFA 50 billion in 1988. The delegation might indicate that external pressure is mounting on the Government to reduce the producer price of cocoa. The delegation might also argue that RCI has been pursuing austerity since the beginning of the eighties and yet it is asked to do more even though RCI does not receive a fair price for its exports.
- o You may wish to stress to the delegation that we consider it vital for Côte d'Ivoire to strengthen its adjustment program with the objective of reducing the fiscal burden of the cocoa subsector, restoring budget and balance of payments equilibria and lessening the country's dependence on the export of cocoa beans.

### III. Issues to be raised by Bank management

9. Financial strategy. The Government is now putting the highest priority on maintaining the producer prices for cocoa and coffee at CFA 400



per kg, while considering to finance the fiscal gap by either the accumulation of arrears or the reduction of current expenditures.

- o We should recommend a balanced burden-sharing approach which would involve a combination of cocoa producer price reduction and current expenditure cuts.

10. Structural Adjustment. The key to renewed growth is higher private investment in new productive activities. Without credible public finance management investors will be frightened away. In addition, it is vital for Côte d'Ivoire to lower production costs, such as wages by reforming the labor laws, utility costs by better management and transport costs by deregulation and lower fuel costs.

11. The three SECALs which are under preparation (Agriculture, Energy and Water) are designed to help reestablish the conditions for growth.

- o We should underscore the importance of the price and policy reforms that are supported by the SECALs and the Bank's willingness to support macroeconomic reforms through a possible SAL IV.

12. This program could encompass the following major themes: (i) rationalization of public finances involving resource mobilization and expenditure reforms; (ii) financial sector reforms; and (iii) enhancing the competitiveness of Ivorian enterprises.

13. Capital subscription. RCI has been allotted 100 shares, equivalent to US\$12.06 million, under Resolution No. 395 of 1984. The Government has conveyed to the Bank its intention to subscribe to this allotment. We are, however, still awaiting the MEMORANDUM OF LAW (legal opinion) on this matter from the Government.

- o The terminal date for this subscription is December 31, 1988. You may wish to remind the Government to expedite all action required to complete this subscription prior to this date.

14. Under the 1988 General Capital Increase, RCI's allotment is 1104 shares equivalent to US\$133.18 million. The actual amounts required to be paid in are, however, only US\$105,560 and the equivalent of US\$950,000 in local currency.

- o Although the terminal date for this subscription is September 30, 1993, you may wish to encourage the Government to decide on this matter as soon as possible.

COTE d'IVOIRE

Proposed Lending Program FY 88-93  
(US\$ million)

	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>	<u>TOTAL</u>
<u>Macroeconomic Lending</u>						
Economic Management (90S)		10.0				10.0
SAL IV			200.0			200.0
SAL V					150.0	150.0
<u>Agriculture</u>						
Agric. Sect. Adj.	150.0					150.0
Forestry III	60.0					60.0
Young Farmers (91S)			20.0			20.0
Export Promotion				30.0		30.0
Agroprocessing (93S)					50.0	50.0
Agricultural Services		60.0	60.0			120.0
<u>Industry/Energy</u>						
Energy Sect. Adj. (90S)		100.0				100.0
Power (93S)					100.0	100.0
Telecommunication (92S)				40.0		40.0
<u>Infrastructure</u>						
Lagoon	19.0					19.0
Municipal Dev. (91S)			25.0			25.0
Transport Sect.			21.0			21.0
Water Supply and Sanit. (90S)		85.0				85.0
<u>Population/Human Resources</u>						
Hum. Res. Adj. I			60.0			60.0
	<u>229.0</u>	<u>255.0</u>	<u>305.5</u>	<u>211.0</u>	<u>300.0</u>	<u>1300.0</u>

August, 1988

Biographical Notes

Mr. Abdoulaye Koné  
Minister of Economy and Finance  
Republic of Côte d'Ivoire

Mr. Koné has been Minister of Economy and Finance and Governor of the World Bank and IMF since February 1981. He was Minister of Economy, Finance, Planning and Industry (1977 to 1981); Minister of the Budget (1976 to 1977); Director of the Investment Budget (1967 to 1976); and Director of the Municipality of Bouaké (1967 to 1971). He was born in 1935 and holds a degree from the French "Ecole Nationale du Trésor" and a Law degree. Since the beginning of the structural adjustment program in 1981, Mr. Koné has been our principal counterpart in our dialogue on macroeconomic management and coordination. In this context, Mr. Koné has tended to focus more on short-term policy issues rather than on medium-term policy measures. The latter task is now to fall under the authority of Oumar Diarra, the new Minister of Plan.

Energy Sector Adjustment Loan (ESAL)

Following appraisal, Government tabled on July 6, 1988, its draft of a Statement of Energy Policy and annexed Action Program. The main outstanding issues, communicated to Government on July 22, are:

- (1) The responsibility for preparation and execution of power sector projects, and the implications for the reorganization of the power utility and the functioning of DCGTx in the sector;
- (2) the approach to electricity tariff reform and the implications for the financial restructuring of the power utility; and
- (3) the incorporation in the adjustment program of many monitorable actions already identified, thus strengthening the Government commitment to the program.

DCGTx claims that the Government's position of July 6 is final. The African Development Bank, our most important cofinancier, signed a loan agreement with Côte d'Ivoire on July 14, but the AfDB Board has made its approval conditional on an agreement of all co-financiers on the Statement of Energy Policy. Therefore, the current stalemate between World Bank and DCGTx also blocks the effectiveness of the AfDB loan already negotiated.

IBRD: CAPITAL SUBSCRIPTION STATUS

AS OF JULY 31, 1988

CAMEROON

RESOLUTION		SHARES ALLOCATED				AMOUNTS TO BE PAID IN FOR		NATIONAL CURRENCY UNRELEASED FOR SHARES SUBSCRIBED	SUBSCRIPTION TERMINAL DATE
		TOTAL	SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US \$ A/		
NO.	ADOPTED		NO.	\$ MILLION A/	NO.	\$ MILLION A/	(\$ THOUS.)	(\$ THOUS.)	\$ MIL EQ C/
163	62/09/18	200	200	24.13	0	.00	.00	.00	
258	70/07/31	95	95	11.46	0	.00	.00	.00	
314	77/02/09	46	46	5.55	0	.00	.00	.00	
346	80/01/04	230	230	27.75	0	.00	.00	.00	
347	80/01/04	250	250	30.16	0	.00	.00	.00	
395	84/06/10	36	0	.00	36	4.34	38.00	342.00	DEC 31, 88
425	88/04/27	670	0	.00	670	80.83	242.48	2,182.29	SEP 30, 93
TOTAL		1527	821	99.04	706	85.17	280.48	2,524.29	3.8

A/ ON THE BASIS OF THE CURRENT SUBSCRIPTION PRICE OF \$120,635 PER SHARE.

B/ FOR EACH SHARE, THE SUBSCRIBING MEMBER IS REQUIRED TO PAY AT THE TIME OF SUBSCRIPTION A PORTION OF THE SUBSCRIPTION PRICE IN GOLD OR US DOLLAR AND ANOTHER PORTION IN LOCAL CURRENCY. THE LOCAL CURRENCY PAYMENT MAY BE SUBSTITUTED BY NON-INTEREST-BEARING NOTES. THE LOCAL CURRENCY RECEIVED FOR SUBSCRIPTION PAYMENTS, INCLUDING THE PORTION SUBSTITUTED BY NON-INTEREST-BEARING NOTES, CAN BE USED ONLY FOR PAYING BANK'S ADMINISTRATIVE EXPENSES IN THAT CURRENCY UNLESS RELEASED FOR LENDING.

C/ AS OF JUNE 30, 1988.

COUNTRY: ECUADOR

DELEGATION: Mr. Gallardo, Minister of Finance  
Mr. Pachano, President, Monetary Board

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YOUR QUESTIONS AND POINTS OF EMPHASIS:

- (a) New economic team has implemented emergency stabilization program. What is strategy to extend reform measures to further reduce public sector deficit (domestic fuel prices, Central Bank interest rates, exchange rate, export trade regime, public finance reform) and status of medium term program (public sector fiscal reform, oil and power programs, debt burden, private financial system, social sector reform).
  - (b) What are intentions of Government on Financial Sector Adjustment Loan. Second tranche undisbursed as none of key conditions fulfilled. Need to resolve situation by either agreeing on conditions or cancel operation and eventually renegotiate if new program acceptable to Bank.
  - (c) Key financial sector issue is interest rate policy. Need unconstrained free floating interest system and adjustment of Central Bank interest rates in line with market rates.
  - (d) What is Government's current debt strategy? Late 1987 package included Bank parallel cofinancing.
  - (e) Urge to accelerate Ecuador's timetable for share subscriptions in context of GCI.
- 

IF DELEGATION MENTIONS: Future Lending

YOU MAY INDICATE THAT: In the short term, \$ 45 million telecommunications project ready for negotiations once action taken on tariffs. In longer term, \$ 150 million a year program can be pursued provided strengthened stabilization program and agreement on sectoral reform. Early agreement with IMF on Standby is critical. Policy based assistance is limited, would focus on already appraised Export Development Loan and fiscal and public enterprise reform.

IF DELEGATION MENTIONS: Request for Opening of Resident Mission

YOU MAY INDICATE THAT: Opening depends on strength of economic and Bank assistance program.

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FY88 Commitments: \$ 160 million  
Disbursements : \$ 191 million  
Amortization : \$ 33 million

GDP Growth: 8.5% (1988) 2.2% (1985-87)  
Lending Program (FY88-92): \$ 730 million

DECLASSIFIED

## 1988 ANNUAL MEETINGS BRIEFS

FEB 14 2023

Name of Country: EcuadorDate: September 1, 1988

WBG ARCHIVES

Meeting With: Mr. Jorge Gallardo, Minister of Finance and Governor  
Mr. Abelardo Pachano, President of the Monetary BoardPopulation: 9.9 million (1987)Est. Population Growth Rate: 2.9% (1986-87)GNP per capita: \$1,040 (1987)

	(\$m)		(\$m)
Total Commitments to date:	1197.6	FY88 Commitments:	160.0
of which:		Disbursements:	190.8
Bank (42 operations)	1159.1	Amortization:	33.4
IDA ( 5 operations)	37.5		
Total Undisbursed:	299.3		
Lending Program: FY88-89	280.0		

<u>Summary Data</u>	<u>Average</u> <u>1983-87</u>	<u>Est.</u> <u>1988</u>	
GDP Growth (%)	2.2	8.51/	Aid Group Meeting: N/A
Export Growth	5.0	30.31/	Last Meeting: N/A
Import Growth	4.5	-12.5	IMF Status as of: Jan. 1988
Current Account Deficit % GDP	-3.7	-6.8	Standby inoperative after
Gross Debt-Service Ratio/Exports	37.3	61.42/	Government indefinitely post-
Annual Inflation Rate	28.0	75.0	poned May 1988 review meeting.

Background: President Borja, who took office in August, inherited a rapidly deteriorating economy, with accelerating inflation, high public sector deficit, depleted foreign exchange reserves and an unresolved external debt problem. The economic team has implemented an emergency stabilization program, which has, however, fallen short of what is needed, given the dimensions of the disequilibria.

Issues likely to be raised by delegation:

- Timing and Levels of Future Lending
- Opening of Resident Mission

Issues to be raised by Bank Management:

- Macroeconomic Program
- Financial Sector Reforms
- Debt Strategy
- Capital Subscription Status

Attachments:

Five-Year Lending Program: FY88-92 (FY88 actual)  
Biographical Information

- 1/ Reflects recuperation of oil exports in 1988 after a five-month interruption of oil exports caused by the March 1987 earthquakes.
- 2/ Temporary factors have raised this; 1989 is estimated at 41.1 percent.

## BACKGROUND

1. **Political.** Dr. Rodrigo Borja, who took office on August 10, 1988, is the founder of the Democratic Left party, which led the opposition to former President Febres-Cordero. He will serve a four-year term.

Dr. Borja, a center-left Social Democrat, favors enhanced Government control of the economy, but is not an advocate of expropriation of private property. He brings to Government a deep commitment to social progress. While Dr. Borja, as a result of an alliance forged with the Democracia Popular party, will control Congress and the Supreme Court, his ability to control the more radical elements of his own party is not certain. Further, his ability to take the difficult economic measures needed to put the economy back on track will be constrained by the expectations generated during the election, and by rising populist sentiments in Ecuador which manifested themselves in the relatively good showing of his populist rival Mr. Abdala Bucaram in the run-off election. While Dr. Borja's advisors during the election period represented a wide spectrum of left to center-left economists and politicians, his cabinet choices indicate that the more moderate elements of the party have prevailed, at least for the time-being.

2. **Economic.** The Febres-Cordero Government's efforts to continue the adjustment process during its last year in office began well, with agreement reached with the IMF on a Standby, with the commercial bank Steering Committee on a debt rescheduling/new money package, and with the World Bank on the Financial Sector Adjustment Project. By the beginning of 1988 the picture had changed dramatically. World oil prices had fallen significantly, and the commercial banks were not able to raise the agreed-upon new money package, let alone respond to requirements emerging from revised projections of oil revenues. These events coincided with serious back-sliding on the heretofore good economic policies after the Government's loss of the January primary election. The economy is now in serious disequilibrium, and Ecuador's creditworthiness has been jeopardized. Dr. Borja inherited a public sector deficit currently reported to be between 15-16 percent of GDP; accelerating inflation, currently running at an annualized rate of about 75 percent (a substantial increase over traditional levels of 20-30 percent in Ecuador); stagnating investment; and depleted foreign exchange reserves.

3. On August 30, an emergency economic program was announced which was designed to attack inflation through reductions in the fiscal deficit, and to improve the balance of payments position. Unfortunately, a preliminary assessment of the program indicates that the measures appear to be insufficient, particularly on the fiscal side. The program implies a 3-5 percent reduction in the fiscal deficit, which will leave it still unmanageable. The program included: (i) a doubling of combustible prices to an average of US\$0.29/gallon and a 30 percent increase in power rates; (ii) proposals for increases in value added and other consumption taxes; (iii) cuts in public expenditures equivalent to only about 1 percent of GDP; (iv) 16 percent increase in the minimum wage; (v) a return to controlled foreign exchange rates for all commercial transactions under a crawling peg system, accompanied by a devaluation and provisions for retention in the Central Bank of a portion of export receipts; (vi) some import restrictions; (vii) a 5 percent import tax; (viii) regulation of the spread between savings deposit and lending rates. The Government expects to complement this with a medium-term program which is still to be developed.



4. **External Financing.** With the exception of small payments made in late 1987 as part of the debt negotiations, Ecuador has not paid interest to commercial banks since January 1987. The Borja team has conveyed to the commercial banks the Government's intention to reopen negotiations once the emergency program has been implemented and the medium-term economic program prepared. In January 1988, the Fund approved a SDR 75.4 million Standby. Under the arrangement, the IMF was to have had a review of the program by May 1988. The review was indefinitely postponed by the Authorities. The Borja Government has privately indicated that it intends to reopen discussions with the Fund for a new Standby after the emergency stabilization program is in place. Paris Club debt was rescheduled in January 1988, and bilateral negotiations are continuing. Debt service to official creditors had, until recently, continued to be paid. Ecuador is currently in arrears to IDB for about US\$30 million, and disbursements are not being processed. Late payments to the Bank are increasingly a problem.

5. **Bank Relations.** Bank-country relations, which had been warm following the Bank's prompt support after the March 1987 earthquakes, had been under some strain as the Febres-Cordero Government's economic program deteriorated. Relations with the Borja team are better than had originally been expected, and good contacts have been established. Nevertheless, there are some in the new Administration who are strongly inclined to interventionist policies and who view the Bank with suspicion given the full support given by the Bank to the Febres-Cordero Government during most of its tenure.

#### ISSUES LIKELY TO BE RAISED BY THE DELEGATION

6. **Future Lending.** The Delegation is likely to request substantial levels of Bank support, including fast-disbursing policy-based loans. You may wish to indicate that, in the short term, the Bank is prepared to invite the Government to negotiate the US\$45 million Telecommunications Project if action on domestic telephone tariffs is taken. Beyond this, the level and timing of Bank assistance will be dependent upon the Government's ability to implement a coherent stabilization/adjustment program (para. 8). The stabilization program announced on August 30 must be further strengthened, and in this regard, early agreement with the IMF on a new Standby would be critical. If a strong and coherent program is implemented, and agreement reached on sectoral policy reform programs, the Bank could be in a position to continue lending, at least at the same level of the last few years (US\$150-200 million/year), and to help Ecuador mobilize significant levels of cofinancing. We would envisage that most of these operations would be investment-type projects which could have relatively high levels of Bank cost-sharing in order to facilitate disbursements. Policy-based assistance would be more limited. Revival of the already appraised Export Development Loan, perhaps followed by an adjustment operation focusing on fiscal and public enterprise reforms, could be considered. The Bank would hope that the lending program would include a strong program of assistance for poverty alleviation. If, however, appropriate macroeconomic policies are not followed, Ecuador's creditworthiness will be in jeopardy, and the Bank would likely limit its assistance program to social sector projects.

7. Opening of Resident Mission. The delegation is expected to request that the Bank open a resident mission in Quito. You may wish to reply that the decision to open a Resident Mission would depend upon the strength of the economic program and the associated Bank assistance program. In the first instance, however, consideration would be given to opening of a facilitation office rather than a Resident Mission.

#### ISSUES TO BE RAISED BY BANK MANAGEMENT

8. Macroeconomic Program. You should ask the Minister to outline the Government's strategy for extending the reform measures announced on August 30, and in particular for the design and implementation of the medium-term program. From the Bank's point of view, the short term priorities are: (i) to attack inflation by further reductions in the public sector deficit, particularly by further increases in domestic fuel prices and other public sector prices, and by adjusting interest rates on Central Bank lines of credit; (ii) to maintain the exchange rate at a level sufficient to ensure export competitiveness; (iii) to adopt an export-oriented trade regime; and (iv) to begin a fundamental reform of public finances. Significant progress towards bringing the fiscal accounts into equilibrium should be made in 1989 with balance achieved over a 2-3 year period. The medium-term program should encompass measures falling under six headings: (i) public sector fiscal reform; (ii) rational national oil and power development programs; (iii) measures to increase savings and investment and raise the efficiency of investment; (iv) measures to reduce the debt burden; (v) measures to strengthen and improve the efficiency of the private financial system; and (vi) social sector reforms.

9. Financial Sector Reforms. You should ask the delegation whether the Government intends to continue with the program supported by the Financial Sector Adjustment Loan (US\$100 million, of which the US\$50 million second tranche is undisbursed; US\$100 million Japan Ex-Im Bank cofinancing is under negotiation). None of the key conditions required for release of the second tranche have been fully complied with to date, including: (i) the adjustment of maximum interest rates applicable to credit funded by the Central Bank and by international lending institutions toward market levels; (ii) improvement of the capital adequacy of financial institutions through rehabilitation plans and regulatory measures; (iii) macroeconomic stabilization to reduce the rate of inflation and nominal market interest rates; and (iv) the introduction of an auction market in domestic treasury bills or Central Bank bonds. In order to ensure that the outcome of this Loan does not sour Country relations, the Bank strategy is to: (i) try to reach early agreement on the conditions as negotiated; (ii) if the Government has a coherent financial sector program which could be supported by the Bank, but which differs from the program agreed under the loan, to cancel the current operation and negotiate a new loan; failing (i) or (ii), quickly cancel the operation.

10. One of the most difficult points in our dialogue on the Financial Sector Loan and on ongoing and planned credit operations relates to interest rate policy since Borja's party strongly opposed the August 1986 freeing of interest rates. In this context, the fact that the recently announced measures retained the system of free-floating interest rates in the private sector is considered to be positive. Nevertheless, the Bank is concerned with the impact which the restrictions placed on the system, through controls on the spread between active and passive rates, could have on the market, and will assess this as part of the discussions of the Financial Sector Loan. In addition, the Bank would like confirmation that Central Bank interest rates will be increased in line with market rates as provided for under the Financial Sector Loan and ongoing and planned credit operations. New commitments under the ongoing Industrial Finance I Loan have been suspended because of inadequate interest rates, and there is concern regarding compliance with conditions under the ongoing Agricultural Credit II Loan. Processing of the US\$40 million Small Scale Enterprise IV Loan will be dependent on, inter alia, agreement on interest rate policy. The IDB is following the World Bank's lead on this issue, and is holding up effectiveness of a US\$80 million industrial credit operation pending resolution.

11. Debt Strategy. You should ask the delegation for an update on the Government's debt strategy, and reiterate the Bank's offer to provide technical assistance on potential new money techniques, including debt reduction schemes. You may also wish to explore with the delegation whether Bank parallel financing with any new money package would still be appropriate. The package negotiated in late 1987 included parallel cofinancing, with an optional cross-default feature, with the Financial Sector Adjustment Loan.

12. Capital Subscription Status. You may wish to urge the delegation, in the context of the GCI, to accelerate Ecuador's timetable for share subscriptions. Ecuador's unsubscribed shares are: Resolution 424, US\$0.992 million, terminal date February 3, 1989; Resolution 425, US\$4.401 million, terminal date September 30, 1993. Of these, \$0.539 million are in US dollars.

## LATIN AMERICA AND THE CARIBBEAN REGION

Attachment 1

COUNTRY: ECUADOR  
 FIVE YEAR LENDING PROGRAM: FY88-92  
 AS OF END AUG 88

SECTOR			FY88	FY89	FY90	FY91	FY92	FY88-92
AGRICULTURE	PA070-GUAYAS FL'D CNTL-C	L	.0	.0	40.0	.0	.0	40.0
	PA074-JUBONES IRR-D	L	.0	.0	.0	.0	40.0	40.0
	PA075-AG CREDIT II-C	L	.0	.0	.0	.0	50.0	50.0
	*SUB-TOTAL AGRICULTURE		.0	.0	40.0	.0	90.0	130.0
EDUC + PHN	PA057-HEALTH I-C	L	.0	.0	20.0	.0	.0	20.0
	PA076-ED SCTR-D	S	.0	.0	.0	.0	25.0	25.0
	*SUB-TOTAL EDUC + PHN		.0	.0	20.0	.0	25.0	45.0
ENERGY + POWER	PA095-OIL PROD'N DEV-C	S	.0	.0	.0	60.0	.0	60.0
INDUSTRY + IDF	PA073-FIN STRC ADJ	L	100.0	.0	.0	.0	.0	100.0
	PA069-TELECOMM-B	L	.0	45.0	.0	.0	.0	45.0
	PA090-SMLL SCALE ENTRP IV	L	.0	50.0	.0	.0	.0	50.0
	PA068-IND FIN II-C	L	.0	.0	75.0	.0	.0	75.0
	PA091-FIN SCTR ADJ II-D	L	.0	.0	.0	.0	65.0	65.0
	*SUB-TOTAL INDUSTRY + IDF		100.0	95.0	75.0	.0	65.0	335.0
INFRASTRUCTURE	PA067-NTL HOUSNG II	L	60.0	.0	.0	.0	.0	60.0
	PA094-URBN INFRASTRUC-D	L	.0	.0	.0	50.0	.0	50.0
	*SUB-TOTAL INFRASTRUCTURE		60.0	.0	.0	50.0	.0	110.0
NON-PROJECT	PA062-EXPRT DEVT LN-B	L	.0	50.0	.0	.0	.0	50.0
	*TOTAL ECUADOR		160.0	145.0	135.0	110.0	180.0	730.0

MMcCarthy, LACCA  
 08/31/88

ECUADOR

BIOGRAPHICAL INFORMATION

Mr. Jorge Gallardo - Minister of Finance and Public Credit  
and Bank Governor

Mr. Jorge Gallardo, a forty year-old businessman from Guayaquil, was the head of Facturinsa, a factoring/export finance company which is a recent client of IFC. Mr. Gallardo studied commercial engineering and economics at the Universidad Catolica de Guayaquil. A Fulbright scholar, he holds a Masters in Finance from the University of Kansas and a Masters in Administration from ISEA. He was active in student federations, and has experience in university teaching. Mr. Gallardo's economic philosophy is quite distinct from the rest of the economic team. To the right of the majority of Dr. Borja's advisors, he is noninterventionist and believes in the market. Mr. Gallardo speaks excellent English.

Mr. Abelardo Pachano - President of the Monetary Board

Mr. Pachano, in his late forties, is a political independent. He is an economist who studied as a Mason Fellow at Harvard University. He served as General Manager of the Central Bank under President Hurtado, and until his appointment to the Monetary Board, was General Manager of the Banco de la Producción. He is held in high regard by the banking and business communities. Mr. Pachano has experience in debt negotiations from his service under President Hurtado, and will take the lead in negotiations with the commercial banks. He speaks English.

Mr. Jose Morillo - General Manager of the Central Bank

Mr. Morillo, in his mid-forties, is an economist and banker. Like Mr. Pachano, he is a former General Manager of the Banco de la Producción. He is expected to concentrate on the operating side of the Central Bank, letting Mr. Pachano take the lead on policy issues.

Mr. Edison Ortiz, Sub-Secretary of Public Credit  
and Alternate Bank Governor

Mr. Ortiz, in his early forties, was, until his appointment as Sub-Secretary of Public Credit, a staff member of IFC. An engineer, he worked in the Engineering Department for several years, and last year transferred to the Investment Department as an investment officer, working mainly on Colombia. He speaks excellent English.

**1988 ANNUAL MEETINGS BRIEFS**

**Name of Country:** Ecuador

**Date:** September 1, 1988

**Meeting With:** Mr. Jorge Gallardo, Minister of Finance and Governor  
Mr. Abelardo Pachano, President of the Monetary Board

**Population:** 9.9 million (1987)

**Est. Population Growth Rate:** 2.9% (1986-87)

**GNP per capita:** \$1,040 (1987)

	<u>(\$m)</u>		<u>(\$m)</u>
Total Commitments to date:	1197.6	FY88 Commitments:	160.0
of which:		Disbursements:	190.8
Bank (42 operations)	1159.1	Amortization:	33.4
IDA ( 5 operations)	37.5		
Total Undisbursed:	299.3		
Lending Program: FY88-89	280.0		

<u>Summary Data</u>	<u>Average</u>	<u>Est.</u>	
	<u>1983-87</u>	<u>1988</u>	
GDP Growth (%)	2.2	8.51/	Aid Group Meeting: N/A
Export Growth	5.0	30.31/	Last Meeting: N/A
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**Background:** President Borja, who took office in August, inherited a rapidly deteriorating economy, with accelerating inflation, high public sector deficit, depleted foreign exchange reserves and an unresolved external debt problem. The economic team has implemented an emergency stabilization program, which has, however, fallen short of what is needed, given the dimensions of the disequilibria.

**Issues likely to be raised by delegation:**

- Timing and Levels of Future Lending
- Opening of Resident Mission

**DECLASSIFIED**

**JUN 22 2023**

**Issues to be raised by Bank Management:**

- Macroeconomic Program
- Financial Sector Reforms
- Debt Strategy
- Capital Subscription Status

**WBG ARCHIVES**

**Attachments:**

Five-Year Lending Program: FY88-92 (FY88 actual)  
Biographical Information

- 1/ Reflects recuperation of oil exports in 1988 after a five-month interruption of oil exports caused by the March 1987 earthquakes.
- 2/ Temporary factors have raised this; 1989 is estimated at 41.1 percent.

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#### ISSUES LIKELY TO BE RAISED BY THE DELEGATION

6. **Future Lending.** The Delegation is likely to request substantial levels of Bank support, including fast-disbursing policy-based loans. You may wish to indicate that, in the short term, the Bank is prepared to invite the Government to negotiate the US\$45 million Telecommunications Project if action on domestic telephone tariffs is taken. Beyond this, the level and timing of Bank assistance will be dependent upon the Government's ability to implement a coherent stabilization/adjustment program (para. 8). The stabilization program announced on August 30 must be further strengthened, and in this regard, early agreement with the IMF on a new Standby would be critical. If a strong and coherent program is implemented, and agreement reached on sectoral policy reform programs, the Bank could be in a position to continue lending, at least at the same level of the last few years (US\$150-200 million/year), and to help Ecuador mobilize significant levels of cofinancing. We would envisage that most of these operations would be investment-type projects which could have relatively high levels of Bank cost-sharing in order to facilitate disbursements. Policy-based assistance would be more limited. Revival of the already appraised Export Development Loan, perhaps followed by an adjustment operation focusing on fiscal and public enterprise reforms, could be considered. The Bank would hope that the lending program would include a strong program of assistance for poverty alleviation. If, however, appropriate macroeconomic policies are not followed, Ecuador's creditworthiness will be in jeopardy, and the Bank would likely limit its assistance program to social sector projects.



7. **Opening of Resident Mission.** The delegation is expected to request that the Bank open a resident mission in Quito. You may wish to reply that the decision to open a Resident Mission would depend upon the strength of the economic program and the associated Bank assistance program. In the first instance, however, consideration would be given to opening of a facilitation office rather than a Resident Mission.

**ISSUES TO BE RAISED BY BANK MANAGEMENT**

8. **Macroeconomic Program.** You should ask the Minister to outline the Government's strategy for extending the reform measures announced on August 30, and in particular for the design and implementation of the medium-term program. From the Bank's point of view, the short term priorities are: (i) to attack inflation by further reductions in the public sector deficit, particularly by further increases in domestic fuel prices and other public sector prices, and by adjusting interest rates on Central Bank lines of credit; (ii) to maintain the exchange rate at a level sufficient to ensure export competitiveness; (iii) to adopt an export-oriented trade regime; and (iv) to begin a fundamental reform of public finances. Significant progress towards bringing the fiscal accounts into equilibrium should be made in 1989 with balance achieved over a 2-3 year period. The medium-term program should encompass measures falling under six headings: (i) public sector fiscal reform; (ii) rational national oil and power development programs; (iii) measures to increase savings and investment and raise the efficiency of investment; (iv) measures to reduce the debt burden; (v) measures to strengthen and improve the efficiency of the private financial system; and (vi) social sector reforms.

9. **Financial Sector Reforms.** You should ask the delegation whether the Government intends to continue with the program supported by the Financial Sector Adjustment Loan (US\$100 million, of which the US\$50 million second tranche is undisbursed; US\$100 million Japan Ex-Im Bank cofinancing is under negotiation). None of the key conditions required for release of the second tranche have been fully complied with to date, including: (i) the adjustment of maximum interest rates applicable to credit funded by the Central Bank and by international lending institutions toward market levels; (ii) improvement of the capital adequacy of financial institutions through rehabilitation plans and regulatory measures; (iii) macroeconomic stabilization to reduce the rate of inflation and nominal market interest rates; and (iv) the introduction of an auction market in domestic treasury bills or Central Bank bonds. In order to ensure that the outcome of this Loan does not sour Country relations, the Bank strategy is to: (i) try to reach early agreement on the conditions as negotiated; (ii) if the Government has a coherent financial sector program which could be supported by the Bank, but which differs from the program agreed under the loan, to cancel the current operation and negotiate a new loan; failing (i) or (ii), quickly cancel the operation.

10. One of the most difficult points in our dialogue on the Financial Sector Loan and on ongoing and planned credit operations relates to interest rate policy since Borja's party strongly opposed the August 1986 freeing of interest rates. In this context, the fact that the recently announced measures retained the system of free-floating interest rates in the private sector is considered to be positive. Nevertheless, the Bank is concerned with the impact which the restrictions placed on the system, through controls on the spread between active and passive rates, could have on the market, and will assess this as part of the discussions of the Financial Sector Loan. In addition, the Bank would like confirmation that Central Bank interest rates will be increased in line with market rates as provided for under the Financial Sector Loan and ongoing and planned credit operations. New commitments under the ongoing Industrial Finance I Loan have been suspended because of inadequate interest rates, and there is concern regarding compliance with conditions under the ongoing Agricultural Credit II Loan. Processing of the US\$40 million Small Scale Enterprise IV Loan will be dependent on, inter alia, agreement on interest rate policy. The IDB is following the World Bank's lead on this issue, and is holding up effectiveness of a US\$80 million industrial credit operation pending resolution.

11. Debt Strategy. You should ask the delegation for an update on the Government's debt strategy, and reiterate the Bank's offer to provide technical assistance on potential new money techniques, including debt reduction schemes. You may also wish to explore with the delegation whether Bank parallel financing with any new money package would still be appropriate. The package negotiated in late 1987 included parallel cofinancing, with an optional cross-default feature, with the Financial Sector Adjustment Loan.

12. Capital Subscription Status. You may wish to urge the delegation, in the context of the GCI, to accelerate Ecuador's timetable for share subscriptions. Ecuador's unsubscribed shares are: Resolution 424, US\$0.992 million, terminal date February 3, 1989; Resolution 425, US\$4.401 million, terminal date September 30, 1993. Of these, \$0.539 million are in US dollars.

## LATIN AMERICA AND THE CARIBBEAN REGION

Attachment 1

COUNTRY: ECUADOR  
 FIVE YEAR LENDING PROGRAM: FY88-92  
 AS OF END AUG 88

SECTOR			FY88	FY89	FY90	FY91	FY92	FY88-92
AGRICULTURE	PA070-GUAYAS FL'D CNTL-C	L	.0	.0	40.0	.0	.0	40.0
	PA074-JUBONES IRR-D	L	.0	.0	.0	.0	40.0	40.0
	PA075-AG CREDIT II-C	L	.0	.0	.0	.0	50.0	50.0
	*SUB-TOTAL AGRICULTURE		.0	.0	40.0	.0	90.0	130.0
EDUC + PHN	PA057-HEALTH I-C	L	.0	.0	20.0	.0	.0	20.0
	PA076-ED SCTR-D	S	.0	.0	.0	.0	25.0	25.0
	*SUB-TOTAL EDUC + PHN		.0	.0	20.0	.0	25.0	45.0
ENERGY + POWER	PA095-OIL PROD'N DEV-C	S	.0	.0	.0	60.0	.0	60.0
INDUSTRY + IDF	PA073-FIN STRC ADJ	L	100.0	.0	.0	.0	.0	100.0
	PA069-TELECOMM-B	L	.0	45.0	.0	.0	.0	45.0
	PA090-SMLL SCALE ENTRP IV	L	.0	50.0	.0	.0	.0	50.0
	PA068-IND FIN II-C	L	.0	.0	75.0	.0	.0	75.0
	PA091-FIN SCTR ADJ II-D	L	.0	.0	.0	.0	65.0	65.0
	*SUB-TOTAL INDUSTRY + IDF		100.0	95.0	75.0	.0	65.0	335.0
INFRASTRUCTURE	PA067-NTL HOUSNG II	L	60.0	.0	.0	.0	.0	60.0
	PA094-URBN INFRASTRUC-D	L	.0	.0	.0	50.0	.0	50.0
	*SUB-TOTAL INFRASTRUCTURE		60.0	.0	.0	50.0	.0	110.0
NON-PROJECT	PA062-EXPRT DEVT LN-B	L	.0	50.0	.0	.0	.0	50.0
	*TOTAL ECUADOR		160.0	145.0	135.0	110.0	180.0	730.0

MCarthy, LACCA  
 08/31/88

ECUADOR

BIOGRAPHICAL INFORMATION

Mr. Jorge Gallardo - Minister of Finance and Public Credit  
and Bank Governor

Mr. Jorge Gallardo, a forty year-old businessman from Guayaquil, was the head of Facturinsa, a factoring/export finance company which is a recent client of IFC. Mr. Gallardo studied commercial engineering and economics at the Universidad Catolica de Guayaquil. A Fulbright scholar, he holds a Masters in Finance from the University of Kansas and a Masters in Administration from ISEA. He was active in student federations, and has experience in university teaching. Mr. Gallardo's economic philosophy is quite distinct from the rest of the economic team. To the right of the majority of Dr. Borja's advisors, he is noninterventionist and believes in the market. Mr. Gallardo speaks excellent English.

Mr. Abelardo Pachano - President of the Monetary Board

Mr. Pachano, in his late forties, is a political independent. He is an economist who studied as a Mason Fellow at Harvard University. He served as General Manager of the Central Bank under President Hurtado, and until his appointment to the Monetary Board, was General Manager of the Banco de la Producción. He is held in high regard by the banking and business communities. Mr. Pachano has experience in debt negotiations from his service under President Hurtado, and will take the lead in negotiations with the commercial banks. He speaks English.

Mr. Jose Morillo - General Manager of the Central Bank

Mr. Morillo, in his mid-forties, is an economist and banker. Like Mr. Pachano, he is a former General Manager of the Banco de la Producción. He is expected to concentrate on the operating side of the Central Bank, letting Mr. Pachano take the lead on policy issues.

Mr. Edison Ortiz, Sub-Secretary of Public Credit  
and Alternate Bank Governor

Mr. Ortiz, in his early forties, was, until his appointment as Sub-Secretary of Public Credit, a staff member of IFC. An engineer, he worked in the Engineering Department for several years, and last year transferred to the Investment Department as an investment officer, working mainly on Colombia. He speaks excellent English.

## 1988 ANNUAL MEETINGS BRIEFS

HUNGARY

August 26, 1988

Meeting with: Mr. Miklos Pulai, Deputy Chairman, Consultative Committee of the Plan and Economic Committee of the Government on the Development of the Economic System and Bank Governor

Population:	10.6 m (1987)	Estimated Growth Rate:	Negative
GNP per capita:	\$2240 (1987)		
	(\$m)		(\$m)
Total Commitments to date:		FY88: Commitments :	320.0
Bank: (no. of operations: 19)	1632.4	Disbursements:	237.0
Total Undisbursed :	771.5	Amortization :	49.4
Lending Program FY89-90:	600.0	Bank share of MLT Debt:	6.7%

Summary Data (%)	Average	Est.	
	1983-87	1988	
GDP growth (% p.a.)	1.6	1.0-1.5	IMF Status: Standby
Nonruble export growth (% p.a.)	-1.6	5.5	Agreement concluded in
Nonruble import growth (% p.a.)	2.4	-6.0	May 1988.
Convertible Current Account (% GDP)	-2.5	-1.9	
Debt Service Ratio (as % of convertible currency exports goods and services)	49.3 /a	41.2	
Annual Inflation Rate (%)	7.1	15.0	
/a 44.1 excluding early repayments of debt.			

Background:

- Political: Recent high level party changes aimed at strengthening the reform.
- Economic: After a disappointing 1985-87, situation improving. Reform program proceeding, although full impact yet to be seen.
- Bank Operations: Agreement has been reached on a multi-year economic and lending program of about \$300 million a year of which the focal point is adjustment operations in support to economic reforms.

Issues likely to be raised by the Delegation:

- Lending level: To remain at FY88 levels (\$320 million) with substantial quick-disbursing funds each year through adjustment lending in support of reform.

Issues to be raised by Bank Management:

- Improved Economic Management: Stress need to continue with strong measures to strengthen improvements in basic equilibria--internal and external--and to accelerate efforts to reform the economy.
- Bank Capital Increase: Express appreciation for Hungary's prompt support to GCI.

Attachments:

FIVE-YEAR LENDING PROGRAM: FY89-93 (FY88 actual)

Biographical Information

BACKGROUND:

1. Political: Major changes in political leadership took place in May 1988 at an extraordinary party conference. Mr. Grosz, Prime Minister, was elected as the General Secretary of the Hungarian Socialist Workers' Party (HSWP) to replace Mr. Kadar. The politburo and the Central Committee of HSWP were revamped with the inclusion of younger and more reform-minded elements. These changes are viewed as strengthening the reform efforts, at least in the economic field. Their impact on the movement for political reform, especially relating to changes in the role of the party, is yet to be seen, though the indications are that these changes may be more gradual. The political leadership has accepted the need for belt-tightening as unavoidable and does not foresee any significant improvements in living standards for the immediate future.

2. Bank-Country Relations: The Bank's relations with Hungary are very good, with an active policy dialogue and generally Government's receptivity to Bank advice. Multi-year economic work and lending programs are agreed annually. The Bank's assistance is appreciated, especially the intellectual support in strengthening the reform and the technical contributions to project design and execution. Hungary is a member of all the Bank group institutions, including MIGA.

3. Current Economic Situation: Economic performance in 1985, 1986 and the early part of 1987, was disappointing, with low economic growth and lax demand management resulting in mounting current account and budget deficits. The current account deficit reached \$1.4 billion in 1986, financed largely by external borrowing. Consequently, Hungary's gross medium and long-term external debt reached \$17.7 billion at the end of 1987 equivalent to \$1700 per capita, the highest in Eastern Europe. The Government, in the second half of 1987, adopted a stabilization and structural reform program aimed at halting the growth of external debt by 1990. The economy's performance improved, resulting in the reduction in the current account deficit from 6.0% of GDP in 1986 to 3.2% of GDP in 1987. The 1988 program aims at reducing the current account deficit from about \$850 million to \$500 million, through tight demand management, aimed at slowing growth and consumption. The budget deficit is to be reduced from Ft 35 billion to Ft 10 billion. The program also aims at promoting structural change through acceleration of the reform program. Of particular importance is the flow of association which is expected to give a fillip to the development of the private sector, especially small and medium enterprises, and thus provide some degree of competition to the state enterprises. In May 1988, the Government reached an agreement with the IMF on a one-year standby for SDR 265 million. The Bank also is supporting the stabilization and structural reform program through a sector adjustment loan of \$200 million approved in June 1988.

4. Economic performance in the first six months of 1988 has been encouraging. Aggregate demand has been contained through a reduction in private consumption, though investment demand has been stronger than planned due to the ample liquidity position of the enterprises, as well as continued strong nonruble export demand. The forint was devalued by 6% in July 1988. The Central Committee of the Party approved in July 1988 a medium-term program for reduction of subsidies of an amount of Ft 25-30 billion each year

for the next three years. The Government has also requested an Extended Fund Facility (EFF) from the IMF; the IMF currently plans to send a mission to negotiate this EFF in November.

ISSUES:

Part I: Issues likely to be Raised by the Delegation:

1. (a) Lending Level and Composition: The Bank commitments in FY87 and FY88 amounted to \$320 million each year. The 1989-92 program is formulated on the assumption of an average of \$320 million a year. The Hungarian authorities are likely to request the maintenance of a level of \$320-350 million and also the inclusion of a quick-disbursing policy-based structural/sectoral adjustment operation in each year in support of their medium-term program of stabilization and structural change.

(b) Recommended position: You should indicate the Bank's readiness to assist Hungary in managing the transition from stabilization to structural change. The Bank's lending program agreed with the Government already reflects the level which the delegation is requesting. As regards the composition of the Bank's assistance, the FY90 program includes a quick disbursing adjustment loan of about \$250 million. Similar operations could be considered beyond FY1990, provided the Government continues to maintain an appropriate macroeconomic environment and makes convincing progress in its economic reform efforts. However, the Bank will have to take into consideration its level of exposure in Hungary.

Part II: Issues to be Raised by Bank Management

1. (a) Economic Management: The recent economic developments have been outlined in Background (paras. 3-4).

(b) Recommended Position: You may wish to (i) compliment the Government on strengthening its economic management (ii) emphasize the need to stay the course of tight demand management through strict fiscal and monetary policies, especially reducing subsidies to lossmakers, to realize the 1988 current account and fiscal deficits targets, with a view to restoring external and internal equilibrium by 1990 in accordance with the Government's program; (iii) accelerate and forcefully implement the reform program, to sustain the improvements being realized and to promote structural change; of particular importance in this context are the law of association and trade liberalization in promoting internal and external competition, financial discipline of enterprises through reduction of subsidies, further strengthening of the banking reform through integration of the household and enterprise sectors, resolution of the housing finance and related subsidy issues to facilitate labor mobility; (iv) stress that in view of Hungary's high external debt and debt service, there is little room for resort to further external borrowing and therefore the need to achieve their goal of halting the growth of debt by the end of 1990.

2. (a) Bank's General Capital Increase: Hungary has been supportive of the Bank's efforts to increase its assistance to developing countries and was among the earliest to approve the recent resolution for an increase in the Bank's General Capital. A total of 3,532 shares has been allocated to Hungary; the subscription terminal date is September 30, 1993. The Bank's lending authority, however, increases only when the shares allocated have been subscribed.

(b) Recommended position: You may wish to convey your appreciation of Hungary's prompt support of the Bank's GCI, and express your hope that it would make its contribution at its earliest possible convenience.



## ATTACHMENT I

H U N G A R Y  
 FY89-93 LENDING PROGRAM  
 (in \$ million)

	Actual FY88	FY89	FY90	FY91	FY92	FY93	Sector TOTAL
<b>AGRICULTURE:</b>							
A Agroprocessing	70.0						
S Agric Sector I				100.0			
S Agroprocessing II						100.0	
Subtotals	70.0			100.0		100.0	270.0
<b>ENERGY/POWER:</b>							
Energy Dev		100.0					
S Energy Conserv II					125.0		
Subtotals		100.0			125.0		225.0
<b>INDUSTRY/FINANCE:</b>							
A Industrial SECAL I	200.0						
A Technology Dev I	50.0						
Industrial Restr III		150.0					
S Financial Invest Dev			50.0				
Industrial SECAL II			250.0				
S Technology Dev II				50.0			
Industrial Restr IV				150.0			
Small/Medium Enterpr Dev					125.0	125.0	
Subtotals	250.0	150.0	300.0	200.0	125.0		1025.0
<b>INFRASTRUCTURE:</b>							
Transport II		50.0					
S Telecom II				60.0			
S Transport III					120.0		
S Telecom III						50.0	
Subtotals		50.0		60.0	120.0	50.0	280.0
<b>OTHERS:</b>							
Environment						25.0	
Unidentified						75.0	
Subtotals						100.0	100.0
<b>TOTALS</b>	<b>320.0</b>	<b>300.0</b>	<b>300.0</b>	<b>360.0</b>	<b>370.0</b>	<b>250.0</b>	<b>1900.0</b>

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HUNGARY

BIOGRAPHICAL INFORMATION

Mr. Miklos Pulai, Deputy Chairman, Consultative Committee of the Plan and Economic Committee of the Government on the Development of the Economic System and Bank Governor

Mr. Pulai earned his diploma in economics at the Karl Marx University for Economic Sciences in Budapest. He has worked for more than 30 years in the financial field in various positions--i.e., in the Ministry of Finance, the National Savings Bank and in the National Bank of Hungary where he was First Vice President for 12 years. In 1980 he was appointed Vice President of the National Planning Office, and in June 1988 was appointed to his current position.

In July 1982 he was assigned Governor of the World Bank for Hungary.

Mr. Pulai was born in 1925 and is married. His wife is counsellor in the Ministry of Trade. Their only son is employed in the Ministry of Finance. His favorite pastimes are gardening, tennis and chess.

He speaks English haltingly.

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List of Other Members of the Hungarian Delegation:

Mr. Tibor Melega	Deputy Minister, Ministry of Trade
Mr. Ede Bako	Managing Director, National Bank of Hungary (NBH)
Mr. Istvan Ipper	General Manager, Department for International Development Institutions, NBH
Mrs. Zsuzsa Sule	

2831G  
August 25, 1988

1988 ANNUAL MEETING BRIEFSName of Country: JordanDate: August 23, 1988Meeting with: His Excellency Dr. Taher Kana'an, Minister of Planning\*

Population: 2.8 m (1987) Estimated Growth Rate 3.4% (1985)

GNP per capita: \$1,540 (1987)

Total Commitments to date:	(\$m)	775	FY88 Commitments:	(\$m)	107.0
of which :			Disbursements:		77.9
Bank (27)		689	Amortization:		24.4
IDA (15)		86			
Total Undisbursed:		301			
Lending Program (FY89-93):		160			

Summary Data

	<u>Average</u>	<u>1988</u>	
	1983-87		
GDP growth (% per year)	3.0	3.0	Aid Group Meeting: Jordan
Export growth (% per year)	4.6	5.0	Development Conference
Import growth (% per year)	0.7	3.0	Last Meeting: 11/86
Current Account Deficit (% GDP)	-4.9	-5.6	IMF status as of: 6/88
Gross Debt Service Ratio	10.6	15.0	(Art. IV)
Annual Inflation Rate (%)	3.0	0.0	

Background:

Political: Under the leadership of King Hussein, the country's political situation has remained stable, despite a turbulent regional environment. Improving prospects for peace in the Gulf could bring significant economic benefits to Jordan.

Economic: Government's economic management has been commendable thus far in adjusting to sharp deceleration of economic activity in neighboring oil-producing countries to which the Jordanian economy is very sensitive. However, the continuing regional recession is presenting the Government with difficult policy options.

Part I: Issues likely to be raised by delegation:

1. Increased Bank Support to Jordan

Part II: Issues to be raised by Bank Management:

1. New Strategy for Employment and Industrial Growth

Attachments:

FIVE-YEAR LENDING PROGRAM: FY89-93 (FY88 actual)

Biographical Information

\* Attendance to be confirmed

## BACKGROUND

Political. Against the backdrop of the unsuccessful most recent US initiative aimed at a Middle East peace settlement, the expected continuation of the Palestinian uprising in the Israeli occupied West Bank and Gaza, and growing tensions within Jordan as a result of such actions, King Hussein has undertaken a number of measures to sever Jordan's legal and administrative ties with the West Bank territory that it has claimed since 1948 and to reaffirm the Jordanian character of Jordan. These include dissolving the lower house of Parliament, in which West Bank deputies held half of the 60 seats; cancelling Jordan's Five-Year Development Plan for the West Bank; abolishing the separate Ministry for Occupied Territories; and stopping Government payments to some 20,000 Palestinians working as civil servants, teachers and medical staff in the West Bank. However, despite a very turbulent period during the past year, Jordan has been able to maintain internal stability and provide for continued economic growth. King Hussein and the political hierarchy have been able to satisfy the internal economic and social aspirations of the country including, to a substantial extent, the large Palestinian population. A successful equilibrium has been achieved between traditional and religious values and cultural, social and economic reforms. Jordan's economic structure is quite sensitive to internal stability and regional economic and political developments. Jordan's good relations with its oil-producing neighbors have provided substantial dividends in the form of grants, opportunities for Jordanian labor, joint ventures and special off-take agreements for Jordanian exports, which have been used prudently to diversify the country's market-oriented economy. Furthermore, the improving prospects for peace in the Gulf could bring significant economic benefits to Jordan.

Economic. Despite its limited natural resources, Jordan enjoyed rapid economic growth during 1977-82 due to favorable external developments, domestic political stability and sound economic management. On average, GDP increased by over 10 percent annually in real terms. Public finance performance remained strong, and external indebtedness was contained. However, beginning in 1982, the drop in oil revenues and resulting deceleration of economic activity in neighboring oil-producing countries led to a sharp decline in growth rates of merchandise exports and official grants and a levelling off of workers' remittances. The slowdown has become more pronounced since 1984. As a result, the real GDP growth rate declined to only about 1-2 percent p.a. during 1986-1987. Appropriate government responses have prevented this slowdown from creating severe public finance and balance-of-payments problems.

In attempting to control the budget, the Government has sharply reduced public investments largely in line with the availability of foreign grants and loans, increased its revenue efforts and restrained the growth of recurrent expenditures. The level of the deficit, however, remains high and would be difficult to sustain in the future if there was a fall in grants. The deterioration in Jordan's balance of payments precedes the current economic recession. The current account deteriorated sharply in 1982 and 1983 as a result of a sharp reduction in grants and merchandise exports and an increase in the price of oil. It has improved since that time due to a sharp reduction in imports and a recovery in exports and remittances. Foreign exchange reserves have declined since 1983 and now average only about one and

one half months of imports. External borrowing on the other hand remained moderate, with the debt service ratio at 13 percent in 1987. With regard to monetary policy, the Central Bank has been given greater discretion in adjusting interest rates and banks' commissions. With a marked decline in inflation to an average of 2.5 percent in 1983-85 and no inflation in 1986 and in 1987, interest rates have remained substantially positive in real terms. In short, the Government's economic management has been commendable.

## ISSUES

### Part I: Issues Likely to be Raised by the Delegation

1. (a) Increased Bank Support to Jordan: The Delegation may point out that the FY89 Lending Program consists of only one project for \$40 million (the Human Resources Sector Development Project), compared to lending programs that have been larger in the past (approved programs during the last five years have averaged about 4 projects and \$110 million a year). This may be noted in the context of Government requests on numerous occasions in the past that the Bank increase its lending program; Dr. Kana'an in fact has requested that the Bank consider doubling it (i.e., to \$200 million a year) in view of the decline in the volume of economic aid from the neighboring Arab oil-producing countries and Jordan's good economic performance and project implementation record.

(b) Recommended Position: You may wish to reassure the Delegation that we remain committed to the envelope for Jordan that we have discussed in the past (i.e., an average of three projects and \$100 million a year). Indeed, on more than one occasion we have advanced standby projects and exceeded Jordan's envelope. You may also wish to note that even at this level Jordan is already one of the highest per capita recipients of Bank lending. The problem with this year's lending program seems to be difficulties that we have encountered with preparation by the entities concerned of the particular projects, and you may wish to make the point that we would like to work closely with the Government to strengthen the pipeline so that we can once again lend the maximum feasible consistent with our policies and work program for Jordan.

### Part II: Issues to be Raised by Bank Management

1. (a) New Strategy for Employment and Industrial Growth: The recent slowdown in external resources illustrates the vulnerability of the economy to external swings and the need for Jordan to develop a new strategy for industrial development that goes beyond the previous strategy's objectives (largely achieved) of utilizing the country's major natural resources. Because of the small domestic market, this will have to be based on Jordan's export potential and the development of comprehensive advantages in skills, productivity, technology and marketing. Also given the slowdown in Jordan and in neighboring countries of domestic and external demand for Jordanian labor (40 percent of the labor force is currently employed abroad), the situation is shifting from one of selected shortages to one of finding jobs for a rapidly increasing domestic work force. These factors highlight the need to stimulate development of small and medium-scale manufacturing industries (SMI) and productive services.

(b) Recommended Position: You may wish to inquire what actions are currently being considered by the Government to stimulate the growth of the SMIs. The recent Bank report on SMIs discussed these issues and presented several recommendations in this regard. You could inquire as to how we could be of further assistance in this area. The measures proposed in the Bank study aim to increase the overall competitiveness of SMI through restructuring incentives and correcting structural weaknesses (inadequate linkages with the rest of the economy, weak technological capabilities, inflexible product lines and undeveloped marketing skills). The restructuring would involve measures such as an elimination of QRs and a rationalization of the tariff structure to create a uniform non-discriminatory set of incentives across different subsectors (or product lines) within the SMI sector. Such a restructuring of incentives complemented by a reform of the investment licensing system would allow resources to flow to more efficient firms (or product lines) at the expense of less efficient firms, thereby increasing the competitiveness of the SMI sector. This effort is to be buttressed by improvements in institutional support for export promotion, for facilitating efficient import substitution, for improving quality and standards, and for improving the availability of credit.

We had discussed most of these measures in the SMI Report, and we believe that the time may now be propitious to explore once again how the Bank can be useful in this area given our knowledge and experience in other countries. For your information, our Industry and Energy Division will be exploring the possibility of preparing a project to support activities for developing export-oriented industries through reform of the existing infrastructural and regulatory environment. A principal component of the project could be an expansion of the facilities of the Arab Potash Company (a major exporter) and perhaps the development of other export-oriented chemical industries based on Dead Sea brines, feasibility studies for which are underway. The first mission to prepare this project is planned for October/November 1988.

HASHEMITE KINGDOM OF JORDAN  
FY 89-93 LENDING PROGRAM  
(in \$ millions)

	Actual FY88	FY89	FY90	FY91	FY92	FY93	FY89-93 Sector Total
<u>Agriculture</u>							
<hr/>							
<u>Education</u>							
Education VII	40.0						
Human Resources Sector		40.0					
Human Resources Sector II(S)						40.0	
Sub-total							80.0
<hr/>							
<u>Industry</u>							
Phosphate Mining	31.0						
Phosphate Beneficiation			35.0				
Ind. Exp.(Potash III)(S)				20.0			
Technology Dev. (S)					40.0		
Ind/Services (S)						30.0	
Sub-total							125.0
<hr/>							
<u>Population, Health and Nutrition</u>							
Health II			20.0				
Sub-total							20.0
<hr/>							
<u>Power/Energy</u>							
Energy Sec. Inv. (S)				35.0			
Sub-total							35.0
<hr/>							
<u>Transportation</u>							
Transport III			35.0				
Transport Unident.(S)						40.0	
Sub-total							75.0
<hr/>							
<u>Urban</u>							
Municipal Dev.(Amman Transport II)			30.0				
Urban Sector Inv.(S)					25.0		
Sub-total							55.0
<hr/>							
<u>Water Supply/Sewerage</u>							
Water and Sewerage Rehab.(S)				30.0			
Unity Dam (S)				30.0			
Sub-total							60.0
<hr/>							
<u>Other</u>							
Telecommunications	36.0						
Sub-total							
<hr/>							
TOTAL	<u>107.0</u> (3)	<u>40.0</u> (1)	<u>120.0</u> (4)	<u>115.0</u> (4)	<u>65.0</u> (2)	<u>110.0</u> (3)	<u>450.0</u> (14)

August 4, 1988  
1594/71

JORDAN

BIOGRAPHICAL INFORMATION

Dr. Taher Kana'an, Minister of Planning and Bank Governor

Dr. Taher Hamdi Kana'an was born in Nablus, Palestine on March 1, 1935 and obtained his Ph.D in Economics from Cambridge University in Britain. Dr. Kana'an held the following posts: Director of the Economic Department, Ministry of Planning in Iraq (1964-65); Chief, Development Planning and Policies at the United Nations Economic and Social Office in Beirut (1967-73); Chief Economist, Project on Identification, Formulation and Pre-feasibility Studies in the Industrial Sector in Morocco (1977-78); Chief, External Financing and Development, UNCTAD (1978-83); Director of Programmes (1973-76) and Special Adviser to the President and Director of the Computer Section (1983-85), Arab Fund for Economic and Social Development in Kuwait, a post which he held until he was named Minister of Occupied Territories Affairs in Mr. Al-Rifai's Government, which was formed in April 1985. He has held his current portfolio, which includes development of the West Bank, since April 1986. Dr. Kana'an is married and a father of three children. He speaks English.

Other Delegation Members:

Mohammad H. Al-Saqqaf  
Under Secretary  
Ministry of Industry and Trade, Alternate Governor

Nabil Sweis  
Assistant Secretary General  
Ministry of Planning



1988 ANNUAL MEETING BRIEFSName of Country: MOROCCODate: 08/31/88Meeting with: Mr. Berrada, Minister of Finance  
and Bank Governor

Population: 22m (1986) Estimated Growth Rate: 2.6% (1986)

GNP per capita: \$580 (1987)

	(\$m)		(\$m)
Total Commitments to date:	4224.7	FY88: Commitments	338.0
of which :		Disbursements	341.6
Bank (76 loans)	4171.2	Amortization	184.0
IDA (5 credits)	53.5		
Total Undisbursed:	1252.5		
Lending Program (FY89-90)	1014.8		

SUMMARY DATA

	<u>Avg.83-87</u>	<u>1988 (est.)</u>
	(%)	(%)
GDP growth	3.1	4.5
Export growth	5.4	3.4
Import growth	0.9	4.1
Current Account Deficit/GDP	-4.5	1.0
Gross Debt Service Ratio <sup>a/</sup>		
after debt rescheduling	30.7	31.3
Gross Debt Service Ratio		
before debt rescheduling	58.6	44.7
Annual Inflation Rate	7.6	4.0

Aid Group Meeting:  
Consultative Group  
Last meeting:  
March 10-12, 1987  
IMF status: Standby approved  
in August 1988.

a/ MLT (public and private) debt.

BACKGROUND:

The Bank's lending program has hitherto consisted principally of sector policy adjustment loans supplemented by priority projects which meet essential social needs, those which provide credit for private sector enterprises (particularly those engaged in production for export) and projects which expand infrastructure. A first Structural Adjustment Loan addressing fiscal policy, trade policy reform, public investment and external liability management has been appraised and its policy contents agreed with the Government. In 1989, the Government will need to take early action to sustain its trade liberalization program and to ensure the sufficient allocation of resources to public investment.

ISSUES

Part I: Issues Likely to Be Raised by the Delegation  
1. Morocco's external debt.

Part II: Issues to Be Raised by Senior Bank Management  
1. The importance of 1989 for the Government reform program.  
2. Covering foreign exchange risks.

Attachments: FIVE-YEAR LENDING PROGRAM: FY88-92 (FY88 actual)  
Biographical Information

## MOROCCO

### BACKGROUND

1. Morocco continues to pursue the stabilization and adjustment programs initiated in 1983 following a balance of payments crisis. Sectoral reform programs in agriculture, external trade, industry and finance, and in education and public enterprises, have resulted in encouraging overall economic performance.
2. Real GDP growth was 5.8% in 1986 although it fell to only 1% in 1987, reflecting a poor harvest due to a severe drought. Industrial production was buoyant in 1987 (3.8%) due to an encouraging recovery in the construction sector and expansion of exports. Exports of goods and non-factor services rose by 9% in 1987, while imports were virtually unchanged. Workers' remittances increased by US\$189 million. As a result, the current account is expected to be roughly in equilibrium in 1988 (after debt relief). Budgetary performance continued to improve, with the deficit being reduced from around 8% to 6.1% of GDP (before debt relief). Inflation declined to 2.7% in 1987 (from 8.8% in 1986) and is expected to remain low in 1988. However, unemployment is high (over 14%) and is a continuing concern of the Government.
3. To ensure the continuation of growth with decreasing dependence on exogenous factors, the Government is cognizant of the need to raise domestic saving so that the economy would be able to finance a larger volume of public and private investment. It thus intends to intensify efforts to increase public revenues and rationalize Government expenditures. The Government realizes also that foreign savings can be mobilized only if domestic resource mobilization efforts are successful, and if export performance continues to be buoyant.
4. A medium-term macroeconomic framework has been agreed with the Bank in the context of the appraisal of the first Structural Adjustment Loan (SAL) for Morocco. It aims to achieve a sustainable increase in the rate of economic growth, to raise overall economic efficiency and productivity, and to improve external creditworthiness. The proposed SAL would support the first phase of the Government's adjustment program covering: an increase in the level of public revenues and savings to finance essential infrastructure and social investment, while reducing the need for public sector borrowing; further rationalization of trade and industrial policy; and the elaboration of an external liability management action program. The SAL is scheduled to be considered by the Board in early November.
5. The Executive Directors of the IMF approved a standby in an amount of SDR 210 million on August 30, 1988, covering the period September 1, 1988 to December 31, 1989.
6. With meetings of both the London and Paris Clubs scheduled for Fall 1988 (the Paris Club meeting will be held just before the Bank annual meetings), agreement on both the SAL and the IMF programs should assist the Government in demonstrating to the international financial community at large that its stabilization and adjustment programs are proceeding well. It should also help set the stage for a senior management visit to Morocco early in 1989.

ISSUES

Part I: Issues Likely to be Raised by the Delegation

1.(a) Morocco's External Debt: The Government is likely to point out that net financial flows from all of its partners, other than the World Bank and the African Development Bank, are negative. This poses serious problems for a country whose debt burden is very heavy (the debt/GDP ratio is around 100%) and which is attempting to raise economic growth to provide a real increase in per capita income. Some commercial banks believe that Morocco could begin retiring principal by next year (or shortly thereafter), while some Paris Club members apparently view Bank and Fund resources as substitutions for continued debt relief and/or new money packages. The delegation may ask for the Bank's assistance in negotiations with the London and Paris Clubs, so as to ensure that the rescheduling terms it receives are commensurate with its limited capacity to pay.

1.(b) Recommended Position: You should stress that the pursuit of robust stabilization and adjustment programs is a sine qua non of successful discussions with commercial and bilateral creditors. As part of the SAL appraisal, the Bank provided the Government with assistance in revamping its debt management system. We also informed senior Government officials of market-based approaches to debt relief being used by other debtors. It is now up to the Government to formulate a comprehensive and feasible debt strategy. The Bank will be prepared to certify to Morocco's creditors that the enhancement of growth predicated under the SAL is, in our view, achievable only with the continuation of debt relief on terms that are at least comparable with previous arrangements, and/or the provision of new money. The Bank will continue to stress publicly that Morocco's stabilization and adjustment programs are both comprehensive and feasible.

Part II: Issues to Be Raised by Bank Management

1.(a) The Importance of 1989 for the Government Reform Program: The fact that the successful implementation of the program of reform will depend greatly on adjustment measures to be taken next year should be stressed to the Government.

1.(b) Recommended Position:

(i) Fiscal Policy. The Government should be congratulated for the courage it has demonstrated in the introduction in 1988 of wide-ranging reforms in fiscal policy which will reduce distortions and inequities in the fiscal system and enhance revenues. Government revenue performance, however, remains overly dependent on yields from oil tax and from trade taxes. It should be noted that the program agreed for 1989 in the context of the SAL calls for a significant increase (over 20%) in public investment at a time when the IMF standby program will require that the budget deficit narrow further. These twin requirements, combined with the need to reduce dependence on the oil tax and on trade taxes, imply that a careful watch on revenue performance and a tight reign on Government expenditures and their allocation will be needed.

(ii) Trade Policy. The Government's opening of the economy stalled temporarily in 1987, when the pace of import liberalization slowed. The Government's current import liberalization program, which calls for the elimination of virtually all import restrictions by 1992, is satisfactory. It however implies slippage of over three years vis-a-vis the program agreed with the Bank in 1984 and 1985 under the ITPA loans. The Government should be commended for having successfully resisted a considerable backlash among many constituencies in Morocco that tried to reverse the trade liberalization program in 1986. Nevertheless, the import program for 1989 which has been agreed under the SAL will require the liberalization of items which would cover a further 10% of domestic industrial production. The Government should be encouraged to announce the import liberalization measures early in the calendar year so as to signal to domestic industrialists the continuation of its trade liberalization strategy, and in order to reap the fiscal benefits that will accrue as items are removed from import restriction.

2.(a) Covering Foreign Exchange Risk: The Treasury currently assists the three main specialized financial institutions (BNDE, CIH, CNCA) by bearing the bulk of the foreign exchange risk on their term-borrowing abroad. Since 1983, as a result of the pursuit of flexible exchange rate policy, substantial claims have been made by these institutions on the Treasury to cover resulting losses. Given the Government's very tight fiscal position, arrears have accumulated by the Treasury which are damaging the finances of the three institutions concerned. The Government shares our concern that the current system needs to be modified, and has begun examining alternatives.

2.(b) Recommended Position: A joint IMF/Bank mission will visit Morocco in October to work with the Government in devising a new scheme. We would suggest that you stress to the delegation the need for flexibility in examining this issue, and in particular that a rise in interest rates should not be ruled out as one possible solution to the problem. A solution that would place the full burden for covering foreign exchange losses on the financial intermediaries themselves in the absence of market-based hedging instruments would be economically unsound, would pose insuperable financial difficulties for the banks, and would inhibit our ability to provide credit through them to industry, agriculture or the housing sector. However, any transitional solution should minimize distortions and budgetary costs. (Loans totalling over US\$400 million could be jeopardized in FY89.)

Attachment I

MOROCCO

FY88-92 Lending Program  
(in millions of US dollars)

	FY88 (Actual)	FY89	FY90	FY91	FY92	Sector Total (FY88-92)
<u>Agriculture</u>						
Agricultural Sector II	225.0					
Small & Medium Irrig. II	23.0					
Agr. Extension & Research I		29.0				
Agric. Credit (CNCA) VII		190.0				
Forestry II			50.0			
Agric. Sec. Inv. Loan				150.0		
LSI/Land Use Plan (S)					150.0	
Sub-total	248.0	219.0	50.0	150.0	150.0	817.0
<u>Population and Human Resources</u>						
Rural Primary Education		60.0				
Health II			50.0			
Secondary Education (S)				100.0		
Vocational Training III					50.0	
Sub-total	-	60.0	50.0	100.0	50.0	260.0
<u>Industry &amp; Energy</u>						
Industrial Finance		120.0				
PERL II			200.0			
Petroleum Tech. Assist. (S)			18.8			
Power Distribution	90.0					
Jorf Lasfar Power Station (S)				200.0		
Rural Electrification (S)					50.0	
Industrial Finance II (S)					75.0	
Sub-total	90.0	120.0	218.8	200.0	125.0	753.8
<u>Infrastructure</u>						
Housing Finance (S)			85.0			
Fifth Highways			60.0			
FEC II (S)				50.0		
Transport Sector (S)					100.0	
Nat. Water Supply & Sew.					125.0	
Sub-total	-	-	145.0	50.0	225.0	420.0
<u>Country Economic</u>						
SAL I		200.0				
SAL II				200.0		
Public Administration Loan		27.0				
Sub-total	-	227.0	-	200.0	-	427.0
<u>TOTAL</u>	338.0	626.0	463.8	700.0	550.0	2,677.8
	=====	=====	=====	=====	=====	=====
No. of Operations	3	6	6	5	6	26

(S) Denotes stand-by.

Attachment II

BIOGRAPHICAL INFORMATION

Mohammed BERRADA, Minister of Finance, and Bank Governor

Date of Birth: November 3, 1944 in Casablanca, Morocco

Education - College in Bordeaux, France (1960-1968) (Laureate)  
Obtained the following diplomas:

- . Degree from Ecole Supérieure de Commerce et d'Administration des Entreprises
- . License and D.E.S in Economic Sciences
- . Certificate in demographic sciences and social psychology
- . Degree in political sciences
- . License in literature
- . D.E.S.. in Law
- . PhD in Economic Sciences (1968)

Career: Professor in the faculties of Law, Economic and Social Sciences of the Universities of Rabat (from 1969) and Casablanca (from 1971) where he taught economic history, business management, introduction to accounting, demographic science, cost accounting, national accounting, economic theory and financial management. Participated in several national and international seminars.  
Is a CPA and an Executive Director of several private enterprises.

7840B

1988 ANNUAL MEETINGS  
NEPAL  
SENIOR MANAGEMENT UPDATE (BULLET POINTS)

1. Reserve Position (para. 1)

Please note that with HMG's improved reserve position, the need for quick-disbursing loans of the magnitude envisaged is significantly weakened. We will be discussing with HMG the possibility of using its reserves rather than contracting \$51 million in suppliers credits for financing an aircraft purchase and with the ADB the possibility of scaling down its Agricultural Imports Program Loan (which includes \$55 million of ADB funds plus \$30 million in Japanese co-financing). We may also need to review the size of the proposed IDA credit for SAL II (presently \$60 million) in the light of potential co-financing.

2. Earthquake (para. 4)

The Bank has now received a request from HMG for housing reconstruction. We have responded that a Bank mission scheduled to start work in Kathmandu on September 26 will discuss this possibility with HMG (Mr. Karaosmanoglu sent a letter to this effect to the Minister of Finance on September 14). Moreover, if additional funds are needed for the reconstruction effort following the damage assessment, it appears that there may be savings in some ongoing projects which could be used.

3. Karnali and Pancheswar Hydropower Projects (para. 5)

The Bank's Aide Memoire on this subject has been sent to the Executive Directors for India and Nepal (copy attached).

4. Bangladesh Floods/Regional Issue (new)

Please refer to Senior Management Update (Bullet Points) for Bangladesh. Further to the concern of the Bank and others regarding the development of a longer-term strategy to address the flood control problem in Bangladesh and neighboring countries, you may wish to note that we believe there is a need, and now is the time, for a renewed and more concerted regional approach to the problem. You may further wish to seek the delegation's reaction to the idea of an international symposium of experts, sponsored by the Bank, to discuss the regional technical aspects of the problem.

September 16, 1988



# Record Removal Notice

<b>File Title</b> President Barber Barber Conable - Annual Meeting Files - 1988 - Background		<b>Barcode No.</b>  1781150		
<b>Document Date</b> September 5, 1988	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To: Mr. C.R.K. Rao Sahib, Executive Director (India) From: Atilla Karaosmanoglu, ASIVP				
<b>Subject / Title</b> Karnali and Pancheswar Multipurpose Projects				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Kim Brenner-Delp</td><td><b>Date</b> February 14, 2023</td></tr></table>	<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> February 14, 2023
<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> February 14, 2023			



## 1988 ANNUAL MEETINGS BRIEF

### NEPAL

September 28, 1988

**Meeting with:** Mr. B.B. Pradhan, Minister of Finance  
Mr. L.B. Shrestha, Secretary of Finance  
Mr. G.B. Thapa, Governor, Nepal Rastra Bank  
Dr. S.N. Shah, Additional Secretary of Finance

**Population:** 17.5 m (1987)                      **Estimated Growth Rate:** 2.4% (1987)

**GNP per capita:** \$154 (1986)

	(\$ million)		(\$ million)
<b>Total Commitments to date</b>	799.0	<b>FY88: Commitments</b>	71.2
of which: IDA (51 operations)	(799.0)	<b>Disbursements</b>	96.2
<b>Total Undisbursed:</b>	438.2	<b>Amortization</b>	1.2
<b>Lending Program FY89-90:</b>	176.0		

<u>Summary Data</u>	Average	Estimate	
	1983-87	1988	
GDP growth	4.1	7.1	Aid Group Meeting: Aid Group   Last Meeting: April 25, 1987   IMF Status (August 1988):   Article IV mission just   returned from field.   Second-year SAF under pre-   paration.
Export growth	1.3	10.8	
Import growth	2.3	12.4	
Current Acc. Deficit (% GDP)	7.5	7.0	
Gross Debt Service Ratio	5.3	8.0	
Annual Inflation Rate	9.0	8.7	

**Background:** Despite promising recent economic performance, Nepal remains one of the world's poorest countries and suffers from the debilitating effects of severe population pressure, stagnant agricultural productivity and sluggish off-farm employment growth. Moreover, Nepal's development institutions are notably ineffective and its absorptive capacity is consequently poor. Recent SAL-related reforms have had some initial successes, but will need a good deal of reinforcement if the country's long term prospects are to improve.

### Issues likely to be raised by Delegation

1. Status of Nepal-IDA Relationship
2. Earthquake

### Issues to be raised by Bank Management

1. Karnali and Pancheswar Hydropower Projects

### Attachments

- Five Year Lending Program: FY88-92 (FY88 actual)
- Biographical Information
- Memo from Alisbah and Asanuma to Qureshi of 7/18/88

## Background

1. Nepal's recent economic performance has been encouraging; GDP growth during the three-year 1985/6-1987/8 period is estimated to have exceeded 4% per annum. Under HMG's Structural Adjustment Program, supported by an IMF Standby (1985), a SAL and a SAF (both in 1987), macro-stability has been restored and initial steps have been taken to address entrenched structural problems. Industrial growth has accelerated, in response to deregulation and improved access to imports; cash-crop production has risen as fertilizer availability has increased; and an improved development budgeting system has been introduced, contributing to better budget allocation. Nepal's problems remain daunting, however. Severe population pressure on a meagre resource base has led to declining foodgrain productivity, increasing poverty and rapid deforestation; public administration remains extremely weak and service delivery highly deficient; donor contributions are still improperly coordinated and often wasteful. Recently, HMG has launched a major program designed to promote growth and to meet the basic economic and social needs of the poor. Serious pursuit of the Basic Needs Program's laudable objectives will require further structural reform, both of economic policies and development institutions. The adjustment process has already proven controversial, and IDA has at times been singled out for criticism as the "enforcer" of the program.

## Issues Likely to be Raised by Delegation

2. Status of Nepal-IDA Relationship, and SAL II. It is likely that the Minister of Finance will wish to brief you on Nepal's recent macroeconomic and sectoral successes, and to reaffirm HMG's commitment to the achievement of basic living standards for the whole population by the year 2000 (the Basic Needs Program). It is also likely that the Minister will infer that IDA is not giving HMG due credit for recent achievements; he may complain about what he considers to be a rigid approach to the fulfillment of conditionality on important operations. The Minister may cite by way of example the delay in SAL I second tranche release (now resolved), and current IDA requests for HMG to undertake a number of environmental protection and resettlement measures prior to negotiations for the Arun III Access Road Project. Indeed, he might add that others among Nepal's development partners are currently adopting a more appreciative stance and are showing a greater understanding of Nepal's difficulties. The Minister may then go on to request that SAL II (FY 90(S); appraisal due late in 1988) contain a minimum of "burdensome" new conditionality. An important element in current HMG perceptions is the growth in ADB and Japanese assistance, with commitments in each case likely to exceed ours considerably over the coming years. Neither agency, on present evidence, is predisposed to pursue structural reform as strongly as we are.

3. We would suggest that you avoid a point-by-point response to specific objections that the Minister may raise. Instead, you may first wish to commend HMG and the Minister himself on the achievements registered thus far under the adjustment program, and to reiterate our previous endorsement of the objectives and growth-oriented policies of the Basic Needs Program. IDA support for HMG's adjustment program is reflected in the provision in our lending program for at least two more SALs (FY90S, FY91), while our proposed operations in agricultural extension, irrigation, municipal management/rehabilitation, population/health and education will

all contribute directly to Basic Needs. Equally, however, you may wish to point out that IDA did not insist upon compliance with all of the agreed second tranche conditionality of SAL I, but focused only on those actions which we felt were of critical importance, and which HMG had repeatedly assured us would be complied with in the very near future. If the Minister returns to Arun III and the environment, you may wish to say that you appreciate the need to expedite road construction in order to minimize delays in the commissioning of the Arun III hydropower scheme, while underlining the importance of ensuring that resettlement and environmental controversies be avoided at a time when international scrutiny of these matters has greatly increased.

4. Earthquake. On August 21, a powerful earthquake measuring 6.7 on the Richter scale struck the eastern Nepal foothills. Estimates of casualties indicate up to 1,000 dead in Nepal and about 200 in India. HMG is undertaking a damage assessment and has already appealed for emergency assistance. The Secretary of Finance has verbally asked IDA for a special credit to finance private housing reconstruction, and staff are reviewing this possibility (the proposed Municipal Management and Rehabilitation project (FY90S) would be a likely vehicle for such assistance). In addition, we are currently looking into the scope for reallocating funds from existing credits towards earthquake reconstruction works. The Minister may reiterate the request for housing reconstruction assistance, and may ask for IDA assistance in other areas as well (the East-West Highway, for example, is reported badly damaged). You may wish to assure the Minister that we stand ready to help. At this stage, we await HMG's needs assessment; once received, we and other donors can discuss with HMG who should assist with which aspects of the reconstruction process.

#### Issues to be Raised by Bank Management

5. Karnali and Pancheswar Hydropower Projects. (Please see attached memo from Alisbah and Asanuma to Qureshi of 7/18/88, and also refer to India Annual Meetings Brief.) During the next several months, Nepal and India will review the results of the IDA-financed Karnali feasibility study, under the auspices of the bilateral Karnali Coordination Committee; HMG intends to hold a high-level meeting in early CY89 at which an international Panel of Experts would be asked to pass judgement on the project. IDA staff have concluded from the study results that the proposed project would provide India with power at significantly lower cost than other identified alternatives. As a next step, in advance of the Annual Meetings, we propose to send an Aide Memoire to the Executive Directors for Nepal and India to be relayed to the respective Governments; in addition to indicating IDA's willingness to assist the two countries to develop the Karnali and Pancheswar projects, the Aide Memoire will outline the key issues which need to be considered in the further evaluation and preparation of these projects (i.e., riparian rights, macroeconomic impact, technical feasibility, environmental concerns and financial/operational management). The Annual Meetings provide you with an opportunity to initiate discussions with both delegations which can be pursued in more depth during your upcoming visit to India and Nepal, should both Governments express a wish that IDA become thus involved. (The Aide Memoire is being drafted and will be sent to you shortly.)

## NEPAL

FY88-92 Lending Program

(US\$ Million)

	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>
<u>Agriculture</u>					
Mahakali II Irrigation	41.3				
Forestry III (Hills)		37.0			
Ag Extension & Research III (S)				15.0	
Irrigation Sector				25.0	
Forestry IV (Terai)					23.0
<u>Education</u>					
Engineering Education (S)			13.0		
Basic Education/Poverty Allev (S)					20.0
<u>Hydropower</u>					
Tech Asst. III/Pancheswar	14.4				
Arun III Access Road		22.0			
Arun III Hydropower (S)				90.0	
Karnali Preparation II					20.0
<u>Industry</u>					
Industrial Finance			20.0		
<u>Macroeconomic (SALs)</u>					
SAL II (S)			60.0		
SAL III				60.0	
<u>Population &amp; Health</u>					
Population and Health					20.0
<u>Transport</u>					
Road Flood Rehabilitation	15.5				
Multimodal Transport (S)			14.0		
<u>Urban &amp; Water Supply</u>					
Municipal Management & Rehab (S)			10.0		
Total Lending Program	71.2	59.0	117.0	190.0	83.0
No. of Operations	3	2	5	4	4

Five-Year Total: \$520.2

Annual Average: \$104.0

August 15, 1988

BIOGRAPHICAL INFORMATION

Hon. Bharat Bahadur Pradhan  
Minister of Finance  
Governor of World Bank and Head of Delegation  
(Born: 1924)

Mr. Pradhan is the driving force behind the Government's adjustment program, and the key actor in the SAL process. Above all others, it is he who convinced His Majesty and HM's advisers of the need for and benefits to be gained from an adjustment program. He was formerly Finance Secretary (1971-76) and Alternative Executive Director of the Bank (1976), besides holding a variety of other government positions. He is a self-styled technocrat and is characterized locally as a man of integrity. In March 1988, Mr. Pradhan was promoted to full Minister; coming after only two years in office, this is seen as a clear endorsement of his performance. He was also Minister for Industry during this period (from June 1986 - March 1988). Mr. Pradhan is the Bank's chief interlocutor in Nepal. Relations with him have been excellent over the years, though somewhat strained recently due to the delay in release of the second tranche of SAL I. Mr. Conable has met Mr. Pradhan on several occasions in Washington and Nepal.

Hon. Ganesh Bahadur Thapa  
Governor of Nepal Rastra Bank  
Governor of IMF  
(Born: 1936)

Mr. Thapa began his career in the Rastra (Central) Bank as an assistant accountant in 1957. Since then he has held a number of important positions in the Government, including that of General Manager of the Nepal Industrial Development Corporation. In 1979 he served as a UNIDO adviser to the Government of Indonesia. As Chief Executive of the Rastra Bank and the Government's Economic Adviser, Mr. Thapa plays a crucial role in shaping HMG's fiscal policy, and has played a significant and positive part in the adjustment program. He is known as a proponent of privatization. Mr. Conable met Mr. Thapa during his visit to Nepal.

Mr. Lok Bahadur Shrestha  
Secretary of Finance  
(Born: 1934)

After beginning his career as an economics lecturer in Kathmandu, Mr. Shrestha worked for 12 years in the Ministry of Finance before transferring in 1978 to the Ministry of General Administration. He has been Secretary of Finance since 1985, and together with the Minister has overseen the stabilization and adjustment process. The Bank has enjoyed an excellent relationship with Mr. Shrestha. Mr. Conable has met him in Washington and in Nepal.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION  
**OFFICE MEMORANDUM**

**DECLASSIFIED**

FEB 14 2023

**WBG ARCHIVES**

**CONFIDENTIAL**

DATE: July 18, 1988

TO: Mr. Moeen A. Qureshi

FROM: B. Alisbah, Acting RVP (ASI), and S. Asanuma, Director (AS1)

EXTENSION: 73592 & 75431

SUBJECT: INDIA/NEPAL - Proposed Bank Support for Large Hydropower Projects

1. The attached note, which was approved in substance by Mr. Karaosmanoglu before he went on home leave, provides an initial, broad indication of how the Bank could support the development of large hydropower projects in Nepal intended to supply India, as Messrs. Karaosmanoglu and Asanuma discussed with you earlier this year. We would like to discuss it with you, and if you agree with the proposed approach, we will commence work in greater detail along the lines suggested. The main points made in the note are summarized below:
2. Efficient development of large hydropower projects in Nepal to supply power primarily to India is Nepal's most promising long-term foreign exchange-earning option. India faces acute power shortages, but thus far there have been only negligible power exchanges between Nepal and India. Progress in developing the projects to meet the two countries' complementary needs may be hindered by difficulties in agreeing how the projects should be developed and their benefits shared. Resolution of the complex technical, financial, institutional, legal and riparian rights issues involved in these projects will be complicated by the asymmetrical economic and political relations between India and Nepal. Furthermore, because of the sensitivity of the issues involved, the two countries may be unwilling to accord the Bank the kind of intermediary roles outlined below. We will therefore have to proceed cautiously and diplomatically, recognizing that the scope of the Bank's role will depend heavily on the success of our initial efforts.
3. Power exports from Nepal to India could be significantly increased by (i) increasing the generation capacity of Nepal's interconnected system and exporting bulk power and (ii) developing very large projects intended primarily to supply India. Nepal's Arun 3 Project (400 MW), for which detailed designs are being prepared with the assistance of IDA and KfW, is the first generation project which could be developed to export bulk power. It is scheduled to be commissioned in 1996. Although Arun 3 will require new pricing and interconnection agreements with India, it can be developed as a Nepalese project and does not require the special arrangements outlined below for the very large hydroprojects.
4. The massive, multi-billion dollar Karnali (16,200 MW) Project in Nepal and the Pancheswar (up to 6,000 MW) Project on the border between India and Nepal are being studied for development during the 1990s to provide power primarily to India early in the next century. The IDA-financed Karnali feasibility study scheduled to be completed in early 1989 has already demonstrated that it could be a very economic source of power

Mr. Moeen A. Qureshi

for northern India. During 1988-89 Nepal will conduct field investigations of Pancheswar with IDA technical assistance to acquire information comparable to data already collected by India, in preparation for a full feasibility study. There is sufficient demand in India to justify both projects eventually. The Bank should urge India and Nepal to organize to develop Karnali while conducting further studies of Pancheswar, which could also be developed in due course.

5. Assuming reasonable progress in addressing issues as they arise, the development of the Karnali and Pancheswar Projects can be divided into three broad phases:

Phase 1 (1988-89): finalization of the Karnali feasibility study, agreement between India and Nepal on the project's scale and layout, and a decision by the two countries to proceed with the detailed engineering for Karnali while organizing the feasibility study for Pancheswar;

Phase 2 (1990-94): preparation of detailed designs and tender documents as well as development of the institutional, financial and legal arrangements for the Karnali project, preparation of the Pancheswar feasibility study, final decisions by India and Nepal on the institutional/financial framework for Karnali and its construction and on the next step in Pancheswar's development, and mobilization of co-financing for Karnali;

Phase 3 (1995-2005): construction of Karnali and final design of Pancheswar.

6. A special role is recommended for the Bank in developing these projects because of the technical complexities arising from their scale, the large foreign financing requirements and the need for complex bilateral agreements between Nepal and India. During Phase 1 the Bank's main role will be to review the Karnali feasibility study technically and assist in exchanges of views between India and Nepal, encourage both countries to proceed with the detailed preparation of Karnali while continuing to study Pancheswar, and help them plan and arrange financing for the Phase 2 project preparation work, which IDA would probably co-finance. The two governments will need to develop organizational arrangements for this work; options include the creation of a binational authority and the establishment of a multilateral organizational framework in which IDA could play the leading role.

7. Given the projects' scales and the sensitivity of the issues involved, the Bank's senior management will need to pursue previous initiatives to foster economic cooperation between India and Nepal (most recently by Mr. Conable when he last met Prime Minister Gandhi) by becoming involved at key points during these projects' development. During the latter part of Phase 1 senior management could play important roles in (i) persuading the two governments to proceed with Karnali while continuing to study Pancheswar and (ii) offering the Bank's assistance to begin mobilizing grant funds, preferably untied, for the very large Phase 2 preparation exercise (US\$40-50 million). If the initial discussions about the organization of the Phase 2 preparation work indicate the two countries

Mr. Moeen A. Qureshi

might accord the Bank an executive role in administering the studies, it may be appropriate for senior Bank managers to discuss specific proposals with the highest political authorities in India and Nepal. Finally, senior management could play a significant role in helping to mobilize the massive co-financing which will be required for the Phase 2 studies as well as Karnali's construction. The co-financing will need to be broadly based because of its scale, but Japan could play a particularly significant role in view of its development policies and the prospects of supplying Japanese equipment.

8. In addition to the roles envisaged for Bank staff and senior management, it may also be appropriate to arrange for a distinguished individual or group of individuals with an established reputation in the development field to play an intermediary role to help India and Nepal reach agreement on the project's characteristics and the framework for the Phase 2 studies.

9. During your trip to Nepal and India in October-November we suggest that you express the Bank's interest in these projects' development, seek higher level support for Bank working level staff to pursue the kinds of issues raised in this note with their Indian and Nepalese counterparts, and indicate the Bank's willingness to provide its services to support the projects' development. More specific proposals would be discussed at a later stage.

Attachment:

cc: Messrs. Karaosmanoglu (o/r), Wiehen (ASIVP); Golan (ASTDR);  
McCarthy (AS4TE); Smith (ASTEG); Clift, Huang, Roberts (AS1CO)  
Nepal Resident Mission  
Asia Information Center

FTemple/ASanchez:mcp



1988 ANNUAL MEETINGS BRIEF

POLAND

August 30, 1988

Meeting with: Prof. Wladyslaw Baka, Secretary of Politburo, and Bank Governor

Population: 37.8m (1987) Estimated Growth Rate: 0.8% (1980-85)  
 GNP per capita: \$1920 (1987)

	(\$m)		(\$m)
Total Commitments to date:	none	FY88 Commitments:	none
Lending Program: FY89-90	\$725		

<u>Summary Data</u>	<u>Average</u> 1983-87	<u>1988</u>
GDP growth	4.2	4.5
Convertible & Non-Conv. Currency		
Export growth	6.0	8.0
Import growth	6.4	8.0
Convertible Currency		
Export Growth	6.5	11.0
Import Growth	4.1	10.0
Current Account Deficit (% GDP)	-1.1	-0.7
Gross Debt Service Ratio (Paid)	27.0	35.0
(Owed)	99.4	65.0
Annual Inflation Rate	19.1	54.0

IMF Status as of 8/88:  
 Art. IV report 8/88;  
 Board Disc. 9/14/88

Background:

1. Political: internal-popular support for Gov. remains weak, constraining its capacity to pursue economic reforms which necessarily have short run, adverse consequences; recent party shakeup to elevate reformers; external - good support for reforms from USSR; warming trend in West.
2. Economic: recovery continues, with strong export growth, but further institutional/structural reforms needed to sustain growth; internal and external adjustment program being developed.
3. Bank Operations: active ESWP and advice on reform/recovery programs; two loans for key export activities ready to negotiate and solid pipeline of restructuring activities being prepared.

Issues likely to be raised by the Delegation

1. Progress on Government's Reform and Adjustment Plans
2. Scope and Timing of Bank lending
3. Constituency, if it remains unresolved

Issues to be raised by Bank Management:

1. Prospects for Implementing Economic and Political Reforms
2. Pace of Current Account Adjustment
3. Strategy for Dealing with Paris Club

Attachments:

FIVE-YEAR LENDING PROGRAM: FY89-93 (FY88 actual)  
 Biographical Information

## BACKGROUND

1. The Polish authorities have prepared a comprehensive economic and political reform program, which was endorsed by Parliament in February 1988. Important parts of the program are already being implemented, including reductions in the size and powers of the central administration, improved export incentives, increased autonomy for enterprises, and improved exchange rate management. Work continues to develop and pursue concrete implementation plans for ongoing reform work, including decentralization of the banking system, reform of the tax system, reducing the incidence of price controls, breaking up of unwanted monopolies, and facilitating the formation of new enterprises. The Polish authorities are also implementing measures to reduce distortions in the price structure (notably large increases in prices of energy, foodstuffs and rent) and are seeking to reduce imbalances in domestic markets through price increases and other measures to increase supply.

2. This program has yielded some success: the economy continues to grow at good rates (4% projected for 1988) and trade reforms and exchange rate management led to increased convertible currency export earnings by over 10% in real terms during 1987 and over 20% during the first six months of 1988. However, other parts of the macroeconomic management program were not successful, as wages were allowed to increase significantly in real terms rather than the planned decline, and inflation accelerated beyond planned levels. The resulting excess demand at current price levels is undermining the thrust of the reforms, as it gives rise to the temptation to continue to use controls on prices, wages, allocation of materials, and foreign trade, measures which need to be phased out if an efficient decentralized economic system is to be established. It also raises doubts about the feasibility of quickly balancing the current account, which is a prerequisite for establishing Poland's creditworthiness.

3. During Prof. Sadowski's visit to Washington, the Polish authorities received clear signals that, if they put together a macroeconomic management program which provides a suitable environment for implementation of the reform and reestablishes sound external financial relations, international support will be forthcoming. Options and tradeoffs for a stabilization program are being studied and will be discussed with an IMF mission in October, which is expected to begin negotiations for a Standby. However, the uncertainty of public support (or as a minimum, tolerance) for the reform program and stabilization measures affect the Government's capacity to pursue the reforms as forcefully as needed, and it is not certain that the Government will be able to implement fully the economic reforms as now planned. Current political developments seem to indicate concern about such constraints, but also a desire by all parties to deal constructively on such matters.

## ISSUES

### Part I: Issues Likely to be Raised by the Delegation

1. (a) Progress on Government's Reform and Adjustment Plans: The delegation is likely to outline the Government's efforts to sustain the reform program and develop an adjustment program. They will likely stress the need for appropriate levels of external support to permit a more rapid pace of adjustment.

(b) Recommended Position: You may wish to inquire about the Government's current thinking about the major variables in their draft stabilization program, including their views on ranges of real income growth (or more likely decline) that would be required in macroeconomic terms (and hopefully also be politically acceptable) and the tradeoffs between increased imports and increased debt service that would be possible from expanded export earnings. You may also wish to inquire about their views on how the pace of institutional and other policy reforms will be affected by the stabilization measures, including the effects of introducing price freezes and other administrative (as opposed to market-based) measures to curtail/redirect investment.

2. (a) Scope and Timing of Bank Lending: The Polish authorities will seek confirmation of when and how the Bank will initiate lending.

(b) Recommended Position: You may wish to note that the good progress already attained in developing and implementing sound economic reform and debt management measures enabled the Bank to approve an advance from the PPF of \$1.5 million to support preparation of the proposed first industrial project as well for the IFC to begin negotiations for its proposed first investment. You may wish to explain that (assuming that all continues to go well), the Bank intends to invite negotiations for the first loan after the basic ingredients of the stabilization program are agreed with the IMF and to present the loan to our Board for approval once the Standby is scheduled for IMF Board discussion. (To be updated after September 14 Article IV Board meeting, to reflect updated reading of Paris Club intentions and timing of IMF activities.)

3. (a) Constituency: Despite two years of consultations, Poland has still not been able to join a constituency at the Board. Discussions with the Italian group have proved inconclusive to date. Although this is normally a matter for member countries to resolve among themselves, it is beginning to undermine the credibility of the Bank in accepting Poland as a member (note also that Poland has recently become a contributing member of IDA and is in the process of joining MIGA). In the event the constituency matter is not resolved before the Annual Meetings (note: the Polish Ambassador may request further meetings with Bank Senior Management prior to the Annual Meetings to discuss specific steps), the Polish delegation may request your advice on how to proceed as well as your direct assistance in negotiating with potential constituencies.

(b) Recommended Position: You may wish to press the delegation to be clearer about the Government approach and more specific about what it would like Bank senior management to do.

## Part II: Issues to be Raised by Mr. Qureshi

1. (a) Prospects for Implementing Economic and Political Reforms: Beyond the need for conceptually-sound economic reform measures, there is also the need for the reform programs to be feasible within the Polish institutional and political context. The linkage of economic and political reforms is hotly debated both within the Party and among the general population. It is clear that the prospects for a successful stabilization program rest mainly on their acceptability to the general population. And, although the medium-term plans do not call for large net increases in international lending, the programs do require support from official creditors (through at least continued rescheduling of principal through the mid 1990s), who take a strong interest in Poland's domestic political situation.

(b) Recommended Position: You may wish to inquire about the Government's reading of the current domestic political situation and how it plans to deal with the linkages of economic and political reform, and of internal and external adjustments.

2. (a) Pace of Current Account Adjustment: The pace of adjustment to balance the convertible currency current account is a key factor in normalizing international financial relations. While the Poles have improved their position on this issue (currently forecasting balance in 1991), they continue to be reluctant to press for as rapid an adjustment as desired and seen as feasible by their creditors (given the fact that the deficit was only \$417 million in 1987--0.6% of GDP).

(b) Recommended Position: You may wish to encourage the Polish authorities to formally establish 1989 as the target for balancing the current account under a stabilization scenario which also includes inflows of international financial assistance. This seems a reasonable target both in terms of the capacity of the economy (growing at 4% in real terms) and of the "politics" of dealing with Paris Club creditors. It is our view that balancing the current account in such a timeframe would allow imports and output to rise at acceptable rates, stabilize Poland's debt and lay the groundwork for voluntary capital inflows.

3. (a) Strategy for Dealing with Paris Club: International financial arrangements have improved. Poland finally completed all arrangements for a London Club multi-year rescheduling, covering nearly all commercial debt (under which Poland continues to service all interest due but at a reduced rate of only 13/16% over Libor), and the Soviet Union rescheduled payments on half of the \$3 billion hard currency debt owed it by Poland. Relations with the Paris Club, which is the major creditor to Poland (holding about \$28 billion of the \$41 billion debt), remain difficult. The recent 1986-88 Paris Club rescheduling was thought to be a breakthrough as it provided a window of opportunity in 1988 to come to terms with the IMF. However, it has proved difficult to put this rescheduling agreement into operation as the Polish authorities have pressed hard in bilateral negotiations for lowered interest rates and also for new money. The Polish authorities have not agreed to sign the underlying bilateral agreements without at least some concessions, which are seen as necessary to convince some factions in Poland that it is worth regularizing relations with the Paris Club. In the meantime, goodwill is being used up, and another round of Paris Club negotiations should begin soon for 1989 payments, which all parties agree will need to be rescheduled. Just how much interest will need to be capitalized under the next rescheduling agreement will be a major variable in the stabilization program now being designed.

(b) Recommended Position: You may wish to inquire about the latest developments with Paris Club members on a bilateral basis, and urge that the Polish authorities move to complete the arrangements for the 1986-88 rescheduling as soon as possible. You may also wish to inquire about the Government's plans for the next reschedulings. You may wish to remind the delegation that such agreements are important to trigger other potential assistance (e.g., the IMF, Bank, export-credit coverage), which may in turn ease cashflow difficulties encountered in meeting agreed Paris Club payments.

## POLAND

FY89-93 Lending Program  
(in \$ million)

	<u>Actual</u> <u>FY88</u>	<u>FY89</u> <u>1/</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>Sector Total</u>
<u>Agriculture</u>							
Agro-Industry		75.0 <u>1/</u>					75.0
Livestock Feed				100.0			100.0
Sub-total		75.0		100.0			175.0
<u>Transportation</u>							
Transport I				100.0			100.0
Transport II						100.0	100.0
.....							
Sub-total				100.0		100.0	200.0
<u>Industry</u>							
Ind. Export Devl		250.0 <u>1/</u>					250.0
Ind. Restr. I			150.0				150.0
Technology Devl					50.0		50.0
Ind. Restr. II					200.0		200.0
Industrial Policy						150.0	150.0
Sub-total		250.0	150.0		250.0	150.0	800.0
<u>Energy</u>							
Energy I			250.0				250.0
Energy II				250.0			250.0
Energy III					200.0		200.0
Sub-total			250.0	250.0	200.0		700.0
<u>Other</u>							
Telecom I					60.0		60.0
Environment						50.0	50.0
Sub-total					60.0	50.0	110.0
<u>Total</u>		325.0 <u>1/</u>	400.0	450.0	510.0	300.0	1985.0

1/ Country ceiling for FY89 is \$250 million. Loan amounts of two appraised projects may have to be revised prior to negotiations to remain within this ceiling

POLAND

BIOGRAPHICAL INFORMATION

Professor Wladyslaw Baka

Member of the Politburo  
Secretary of the Central Committee of the Polish United Worker's Party  
and World Bank Governor

Born on March 24, 1936 in Warsaw. Married.  
Graduated in 1959 from the University of Warsaw and has since been a Member of the Faculty. Received his Ph.D. in economics in 1971.

In June 1988, appointed Member of the Politburo, Secretary of the Central Committee of the Polish United Worker's Party.

July 1985-June 1988 President of the National Bank of Poland.  
1981-1985 Minister of Economic Reform and Member of the Cabinet.  
1980-1981 Secretary of the Committee for Economic Reform.  
1973-1981 Deputy Chief of the Economic Bureau of Central Committee of the Polish United Workers Party.  
1971-1977 Head of Research Centre of Planning and Economic Policy at the University of Warsaw.

Member of the Polish Academy of Sciences. Numerous works on planning and economic policy published in Poland.

Member of the Consultative Council to the Chairman of the Council of State.

Speaks French and, somewhat haltingly, English.

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List of other Members of the Polish Delegation:

1. Mr. Zdzislaw Pakula, President, National Bank of Poland (NBP)
2. Mr. Grzegorz Wojtowicz, Member of the Board and Director, Foreign Department, NBP
3. Mr. Andrzej Olechowski, Director, World Bank Cooperation Bureau, NBP
4. Mr. Andrzej Scislowki, Division Chief, World Bank Cooperation Bureau, NBP
5. Mr. Michal Ostalski, Economist, World Bank Cooperation Bureau, NBP
6. Mr. Zbigniew Sosnowski, Economist, World Bank Cooperation Bureau, NBP

August 24, 1988

2805G

SENIOR MANAGEMENT BRIEF

1988 ANNUAL MEETINGS BRIEF

PORTUGAL  
August 26, 1988

Meeting with: Miguel Cadilhe, Minister of Finance and Bank Governor

Population: 9.7m (1987)<sup>1/</sup>; Estimated Growth Rate: 0.4% (1987)<sup>1/</sup>  
GNP per capita: 2,890 (1987)

	(\$m)		(\$m)
Total Commitments to date:	999.5	FY88 Commitments:	92.0
of which:		Disbursements:	79.9
Bank (29 operations)	999.5	Amortization:	98.6
		Bank share of MLT debt	4%
Total Undisbursed: <sup>2/</sup>	185.3	(estimate for 1987)	
Lending Program: FY89-90	280.0		

<u>Summary Data</u>	<u>Average</u> 1983-87	1988	
GDP growth	2.4	4.0	
Export growth	11.9	6.0	
Import growth	5.7	12.0	IMF Status: Article IV
Current Account Deficit (% of GDP)	-0.8	-2.2	Consultation 4-5/88;
Gross Debt Service Ratio	31.9	20.0	Art. IV report: 8/88
Annual Inflation Rate	19.0	8.0	Board Discussion: 8/88

Background: Social democratic majority government since July 1987. Policies focus on favorable resource transfers from EC, cautious implementation of pro-private sector policies. Steady course of economic recovery with impressive record of achievements since 1987. Two Bank operations in FY88, very weak pipeline. Negative net transfers. Good macroeconomic dialogue.

Issues likely to be raised by delegation:

Bank support for reform of public enterprises, including privatization.

Issues to be raised by Bank Management:

Medium-term Bank lending program.

Attachments:

FIVE-YEAR LENDING PROGRAM: FY89-93 (FY88 actual)

Biographical Information

<sup>1/</sup> Resident population.  
<sup>2/</sup> As of June 30, 1988

## BACKGROUND

1. Political. The centrist social democratic party (PSD) won the July 1987 elections with an outright majority. President Soares' Socialist Party leads the opposition. Prime Minister Cavaco e Silva has focussed his first year in office on negotiating very favorable resource transfers to Portugal from the European Community. He has been more cautious in implementing his pro-private sector, liberal policies which emphasize reduction of public enterprises' role and involvement in the country's economic life since several of these reforms require changes in the socialist-inspired 1975 Constitution.

2. Economic. The Portuguese economy continued on a steady course of recovery during 1987 with numerous and impressive achievements. Output growth rose to about 5% p.a. in 1986-87, from 0.3% p.a. in the previous three years, when a stabilization program was in effect. Consumption and fixed investment expenditures recovered strongly, with the private sector fully participating in the investment recovery. Inflation declined from an annual rate of 30% in 1985 to about 9% in 1987, while unemployment has fallen from previous highs of about 11% to 7%; real wages grew by about 3% annually in 1986-87. The current account of the balance of payments swung from serious and unsustainable deficits of about 14% of GDP (1982) to small surpluses of about 2% of GDP (1985-87). Some external debt was prepaid, about half the short term debt was retired and a sizeable fraction of the remaining debt was refinanced at favorable rates.

3. Public sector deficits were substantially reduced from about 20% of GDP in 1984 to about 11% in 1987. General government arrears to the public enterprise were reduced, as were public enterprise arrears to the banking system and the government took over some of the external debts of a few public enterprises. There were important reforms in the financial system. The setting of interest rates was liberalized, and interest rates have fallen steadily in the last two years in nominal terms, while time deposits now earn real rates of return. The pace of introduction of new financial instruments has also been extremely rapid.

4. In spite of this impressive performance, it remains important that these gains be safeguarded through adequate attention to the economy's structural deficiencies and that full advantage be taken from EC membership. Four areas are of particular importance. The first is to ensure that the momentum of export expansion is maintained. The second is to tackle the deep-seated problems of the non-financial public enterprise sector. The third is to revitalize agriculture. Finally, the quality of human resources needs to be significantly improved.

5. Bank Operations. At the end of FY88, the Bank portfolio consisted of 10 on-going projects. About US\$80 million was disbursed in FY88, with about US\$185 million remaining undisbursed as of June 30, 1988. Because of the recent slow down in commitments, net transfers in FY88 fell sharply to -\$40 million.

6. Efforts continued during FY88 to strengthen Bank-Portugal relations, particularly to define the Bank's role in the country's development given the increasingly large resources available from the EC. It is important for the



Government to ensure that these large inflows are put to the best use possible. The Bank could help in this regard and it has been agreed that we would provide technical assistance for project design and implementation, together with about US\$100 million per year in lending for the next 3 years. The Bank's financial role, while modest, would focus on high quality projects/programs and aim at supporting policy changes and enhancing institution building. Priority sectors for Bank involvement would be those where EIB/EC presence is limited (eg. education) or where there is need for catalytic input both on policy and institutional grounds and/or project design and implementation (e.g. industry, agriculture and infrastructure). This strategy, however, would not be easy to implement, in part because of the attractiveness of increased EC grants (over US\$2.0 billion annually for next 4 years), easy access to EIB/commercial loans and private investment. Access to these resources is also likely to erode Portugal's intentions to take the decisions necessary to confront the challenges imposed by full EC membership, including the impending single European market (1992).

7. During FY88 two projects (BFN III and Technology Education) were approved for a total of US\$92.0 million. For FY89 a regional development project has been appraised. As it involves substantial financing from, and close cooperation with the EC, this project will be a good test for the effectiveness of IBRD/EEC/Portugal cooperation in the future. Also planned for FY89 is a highways sector investment project.

8. The pipeline beyond FY89 remains very weak partly because of (a) delays in the preparation of the medium-term plan (which would form the basis of specific investment negotiations with the EC), and (b) prior actions required to justify Bank involvement in certain sectors, e.g., power (financial viability of power entity--EDP) and railways (pre-investment studies under PPF).

9. The dialogue with the Portuguese authorities on macroeconomic issues has been generally good as illustrated by our cooperation in 1986 on the Government's medium-term program for fiscal and employment policies (PCEDED). A CEM on Portugal was completed in July 1988 and is scheduled for discussion with the Government in later November 1988.

10. Portugal has completed the necessary arrangements to join MIGA, ratifying the agreement in June 1988. Its membership to IDA, however, is still pending. Although Portugal remains on the IDA roster, previous delegations to the Annual Meetings have informed us that Portugal is not currently in a position to join.

Part I: Issues Likely to be Raised by the Delegation

1. (a) Bank support for the reform of public enterprises, including privatization: The Portuguese delegation is expected to inform the Bank of recent actions taken to expedite its programs for the restructuring of public enterprises, including privatization. These include inter alia the naming of two enterprises to be privatized and the appointment of a Privatization Committee. The Government has solicited offers from the private sector for assistance to this Committee and, during Mr. Thalwitz' visit in May 1988, also inquired into the possibility of Bank support. We have as yet received no response from the Government to our suggestions for the kind of assistance the Bank could provide.

(b) Recommended Position: You should reiterate the Bank's willingness to support the Government's programs including the provision of technical assistance but within a framework (a project) that would maximize our limited resources, for example, either through the use of resources from an on-going project, a pilot operation or a substantially larger lending operation for restructuring a specific enterprise with a technical assistance component to support the Government's overall program. We await the Government's formal response to these proposals.

Part II: Issues to be Raised by Mr. Qureshi

1. (a) The Medium-term Bank Lending Program: Bank lending to Portugal over the past four years has averaged only \$52 million per annum, net of cancellations. The initial steps taken in December 1987 to agree on a more substantial program were encouraging. They, however, seem to have been undermined by the increased availability of EC resources. With a per capita income currently estimated at US\$2,890, Portugal is at 85% of the Bank's graduation benchmark.<sup>1/</sup> Capital flows from the Bank to Portugal were -\$18.7 million in FY88. An annual volume of lending of \$100 million would barely make these flows positive.

(b) Recommended Position: You may wish to emphasize the need to strengthen the pipeline in order to maximize the benefits of Bank assistance as Portugal approaches graduation. In this context, it may be useful if a more formal framework for tripartite discussions among Bank, EC and Government is established for the purposes of better coordinating and planning the use of financial and technical assistance resources for Portugal's development needs. You may wish to solicit the views of the delegation on this proposal.

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<sup>1/</sup> \$3,385 for 1987.

## PORTUGAL

FY89-93 Lending Program  
(in \$ million)

	Actual FY88	FY89	FY90	FY91	FY92	FY93	Sector Total
<u>Agriculture</u>							
Tras-os-Montes II		100					100
Forestry II				30			30
Ag. Devt.					50		50
Sub-total		100		30	50		180
<u>Education</u>							
Technology Education	32						32
Education Sector			30				30
Education V					50		50
Sub-total	32		30		50		112
<u>Transportation</u>							
Highways IV <sup>1/</sup>		100					100
Railways			100				100
Transport						100	100
Sub-total		100	100			100	300
<u>Industry/Energy</u>							
BFN III	60						60
Industrial Restr./ BFN IV				50			50
EDP (Power)						100	100
Sub-total	60			50		100	210
<u>Total</u>	92	200	130	80	100	200	802

<sup>1/</sup> Status of this project uncertain and is to be raised as an issue at the regional meetings.

August 26, 1988  
2802G

PORTUGAL

BIOGRAPHICAL INFORMATION

Dr. Miguel Jose Ribeiro Cadilhe, Minister of Finance and Bank Governor

Born November 10, 1944 in Barcelos

Graduated in Economics from Oporto University in 1968. Researched on macroeconomic policy at the London School of Economics.

1968/1975, 1977/1979, 1983/84. Lectured at the Oporto University.

1980. Secretary of State of Planning in the 6th Constitutional Government.

1982-85. Head of the Department of Economic and Financial Studies of the Banco Portugues e do Atlantico.

Since 1985. Minister of Finance

Limited English.

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List of other Members of the Portuguese Delegation:

Carlos Tavares da Silva	- Chief of Staff of Minister of Finance
Luis Moreno	- Director-General, Treasury
Alberto Oliveira Pinto	- Chairman, Caixa Geral de Depositos
Joao Salgueiro	- President, Banco de Fomento Nacional
Luis da Cunha	- Adviser to the Minister of Finance
Isabel Pinto Correia	- Deputy Director General, Treasury

August 26, 1988  
2802G

1988 ANNUAL MEETINGS  
SRI LANKA  
SENIOR MANAGEMENT UPDATE (BULLET POINTS)

1. Structural Adjustment Program (para. 2)

Contrary to the earlier IMF view that the Government would be able to meet the principal targets under the Structural Adjustment Facility in 1988, the prospects now are that the fiscal targets and several policy actions are unlikely to be met. Specifically, the 1988 fiscal deficit is expected to be 2% of GDP higher than planned and inflation has accelerated to 14% compared to 7.5% forecast. The privatization program which was to start in 1988 with selling of shares of three relatively small enterprises is unlikely to be initiated in 1988.

2. Delegation List

You may wish to note that the delegation will include Dr. Lloyd Fernando, Director of National Planning, Ministry of Finance and Planning (MOFP). Mr. A.S. Jayawardena, Senior Deputy Governor, Central Bank of Sri Lanka and Mr. Ackiel Mohamed, Director of External Resources Division, MOFP will not be part of the delegation.

September 16, 1988

## 1988 ANNUAL MEETINGS BRIEF

### SRI LANKA

September 28, 1988

**Meeting with:** The Honorable M.H.M. Naina Marikar, Minister of Finance & Planning  
C. Chanmugam, Secretary, Ministry of Finance & Planning  
A. S. Jayawardena, Senior Deputy Governor, Central Bank of Sri Lanka  
Ackiel Mohamed, Director, External Resources Division, MOFP

**Population:** 16.1 m (1986)                      **Estimated Growth Rate:** 1.6% p.a. (1986)

**GNP per capita:** \$400 (1986)

	(\$ million)		(\$ million)
<b>Total Commitments to date</b>	1,206.8	<b>FY88: Commitments</b>	179.5
of which: IDA (49 operations)	(1,063.6)	Disbursements	70.4
Bank (12 operations)	(143.2)	Amortization	4.3
<b>Total Undisbursed:</b>	534.9		
<b>Lending Program FY89-90:</b>	208.8		

<u>Summary Data</u>	<u>Average</u> 1983-87	<u>Estimate</u> 1988	
GDP Growth	4.5	5.0	Aid Group Meeting: Aid Group
Export Growth	6.2	5.0	Last Meeting: June 30, 1988
Import Growth	3.4	7.0	IMF Status (August 1988):
Current Acc. Deficit (% GDP)	8.9	8.5	No current Standby arrangement
Gross Debt Service Ratio	24.2	30.0	Article IV Consultation: June 1988
Annual Inflation Rate	9.5	14.0	SAF: Medium Term (1988-90) Policy Framework Paper approved by Bank and IMF in March 1988.

**Background:** In spite of the July 1987 Peace Accord between the Government of Sri Lanka and India, peace has not yet been fully restored in the North and East. This has affected economic performance and delayed start up of the Reconstruction Program. The Government is undertaking a Structural Adjustment Program aimed at restoring macroeconomic balances and providing the foundation for sustainable growth; due to the pre-election climate, the pace of implementation has been slow.

### Issues likely to be raised by Delegation

1. Bank Assistance for Poverty, Malnutrition and Unemployment

### Issues to be raised by Bank Management

1. Political/Security Situation
2. Government's 1988-90 Structural Adjustment Program

### Attachments

Five Year Lending Program: FY88-92 (FY88 actual)  
Biographical Information

## BACKGROUND

1. As the country begins to emerge from a prolonged ethnic conflict, the Government is undertaking an adjustment program to stabilize the economy and restore economic growth. The program, which is set out in the Policy Framework Paper (1988-90), is supported by an IMF SAF and aims at reducing the fiscal deficit (from 12% of GDP in 1987 to less than 9% in 1990) and the current account deficit in the balance of payments (from over 8% of GDP in 1987 to 6% in 1990), and creating appropriate conditions for sustained growth. The key structural reforms consist of (i) an administrative reform to reduce the excessive number of Government agencies and overstaffing; and (ii) changes in the country's trade and industrial policies aimed at accelerating industrial growth, increasing the export orientation of the manufacturing sector, and giving more prominence to the private sector.

2. The implementation of this ambitious program, particularly in the fiscal area, has been rendered difficult by the still lingering ethnic conflict and by the pre-election climate. The latter has led to a series of large wage and salary increases throughout the public sector, which were followed by equivalent increases in the private sector. Inflation has jumped to 14% as a result. A number of corrective measures have been taken after the IMF consultation mission in June 1988: (i) taxes were raised; (ii) restrictive monetary policies were implemented; and (iii) the exchange rate is being depreciated more rapidly. With these measures, the IMF expects that most macro-economic targets of the adjustment program will be met.

## ISSUES LIKELY TO BE RAISED BY DELEGATION

3. Poverty, Malnutrition and Unemployment. Recent data on poverty and malnutrition indicate that the situation in Sri Lanka is worsening. The reasons for the decline are unclear but could be related to high levels of unemployment (over 18%), drought and the ethnic conflict. There is considerable pressure on the Government to provide relief to those most affected. There is a danger that such relief could take the form of a crash program of high cost public expenditure with low rates of economic return or welfare type programs which the country may not be able to sustain financially. The Government may ask the Bank to study issues related to unemployment, poverty, and nutrition and to help the Government to prepare an action program as a basis for discussion with donors.

4. You may wish to respond positively to such a request noting the following: First, the Bank has already (at Government request), sent a nutrition mission to Sri Lanka; its full report should be available in November. Second, we plan to review the unemployment issue in November as part of our work on the 1989 CEM. Third, a sector mission is scheduled for early FY90 to analyze the dimensions and characteristics of the poverty problem. We would hope that these three activities would provide the basis for drawing up a poverty-oriented action program which might be supported at some future date by an IDA lending operation. (At the moment we have a proposed Poverty and Employment Project in reserve status for FY92 but this could be advanced if suitable programs can be identified and prepared.)

ISSUES TO BE RAISED BY BANK MANAGEMENT

5. Political/Security Situation. The Government has made serious attempts to bring an end to the ethnic conflict. The Peace Accord has not yet proved fully effective in establishing peace in the northern and eastern parts of the country. In addition, political terrorism by extreme Sinhalese in the southern parts has worsened the security situation and contributed to political uncertainties. The situation is further complicated by the Presidential and Parliamentary elections which are to be held by December 1988 and August 1989, respectively.

6. The lingering security problem in the North and East has delayed start up of the Reconstruction Program for which the donors pledged about \$500 million at the Special Aid Group Meeting last December. Moreover, it has weakened the Government's resolve to undertake tough economic decisions (see paras. 7-8). Although the Government has made good progress in establishing the institutional framework for implementing the Reconstruction Program, substantial amounts of funds remain undisbursed. The donors are also concerned that no political support to the affected areas has been demonstrated (e.g., very few Ministers have visited the North and East). You may wish to ask the delegation for their assessment of the current security/political situation and prospects for implementation of the Reconstruction Program. You may wish to emphasize that it is important to push the implementation of the Program wherever possible; otherwise the donors may become disenchanted and reallocate their aid resources to other countries.

7. Government's 1988-90 Structural Adjustment Program. The adjustment program outlined in para. 1 is a bold initiative under the uncertain political circumstances. Many donors at the recent (June 1988) Aid Group meeting underscored the importance of implementing the adjustment program and placed particular emphasis on the Government's improving fiscal discipline, promoting export-oriented private investment, rationalizing public expenditures and reducing the size of the public service. In fact, many donors stated that their aid disbursements would be dependent on the Government's performance in implementing the program. IDA's FY89-92 lending program includes three structural/sectoral adjustment operations (Public Enterprises: FY90; Public Sector Restructuring: FY91S; Agriculture Sector Credit: FY91). Our ability to process these projects will be dependent on how quickly the Government takes action on the related policy issues.

8. After commending the delegation on the Government's initiative to embark on an adjustment program and sympathizing with them that such a program requires the Government to make difficult decisions under uncertain circumstances, you may wish to emphasize that the donors are looking forward to the Government's implementing the adjustment program. This program is essential to stop the economy's downward trend and return it to a sustainable growth path. There is a danger that failure to implement the program would imply lower levels of aid disbursements. You may also wish to express your concern with the fiscal situation and your expectation that the Government will continue to take corrective actions as needed to stabilize the economy.



SRI LANKAFY88-92 Lending ProgramUS\$ Million

	FY88	FY89	FY90	FY91	FY92
<u>Agriculture</u>					
Smallholder Rubber	23.5				
Forestry II		25.0			
Ag. Extension II			30.0		
Ag. Sector Adjustment				45.0	
Irrigation Rehabilitation				30.0	
<u>Industry</u>					
Small & Medium Industry III	20.0				
Industrial Development III		43.8			
Public Enterprises			40.0		
Industrial Development IV					25.0
<u>Energy</u>					
Power Distr. & Transmission	40.5				
Power XI (S)					40.0
<u>Infrastructure</u>					
Emergency Reconstruction	78.0				
Transport I		30.0			
Transport II (S)					32.6
Urban Development (S)				25.0	
<u>Social Sectors</u>					
Health & Population	17.5				
General Education			40.0		
<u>Structural Adjustment</u>					
Public Sector Restructuring (S)				75.0	
<b>TOTAL LENDING PROGRAM</b>	<u>179.5</u>	<u>98.8</u>	<u>110.0</u>	<u>175.0</u>	<u>97.6</u>
Number of Operations	5	3	3	4	3
<u>Reserve Projects /a</u>					
Telecoms. III (S)				50.0	
Public Sector Restruct. II					75.0
Poverty & Employment					30.0
Total	-	-	-	50.0	105.0

/a Priority projects to be included in the lending program subject to the availability of IDA resources.

August 15, 1988

SRI LANKA

Biographical Information

1. Mr. Mohamed Haniffa Marikar Naina Marikar, Minister of Finance and Planning.

After serving as Deputy Minister of Finance and Planning since 1978, Mr. Naina Marikar was appointed Minister in January this year when Minister Ronnie de Mel resigned. Previously, he was Deputy Minister of Planning and Economic Affairs, functioning directly under the then Prime Minister, Mr. J. R. Jayawardene. He was born on May 9, 1917 and received his early education at Zahira College, a leading muslim school in Colombo. He received his B.S. and LLB degrees from St. Catherines College, Cambridge, England. He has been in the civil service since 1959 and has had considerable exposure to macroeconomic management. He met Mr. Qureshi (as well as Mr. Conable) during his visit to Washington for the Interim/ Development Committee meetings in April 1988.

2. Mr. C. Chanmugam, Secretary, Ministry of Finance and Planning.

Mr. Chanmugam was appointed Secretary of the Treasury and Secretary, Ministry of Finance and Planning in July 1987. Previously, he was Sri Lanka's Executive Director at the Asian Development Bank (1985-1987) and Deputy Secretary of the Treasury (1976-1985). He received his bachelor's degree in science from the University of Ceylon in 1952. He has been in the civil service since 1954 and has participated as a member of the Sri Lanka delegation in various meetings with FAO, UNCTAD, World Bank, IMF and Aid Group. He also accompanied the Minister in his April 1988 meetings with Messrs. Conable and Qureshi.

1988 Annual Meetings Finance Brief  
Mr. Conable's meeting with the Swiss Delegation  
[No meeting scheduled]

Issues which Mr. Conable should raise:

- Welcome Swiss membership in MIGA, as a step forward in cooperation between the Bank and Switzerland.
- ID9 negotiations will begin officially this year, after a preliminary meeting in Berlin by the IDA9 Deputies. Although Switzerland is not a member of IBRD or IDA, we appreciate the contribution to total IDA resources made by the Swiss via their special cofinancing agreements. Their agreement with IDA8 totalled \$165 million, representing a substantial increase over their cofinancing with IDA7 of \$84 million. What are the prospects for expanded cooperation in the upcoming IDA9 replenishment?
- In addition, the Swiss pledged \$150 million over three years to the Special Program of Assistance.
- The Finance staff is beginning a study of Switzerland's aid program and has been in touch with the Swiss Embassy in Washington. [A mission will be in Switzerland in early September to meet with government officials for the paper.]

Issues which they may raise:

## SWITZERLAND Cofinancing

### General Overview

In 1987, Switzerland's ODA was 0.30% of GNP, ranking twelfth largest among the 18 OECD Development Assistance Committee (DAC) donors. The Bank's cofinancing record with Switzerland has been very good. Switzerland, not being a member of IDA, has made no contributions to the recent IDA-8 replenishment. However, in order to associate itself with IDA-8, it is supporting IDA operations directly by means of cofinancing with untied grants.

### Official

In April 1987, the Government of Switzerland signed an agreement on the procedural arrangement for the Swiss "multi-year cofinancing plan." Under this agreement, Switzerland will provide SwF280 million (US\$185 million) for the cofinancing of IDA operations within the framework of IDA-8. The provision of funds is to be on an untied grant basis, and special attention is to be given to the lower income IDA countries.

In April 1985, Switzerland established a consultant trust fund of SwF600,000 (US\$275,000 equivalent) to be used by the Bank to cover the fees of Swiss consultants recruited for short-term operational assignments to IDA countries. In April 1987, Switzerland replenished the trust fund with another SwF600,000. Switzerland after Italy was the second country to establish such a facility with the Bank.

Swiss official bilateral cofinancing is increasing. Since FY79, Switzerland provided approximately US\$274.0 million to 38 operations. Cofinancing has been in the Africa (59%), Asia (25%), EMENA (11%) and Latin America (5%) regions; and in the agriculture (36%), structural adjustment lending and technical assistance (31%), transport (14%), social (11%) and industry (8%) sectors.

Switzerland originally pledged US\$150 million in mostly untied grant aid for the debt-distressed low-income African countries with adjustment programs for the three-year period, 1988-90, at the Paris meeting in December 1987. Subsequently, at the May 1988 meeting, under the Special Program of Assistance (SPA) for low-income countries in Sub-Saharan Africa, Switzerland made a preliminary pledge of about US\$114 million (76%) for specific joint and parallel financing arrangements. Switzerland has also been a special joint cofinancier under the Special Facility for Sub-Saharan Africa. Switzerland has contributed approximately US\$53.0 million to the facility since September 1985.

### Export Credits

The Government of Switzerland has an agency, Geschaefftstelle fuer die Exportrisikogarantie (GERG), which insures export credits against political risks. The Swiss, through the Office of the Foreign Economic Affairs, Department of Public Economy, have a formal "mixed credit" program.

The Swiss would like to cofinance Bank-assisted operations with their "mixed credits", and we are exploring possibilities. Switzerland, through GERG, has provided cover for approximately US\$300 million in export credits for cofinancing since FY79. However, as the source of export credit cofinancing is usually firmed up after the borrower finalizes the procurement by selection from amongst a number of suppliers, this figure may well be understated. Switzerland's export credit interests are in the industry, energy, transport and telecommunication sectors.

#### Private

Swiss banks have been fairly active participants in the Bank's B-loan program. Ten (10) banks have provided approximately US\$64.0 million to seven (7) B-loans since FY84. Approximately US\$46.0 million (72%) of this total amount has been in the form of concerted lending to Chile and Mexico. Credit Suisse, Swiss Bank Corporation, and Union Bank of Switzerland have been the most active Swiss banks, together providing nearly 100% of all Swiss funds going to the B-loan program. These three banks have mainly been interested in the Ivory Coast, Hungary and Cameroon B-loans. Swiss banks did not participate in the latest two (2) FY88 B-loans to Algeria and Turkey.

#### Aid Strategy

Swiss ODA has been growing at a moderate 6.7% rate during the past few years. Switzerland allocates only grant aid to the least-developed countries (LLDCs) and the low-income countries (LICs). Mixed credits (associated financing) have been limited to the LICs and lower middle-income countries in the past few years.

VPCOF  
August 1988

## SWITZERLAND

### Political, Economic and Aid Situation

#### Political

In the last October's federal elections, the Greens had been expected to make big gains in a country preoccupied with environmental issues, but they gained only seven new seats out of the 200 in the National Council, with the four major parties winning 159 seats. As a result of the elections, the composition of the government coalition--the seven-member "Federal Council"--remains the same as it has been since 1959, two Radical Democrats, two Christian Democrats, two Social Democrats and one from the Swiss People's party. Analysts attribute the poor showing of the Greens to the desire of voters to stay with traditional parties which they trust to continue the nation's stable economic and political policies. On the other hand, the Swiss are more willing to promote change by supporting concerns such as environmental protection, when voting on referendum initiatives. The major political issue at present is the question of how Switzerland should structure its relationship with the European Community as the date for the single, integrated market in 1992 draws closer. With 23 percent of Switzerland's workforce already made up of foreigners there is disquiet about the free circulation of labor which would result from Switzerland joining the Community, and the Swiss people would like their government to achieve quasi-EC membership without participation. However, there is a feeling in Brussels that Switzerland should not have all the advantages of membership without the costs.

#### The Economy

Despite fears of a recession after the stock market crash, real GDP growth has continued at the modest rate of 1.5 percent in 1988, a level which is projected to be maintained in 1989. This is a decline from the stronger growth of 2.5% in 1987. The current account surplus of about 4 percent of GDP is one of the highest in the world relative to the size of the economy. Unemployment remains negligible at slightly less than one percent, and inflation has risen slightly but is still only 2 percent. For the third year in a row, the federal budget for 1988 is expected to produce a substantial surplus (in excess of SwF 1 billion.)

#### Aid Situation

Swiss aid increased by 4.7 percent in national currency (about 2 percent in real terms) in 1987 to the equivalent of \$532 million, remaining stable as a share of GNP at 0.30 percent. The rise in ODA disbursements was wholly attributable to increases in contributions to multilateral institutions and programs. Aid disbursements can be expected to continue to increase since they are projected in the current financial plan of the Confederation to represent about 0.35 percent of GNP early in the next decade. In 1987 the Swiss Parliament approved a SwF 2.1 billion aid program (about 1.4 billion at 1987 exchange rates) for commitment during the years 1988-90, up from the SwF 1.8 billion approved in 1984. An arrangement providing for a Swiss cofinancing contribution of Swf 280

million to IDA-8 was signed by Switzerland and IDA in April 1987, and Switzerland has committed \$150 million of "coordinated financing" with IDA for the debt-distressed countries of Sub-Saharan Africa.

In 1982 the Federal Council decided "in principle" to join the Bretton Woods institutions. Implementation of that decision was postponed, however, pending the resolution of the question of Swiss membership in the UN. In March 1987, Swiss voters resoundingly rejected the government's proposal to join the UN. As a result, it is assumed that the Swiss plans for IMF/Bank membership would not be actively pursued in the near future. Meanwhile, Switzerland joined MIGA as a founding member, the first time it will be represented in an operational Bretton Woods institution (it has long been a member of ICSID.)

Although not formally a member of the Bank, Switzerland's functions as a center of international finances, its role as one of the Bank's main borrowing markets (although we have in recent years greatly reduced our market borrowings in Switzerland, for a number of reasons), and its contributions (recently in the form of cofinancing) to IDA, to the Special Facility for Sub-Saharan Africa and the Special program for debt-distressed countries in Sub-Saharan Africa, combine to give it an importance for the Bank equaling that of many member countries.

**ANNUAL MEETINGS BRIEF**

**THAILAND**

September 28, 1988

**Meeting with:** Minister of Finance (Mr. Pramual Sabhavasu)  
Governor, Bank of Thailand (Mr. Kamchorn Sathirakul)

**Population:** 53 m (1987)

**Estimated Growth Rate:** 1.8% (1987)

**GNP per capita:** \$870.00 (1987)

	<u>(US\$ m)</u>	<u>FY88</u>	<u>(US\$ m)</u>
<b>Total Commitments to date:</b>	3,580.4	Commitments:	173.0
of which:		Disbursements:	122.6
Bank (84 operations)	3,461.9	Amortization:	273.5
IDA ( 6 operations)	118.5		
<b>Total Undisbursed:</b>	467.8		
<b>Lending Program FY89-90:</b>	285.0		

<u>Summary Data</u>	<u>Average</u> <u>1983-87</u>	<u>Projection</u> <u>1988</u>	
GDP growth	4.7%	8.5%	Aid Group Meeting: Cons. Group
Export Growth (GNFS)	13.8%	14.6%	Last Meeting: Feb. 1981
Import growth (GNFS)	9.5%	18.3%	IMF Status as of April, 1988:
Current Account Deficit % GDP	-1.9%	-3.1%	(no current standby)
Gross Debt Service Ratio	25.2%	16.4%	
Annual Inflation Rate	2.5%	5.2%	

**Background:** Country's economic prospects have improved considerably. However, need to provide industrial infra-structure and better investment incentives to sustain higher growth. Remaining structural issues to be addressed.

**Issues likely to be raised by delegation:**

1. Terms of Bank lending.

**Issues to be raised by Bank Management:**

1. Congratulate delegation on economic performance
2. Scope of Bank assistance.

**Attachments:**

Five-Year Lending Program: FY88-92 (FY88 actual)  
Biographical Information



## Background

1. Recent Economic Developments. The latest information indicates that in 1988, the Thai economy is continuing its very favorable performance of the last two years. Exports show no sign of slowing, increasing about 34% during the first two months of the year over their level during the same period of 1987. Investment applications for Board of Investment (BOI) promotion totalled about \$4.5 billion in planned project value during the first quarters, some four times that a year earlier. Since many private sector investment projects were just starting in 1987, the investment boom is certain to continue this year. These two factors and the stronger commodity prices, which should increase the domestic purchasing power, will assure rapid growth in 1988 and possibly 1989. The NESDB has raised its growth projection for 1988 to 9% and that for the Sixth Plan period (1987-91) to 7%. The fiscal balance is also improving further this year with rising revenues, possibly limiting the budget deficit to about 1% of GDP this year. However, the Government maintains its external borrowing ceiling at a very conservative level of about \$1 billion.

## Issues Likely to be Raised by the Delegation

2. Competitiveness of Bank Lending Terms. As they have done on every occasion in recent years, the delegation is likely to raise the issue of competitiveness of the Bank's lending terms. The areas of Thai concern are:

- (a) The current Bank interest rate of 7.59% p.a. on a mix of hard currencies is still perceived to be too high, especially in comparison to other financing sources which are available. Thailand can currently borrow at lower rates from both market, other multilateral, and bilateral sources;
- (b) As a result of the depreciation of the US dollar, there has been a sharp increase in the amortization adjustment factor for the pooled currency loans. This has led Thailand to borrow on the Euromarket in order to prepay two Bank loans (in designated hard currencies) with the proceeds.
- (c) Since the disbursement profile is known at the outset of project implementation, they feel that the commitment charge should only apply to delays in disbursements and not to the full undisbursed amount as of the beginning of the loan.

These three areas have become a focus of Thai Government attention, and, added to the perceived burden of Bank loan conditionality, have resulted in a sharp drop in borrowing from the World Bank.

3. Should the delegation raise these points, you may wish to reply that:

- (a) the Bank's average-cost lending rate formula is a deliberate decision, endorsed by the Board, to avoid marginal pricing and sharp fluctuations in the Bank's lending rate which is detrimental to most of our borrowers;

- (b) in regard to the most appropriate currency composition for Bank borrowing, over the long run, the Bank's borrowing in various currencies, applied uniformly to all Bank borrowers, should result in a lower foreign exchange risk to individual borrowers;
- (c) Regarding the prepayment issue you should inform them that a paper has recently gone to the Board proposing a new policy. This is that a country has the right to prepay any or all of its loans at anytime and should they wish to prepay all debt, or a representative sample of the loans, then the Bank would favorably consider waiving the prepayment penalty. However if selective prepayment is envisaged either of individual loans or particular currencies, then the Bank may not waive the premium in future. As to changing the commitment fee policy, you will wish to explain how, given the Bank's global responsibilities, it cannot take actions that will negatively impact current income, thereby forcing us to resort to alternative supplementary financing measures. Bank staff would be pleased to cooperate with the project implementation agencies in further improving project design and implementation schedules to facilitate prompt disbursement to minimize the commitment charge.

Issues to be Raised by Bank Management

- 4. Congratulations on Performance. You may wish to congratulate the delegation on the remarkable performance of the economy in recent years, and the Finance Minister on his new appointment.
- 5. Status of the Lending Program. The Bank's lending to Thailand in FY88 of three loans for \$173 million was an improvement over the FY87 lending level of \$21 million for one loan. We expect the FY89 lending program to approximate \$350 million for two projects, which is almost double FY88 lending. However, in the absence of advance planning and government commitments, the lending program beyond FY89 is entirely unclear. This uncertainty makes it very difficult to plan staff deployment or undertake project preparation.
- 6. You may wish to note that the Bank would like to increase its program of financial and technical assistance, particularly at a time when the Government has decided upon a more substantial investment program to sustain its economic growth. The Bank appreciates the Government's concern about the cost of loan funds but this should be considered along with the value-added the Bank brings to analyzing policy issues and enhancing the quality of the investment program. You may wish to suggest that we will actively pursue cofinancing with multi- and bilateral agencies providing "soft" funding and help to improve project focus and quality, and express the hope that we can rebuild the depleted project pipeline with the Government's active support and commitment to advance planning of the investment and external borrowing programs.

## THAILAND

FY88-92 Lending Program  
(US\$ million)

	FY88	FY89	FY90	FY91	FY92
<u>Agriculture</u>					
Rural Land Use II					50.0
<u>Energy</u>					
Power Transmission	110.0				
Power Generation		150.0			
Power Transm. & Dist.				26.0	
Oil/Gas Development					75.0
<u>Transport/Infrastructure</u>					
Highways Sector	50.0				
Railway Efficiency	13.0				
Highways Sector II		50.0			
Inland Waterways II			40.0		
Ports Devt. (Eastern)				100.0	
Ports Devt. II					50.0
<u>Urban &amp; Water Supply</u>					
Bangkok Flood Control			45.0		
Provincial W.S. II				40.0	
TOTAL LENDING PROGRAM	173.0	200.0	85.0	166.0	175.0
Number of Operations	3	2	2	3	3

This proposed five-year lending program is based on the Country Program and Budget Paper (CPBP) approved by Regional Management in June, 1988. It represents agreement with the Government in principle on the level and project content of the program only for FY89. For FY90-92 as explained in the foregoing brief the Government has not indicated to the Bank what assistance would be requested, and therefore, the program is notional and represents Bank staff judgments on sector-project needs.

BIOGRAPHICAL INFORMATION

H.E. Pramuan Sabhavasud (Minister of Finance)

Born on November 29, 1927, H.E. Pramuan entered politics as a member of the now-defunct Saha Pracha Thai party. He has held a seat for the Chart Thai party in Ayudhya, his birth-place since the 1983 election. He received a preparatory school diploma in Political Science, at Thammasat University in 1945. Until becoming Minister of Finance he was the chairman of an engineering consulting company, general manager of a construction company and of a few other related businesses. His companies were involved in government construction contracts such as the projects for natural gas, flood protection and telephone. He is regarded as a wealthy businessman. He was first named the Industry Minister in Prem V's Cabinet. He was an advisor to the Prime Minister Kukrit Pramoj in 1975. He is now 61 years old. He has little exposure to the English language.

Kamchorn Sathirakul (Governor, Bank of Thailand)

Khun Kamchorn was born on August 10, 1933. He received a B.A. and M.A. in economics from the University of Michigan. From 1960 he served in various capacities in the Customs Department where he was appointed Deputy Director General in 1976. In 1982, he became Director General of the Fiscal Policy Office at the Ministry of Finance and later the Chairman of the Securities Exchange in Thailand. Khun Kamchorn also served on the Boards of the Petroleum Authority of Thailand, the Telephone Organization of Thailand, the National Economic and Social Development Board and as a member of the Board of Directors of Thai International Airways.

Dr. Snoh Unakul (Secretary-General, National Economic and Social Development Board)

Dr. Snoh was born on July 24, 1931. He holds a Bachelor of Commerce from the University of Melbourne as well as an M.A. (Economics) and Ph.D. from Columbia University. From 1955, he served in various capacities in the Ministries of Finance and Commerce and in the National Economic and Social Development Board (NESDB), most importantly as Secretary-General of the NESDB in 1974 and 1975, where his strong leadership began to pull into shape this historically weak organization. From 1975-79, Dr. Snoh was Governor of the Bank of Thailand and a major contact for Bank economic staff. In late 1978 he was persuaded by the Kriangsak government to return to NESDB as Secretary General.

Dr. Panas Simasathien (Permanent Secretary, Ministry of Finance)

Dr. Panas was born on September 29, 1932. He received a B.A. in accountancy from Thammasat University. He also earned a B.A. from Claremont Men's College in California, and M.S. and Ph.D. from the University of Illinois. He became the Permanent Secretary of the Ministry of Finance in early October 1982 after serving as Comptroller-General (1972-78) and Director-General of the Revenue Department (1978-82). He was Economic Counsellor at the Thai Embassy in Washington during 1970-72 after his initial service with the Ministry of Finance (1959-70). Currently, he holds the Chairmanships of the Krung Thai Bank, Thailand Tobacco Monopoly and Government Lottery Committee. He is also a Senator.

Dr. Aran Thammano (Director-General, Fiscal Policy Office, Ministry of Finance)

Dr. Aran was born on February 10, 1934 in Yala Province in the southern part of Thailand. He received a B.A. (Hons.) in economics from Thammasat University (1954), an M.A. from University of Michigan (1958), and a Ph.D. from University of Oregon (1961). He was appointed Director-General of Excise Department, Treasury Department and Fiscal Policy Office in 1982, 1985 and 1986, respectively.

## 1988 ANNUAL MEETING BRIEFS

Name of Country: TUNISIA

Date: 08/30/88

Meeting with: Mr. Mohamed Ghannouchi,  
Minister of Planning and  
Bank Governor

Population: 7.5 m (mid 1987) Estimated Growth Rate 2.5% (1987)

GNP per capita: \$1,210 (1987)

(\$m)

(\$m)

Total Commitments to FY88	2,220.5	FY88: Commitments	291.0
of which:		Disbursements	194.3
Bank (78 loans)	2,040.7	Amortization	109.0
IDA (10 credits)	75.2		
Total Undisbursed:	756.9		
Lending Program: FY89/90	545.0		

<u>SUMMARY DATA</u>	Average		
	1983-87 (%)	1988 (est.) (%)	
GDP growth	4.0	0.9	Aid Group: Donors Group
Export growth	5.1	5.2	Last Meeting: Feb. 19-20, 1987
Import growth	-3.4	10.9	IMF Status as of August 1988:
Curr. Acc. Deficit/GDP	-6.9	-3.5	EFF granted in July 1988
Gross Debt Service Ratio	23.8	24.6	
Annual Inflation Rate	6.5	6.0	

BACKGROUND:

Political transition in November 1987, when ailing President Bourguiba was replaced by President Ben Ali. New government committed to continue implementation of wide-ranging adjustment program begun in 1986 with Bank and IMF support. SAL approved by the Bank in June 1988. An ASAL and a PERL programmed for FY89 and FY90.

ISSUES

Part I: Issues Likely to be Raised by the Delegation  
1. Volume and Composition of Future Bank Lending

Part II: Issues to be Raised by Bank Management  
1. Bank Strategy  
2. External Capital

Attachments:

FIVE-YEAR LENDING PROGRAM: FY88-92 (FY88 actual)

Biographical Information

## TUNISIA

### BACKGROUND

1. The political situation in Tunisia underwent a crucial change in November 1987, when ailing President Bourguiba was smoothly replaced by his then Prime Minister Ben Ali. The change dispelled fears about the political dangers of the transition to a new ruler and was welcomed by the international community. President Ben Ali has shown his willingness to orient Tunisia towards democracy and is addressing tactfully the political problems inherited from Bourguiba's era. He is demonstrating his political skills in the handling of the increasing popularity of Islamic fundamentalist movements, by pardoning over 200 political detainees belonging to the Islamic Tendency Party. He has reduced legal obstacles to political parties other than the ruling RCD, and proposed amendments to the Constitution to eliminate the presidency for life and the automatic succession.
2. Foreign relations have improved. The new President has met many important Western leaders and is scheduled to meet President Reagan in September 1988. Mr. Conable is scheduled to meet with him during this visit. President Ben Ali favors the idea of a Maghreb common market and is making a conscious effort to promote the political and economic relationships with the countries in the region. He visited the heads of the governments of Algeria and Morocco in the first months of his presidency and was warmly received by Libya in August. The border was reopened, along with the possibility of resumed emigration to Libya by Tunisians and of renewed tourism activity in Tunisia by Libyans.
3. Tunisia is currently facing the challenge of providing employment and improved living conditions to its rapidly growing population in a situation very different from that of the past decades. The differences arise not only from the political environment, that will hopefully result in a more dynamic, flexible and private sector-oriented government, but also from the fact that the declining oil production will turn the country into a net energy importer beginning in 1991, and from the burden imposed by the servicing of external debt, that increased in the 1980s to reach 27% in 1987.
4. After years of strong economic performance, when the average annual GDP growth rate was well above 7%, the early 1980s marked the beginning of a slowdown in the growth of the Tunisian economy and during the 1982-86 Vth Economic Plan the average annual rate of GDP growth was 4.5%. Declining domestic oil production, lower oil and phosphate prices and severe droughts in 1986 and 1988 were to blame for this less favorable growth performance. But the failure to adjust to the reduced resource availability was the main culprit for the financial and economic disequilibria experienced by Tunisia in 1985/86. The lack of adjustment measures worsened the prospects for resolving the main problem faced by the Tunisian authorities, namely the high unemployment rate that was already present in the years of plenty. Unemployment, fueled by the high rate of population growth and estimated at 15%, continues to be the number one concern of Tunisia.
5. The Government began in 1986 a process of policy revision to restore the economy's external and internal balances. This process, together with the donors support mobilized, helped prevent a full financial crisis at the time

and made the Government reconsider seriously its economic policy. The VIIth Economic Plan (1987-91) recognizes fully the impact of the reduced oil availability and the importance of making the economy more outward oriented and outlines the measures to be implemented to achieve sustained growth while avoiding economic disequilibria. The reform program is being supported by the IMF, which has granted an EFF in July 1988 after a Standby came to a successful end last May, and by the Bank through the First Agricultural Sector Adjustment Loan (ASAL I), the Industry and Trade Policy Adjustment Loan (ITPAL) and the recently approved Structural Adjustment Loan (SAL).

6. The adjustment program includes measures to liberalize trade and prices, improvements in the system of direct and indirect taxation, and reforms of the financial system. Investment controls have been greatly simplified with the publication of a new investment code. A VAT was introduced in July 1988, and direct taxation is being reformed. Interest rates have been largely freed and are all positive after substantial increases as part of the reform program. The Government is now committed to gradually increasing preferential credit rates to money market rates. A new system of foreign exchange risk coverage is also being introduced. For agriculture, the reform program includes liberalization of producer prices and input prices, higher interest rates and organization and institutional improvements. The Government is also determined to promote an increasingly large participation by the private sector in economic activity and has embarked in a program of restructuring and privatization of public enterprises that is expected to lead to higher economic efficiency.

#### ISSUES

##### Part I: Issues Likely to be Raised by the Delegation

1.(a) Volume and Composition of Future Bank Lending. As in the past Annual Meetings discussions, the Delegation is likely to inquire on the Bank's position on adjustment versus project lending and to request that adjustment operations continue in the next few years.

1.(b) Recommended Position. The Bank has supported Tunisia's program of economic reform with three adjustment loans (see para. 4 above) in FY87/88 amounting to \$450 million, i.e. 71% of Bank lending in those two years. You may wish to explain to the Delegation that the proposed shift in the lending program towards more investment financing does not imply a withdrawal of the Bank presence in Tunisia, and that the Bank expects to be able to continue helping the country with a lending program in the order of \$300 million a year. Rather, the shift reflects the belief that most of the costs of the adjustment program are financed under loans already committed by the Bank and by other multilateral agencies and bilaterals, and that Tunisia is now in a position to diversify its lending sources and to gradually increase its borrowing from bilateral and commercial lenders.

##### Part II: Issues to be Raised by Mr. Qureshi

1.(a) Bank Strategy: In recent months, the Tunisian authorities were somewhat concerned by the Bank decision to delay appraisal of the Second Agriculture Adjustment Loan and the PERL until the Bank strategy was defined



and approved. In last year's Annual Meetings discussions, the Government was informed that the Bank would be willing to continue adjustment lending to Tunisia in the next 3-4 years, although it did not wish adjustment loans to account for more than half the lending program in any given year. The Country Strategy Paper recently prepared reduced adjustment lending to a total of \$180 million, to be granted only through FY91. It would be useful to reassure the Government of the Bank's commitment to support and finance Tunisia's development efforts and to explain our views on how this will be done.

1.(b) Recommended Position: You may wish to mention the willingness of the Bank to continue working with the new Tunisian Government and to commend the authorities for the commitment of the new leaders to implement the program of policy reforms outlined in the VIIth Plan. You may also wish to outline the main elements of the proposed Bank strategy, namely: a lending program of about US\$300 million per year on average in FY89-93, that will include modest amounts of fast disbursing financing through 1990; continued cooperation with the Government in the analysis of economic and sector issues; and assisting Tunisia to diversify its sources of external financing. You may wish to stress the continued concern over controlling the increase in Bank exposure: as a result of existing commitments and with the lending program now envisaged, Bank exposure is expected to reach 22-23% in the early 1990s.

2.(a) External Capital. Despite Tunisia's good economic performance and prospects, the commercial banks have been gradually declining their lending to the country, and their disbursements are estimated to become negative in 1988.

2.(b) Recommended Position. You may wish to stress how crucial it is for Tunisia to be able to diversify the sources of external capital, and that efforts to attract at least modest amounts of commercial financing should start now to restore the confidence of the commercial banks in Tunisia. You may wish to point out that the Bank is encouraged by the interest expressed by official and commercial sources in financing Tunisia's development and express our willingness to assist the Government's efforts to mobilize this external financing. A very important and attractive source of external capital could be direct investment bringing with it technology and easing access to foreign markets. While the Bank looks forward to continued collaboration, we will welcome greater contribution to Tunisia's development by the private sector, particularly in the form of contributions to export oriented productions in Tunisia.

TUNISIA  
FY88-92 Lending Program  
(in millions of US dollars)

	FY88 Actual	FY89	FY90	FY91	FY92	Sector total (FY88-92)
<u>Agriculture</u>						
Forestry	20					20
Agr. Credit BNT IV	30					30
ASAL II		100				100
Research & Extension		20				20
Agr. Credit V				50		50
Agr. Invest. I				80		80
Subtotal	<u>50</u>	<u>120</u>	<u>—</u>	<u>130</u>	<u>—</u>	<u>300</u>
<u>Industry &amp; Energy</u>						
SSI II	28					28
Oil Exploration Promotion		5				5
Energy Sector			50			50
PERL			100			100
Export Promotion				100		100
Industr. Restruct.					100	100
Subtotal	<u>28</u>	<u>5</u>	<u>150</u>	<u>100</u>	<u>100</u>	<u>383</u>
<u>Infrastructure</u>						
Highways Maintenance	63					63
Housing Sect./Cadastre		90				90
Municipal Development			50			50
Rural Roads			30			30
Land Transport				60		60
Urban					75	75
Subtotal	<u>63</u>	<u>90</u>	<u>80</u>	<u>60</u>	<u>75</u>	<u>368</u>
<u>Human Resources</u>						
Education/Employment			100			100
Health & Population					50	50
Educ./Manpower					75	75
Subtotal	<u>—</u>	<u>—</u>	<u>100</u>	<u>—</u>	<u>125</u>	<u>225</u>
<u>Country Economic</u>						
SAL	<u>150</u>					<u>150</u>
Subtotal	<u>150</u>					<u>150</u>
TOTAL	<u>291</u>	<u>215</u>	<u>330</u>	<u>290</u>	<u>300</u>	<u>1426</u>
No. of Operations	5	4	5	4	4	22

August 1988

TUNISIA

BIOGRAPHICAL INFORMATION

Mr. Mohamed Ben H. Ghannouchi, Minister of Planning and Bank Governor

- Personal: Born in Sousse on August 18, 1941. Married, two children.
- Education: License in Economics from the Faculty of Law and Political Science of Tunis (1966).
- Career: Several positions in the Ministry of Planning and Finance, including Director of the Plan (1975), Director General of Planning (1982) and Undersecretary in Charge of Planning (September 1987). He was appointed to his present position in November 1987.

List of other Delegation members:

- Mr. Zein Mestiri, Director General for International Cooperation, Ministry of Plan.
- Mr. Sadok Bahroun, President and Director General of Société Tuniso-Saudienne de Développement
- Abdeslem Ben Younes, Executive Director's Assistant, World Bank
- Mr. Mohamed Bouaouadja, President and Director General, Société Tunisienne de Banque
- Mr. Habib Bourguiba, Jr., President and Director General, Banque de Développement Economique de Tunisie
- Mr. Mohamed Brigui, Director-General, Banque Tuniso-Koweitienne de Développement
- Mr. Mokhtar Fakhfakh, President and Director General, Banque Internationale Arabe de Tunisie
- Mr. Chekib Nouira, Director General, Banque de Développement Economique de Tunisie
- Mr. Abdellatif Sadedem, Director-General of Planning, Ministère du Plan et des Finances
- Mr. Habib Hadj Said, President Director General, Banque du Sud

1988 ANNUAL MEETINGS BRIEFS

Name of Country: Venezuela                      Date: September 1, 1988

Meeting with: Minister of Finance Hector Hurtado;  
Minister of Planning (and Governor for  
the World Bank) Modesto Freites  
President of Central Bank Mauricio Garcia Araujo

Population: 18.4 m (1987);                      Estimated Growth Rate 2.7% (1987);

GNP per capita: \$3,230 (1987)

	(\$million)		(\$million)
Total Commitments to date:	\$383.0 m	FY88 Commitments:	\$ 0.0 m
of which:		Disbursements:	\$ 0.0 m
Bank (13 operations)	\$383.0 m	Amortization:	\$10.1 m
IDA (0 operations)	\$ 0.0 m		
Total Undisbursed:	\$ 0.0 m		
Lending Program: FY89-90	\$ 0.0 m		

<u>Summary Data</u>	<u>Average</u>		
	<u>1984-87</u>	<u>1988</u>	
GDP growth (real)	2.4%	1.5%	Aid Group Meeting: None
Export GNFS Growth (current \$US)	-8.1%	2.0%	IMF Status:
Import GNFS Growth (current \$US)	4.6%	8.9%	Enhanced Surveillance;
Current Acc. Deficit % GDP	-1.6%	3.6%	most recent report
Gross Debt Service Ratio	40.1%	45.1%	August 5, 1988
Annual Inflation Rate (CPI)	19.7%	25.0%	

Background: Venezuela is once again eligible to borrow IBRD funds, but no operations have yet been approved. There have been intensive policy discussions (in particular for an initial operation supporting Trade Reform), but with elections this December 4 the Government is not yet willing to proceed with needed actions. The immediate post-election period will be critical, and will determine the nature of the future Bank program.

Issues likely to be raised by delegation:

- IBRD assistance in designing a policy program
- Policy measures to be undertaken before the December 4 elections
- A post-election program

Issues to be raised by Bank Management:

- IBRD assistance strategy
- IBRD capital subscription

Attachments:

FIVE YEAR LENDING PROGRAM: FY88-92: There is no lending program.

Biographical Information

## VENEZUELA - ANNUAL MEETINGS BRIEF

### Background:

1. In December 1986, Venezuela was declared eligible to borrow once again from the Bank, where the focus in the renewed lending relationship would be on policy reform. Venezuela's real GDP per capita had fallen in each year 1978-85, and was, in 1985, 13% below the level achieved in 1972. Thus despite the windfall obtained from the rise in oil prices, Venezuelan policies had been such that these were not translated into sustained growth. The fundamental need was to change those policies; new funds by themselves would not help.

2. The Bank initiated this renewed relationship with a mission in January 1987 to draft a CEM focused on policy reform. The CEM was discussed in Green Cover form with the Government in July 1987, and at that time the Government indicated it would proceed with a program of trade reforms and asked for Bank assistance through a lending operation. The loan was prepared in late summer and early fall, and was appraised in October/November. However, although agreement was reached during appraisal with the economic team (led by Finance Minister Hector Hurtado), Hurtado was not able to convince the rest of the Government on the need for the measures. With elections a year away, the Government was not willing to proceed with a program of fundamental reforms, as some of the measures would likely be unpopular.

3. The Government strategy for the 1988 election year instead became one of "muddling through". There would be only minimal reforms, and instead it would resort to short-term external borrowing to get through until after the elections. In the meantime, recognizing that reforms would still be needed, a program of such reforms would be developed so that a new Government would be in a position to act quickly. The IBRD was asked to direct this analysis, and UNDP funding was obtained to finance it. There will be a series of missions (which began in July and will be completed in September) to develop this analysis, and the goal is to have a report ready to be sent to the Government on October 31. The aim is to have a report with specific recommendations for a comprehensive program which a new Government could implement quickly should it so choose. Four broad areas will be covered: (a) Public Sector Reform; (b) Trade and Industrial Policy; (c) Financial Policies; and (d) Social Sector Policies.

4. This strategy of "muddling through" until the elections was always dangerous, but lower-than-expected oil prices are making it particularly difficult. The Government had in December 1987 projected 1988 oil prices would average US\$16.70 per barrel (consistent with IED projections of the time), but revised this down to US\$14.70 per barrel in the late spring (consistent with current IED projections). At current production rates, this US\$2 per barrel fall reduces oil revenues by \$1,160m. We currently project the 1988 current account deficit will total \$2.2b (3.6% of GDP), while amortization due this year totals \$2.1b. In addition Venezuela imputes an interest return to private capital held abroad and counts this above the line in the current account as a positive entry (with an offsetting negative entry in the capital account). This is estimated at \$0.9b. Thus the total gross financing need is \$5.2b. The means by which this financing will be obtained is as yet not clear. In 1987, a total gross financing need of \$4.1b was financed mainly by such short-term sources as building up trade credit lines (US\$2.2b), use of reserves (\$0.9b), and borrowing from FAR (\$0.3b). In 1988, there will be a continued reliance on short-term sources. Of the total \$5.2b, only perhaps \$1.1b will come from MLT sources (about \$0.6b from the IDB and suppliers' credits, and a hoped for \$0.5b from sale of bonds). The rest will come from short-term sources. Although as of this writing the precise arrangements have not yet been finalized, there have been discussions of obtaining six-month swap

facilities from the BIS (\$500m) and/or the Central Banks of Spain or France (perhaps \$500m); selling gold futures against non-monetary gold sales that would have been made in 1989 (perhaps \$300-500m); obtaining further short-term trade credits (perhaps \$500-600m); and using some or all of Venezuela's net credit position at the IMF (a possible total of \$1,250m, although probably no more than \$500m would be used). The remainder would come from the country's liquid international reserves.

5. Although this strategy of "muddling through" is understandable given the reality of the election, it will make the situation next year more difficult. Already this summer there has been a severe deterioration of several economic indicators. Inflation in both June and July hit 5% per month, after much lower levels earlier in the year (in fact negative in the first quarter due to a partial reversal of some of the 1987 food price increases). As confidence in the Government's program fell, the free market exchange rate rose from the Bs. 29-31 per US dollar band it had kept from November 1987 through early May, to a rate of 40 in early August. Real output growth in 1988 will also probably be low (perhaps in the range of 1-2%).

6. The financing of a reform program next year is expected to be difficult, and there will be similar needs in 1990 and 1991 before starting to decline. Such financing is necessary, however, if there is to be even modest growth. It is also important to note that even with this level of financing, such ratios as debt to exports and interest to exports are projected to decline steadily. They would reach levels of 190% and 18%, respectively, in 1995, from levels of 270% and 24% in 1988. The fundamental situation is therefore not as severe in Venezuela as in the other major debtors, so finance should be available provided a reasonable policy program is adopted.

Issues Likely to be Raised by the Delegation:

7. (a) IBRD Assistance in Designing a Policy Program: By the time of the Annual Meetings, the missions under this Bank-executed project will have just been completed. The Government team may take the opportunity of the Annual Meetings to emphasize the need for an early report. They may also ask for similar assistance over the longer term. You may wish to respond that the Bank hopes to send the analysis to the Government by October 31. We recognize the schedule is tight, but dictated by the elections. However, because of this, the Government should not expect a Bank report as "well-polished" as most Bank reports are. For the longer term, you may wish to note the Bank indeed anticipates a continuous and intensive dialogue, and that this will be necessary if a lending program is to develop. Developing the Government's own capacity for such analysis will be a key part of this program. There likely will be a need for a Bank Technical Assistance Loan to support it.

8. (b) Policy Measures to be Undertaken Before the December 4 Elections: The Government team may note the need for certain policy measures to be undertaken before the December 4 elections. They stated in their August 9 meeting with Mr. Qureshi that they intend to proceed with certain measures soon, although they did not at that time state what they were (nor did they in their meetings with others). If they are serious, they should have by the time of the Annual Meetings proceeded with at least some of these measures. They may wish to discuss the content of these measures and their adequacy. We would be surprised if they will amount to a complete program although they are likely to be steps in the right direction. They could also have a useful psychological benefit. Any progress would be welcome and you may wish to note we recognize the limitations imposed by the reality of the elections. The key concerns now should be to keep the economic situation stable to the extent possible,

and not to take such actions (or inactions) that will make the post-election situation more difficult. For example, controls imposed now may be difficult to lift later.

9. (c) A Post-Election Program: It is anticipated the truly fundamental reforms will be postponed until after the elections. The strategy of the Government economic team is to prepare a program now (with IBRD assistance) so that a new Government can act quickly. Certain of the more difficult measures (such as a devaluation, an increase in interest rates, and so on) may in fact be implemented during the transition before the new Government takes office (the first week of February). In any case, once implementation of the measures begins, the Government will likely ask for IBRD support through policy-based loans. With a good program and IBRD support, they would then turn to the commercial banks for the financial support required. You may wish to respond that in principle we fully support such a strategy, and that the key to its success is the quality of the reform program. Furthermore, the need for the program is not so much as a means to obtain external finance, but rather because of the fundamental needs of the domestic economy. Finally, the Bank can help design the program and support it, but ultimately it has to be a program the Government believes in if it is to work.

#### Issues to be Raised by Bank Management

10. (a) IBRD Strategy: Our current plans are to complete the analysis of the policy program by end-October, and to discuss our report with the Government in mid- or late-November. Based on this analysis, we would draft a CSP for internal discussion this winter. After Management review, a redraft would be made a Medium-Term Framework Paper (MTFP) which would set out how the Bank could support an adequate reform program of the Government. It is expected that this support would be through a series of policy-based operations, with conditionality based on the analysis we are now undertaking. Although focused on the first year, the MTFP would also put the near-term objectives in the context of a multi-year program of Bank assistance. The MTFP would be discussed with the new Government as soon as it is organized in a capacity to receive it. These high-level discussions will be critical in the determination of whether there is fundamental agreement between the Bank and the new Government on what needs to be done. You may wish to indicate to the Ministers the broad outline of what is planned.

11. (b) Capital Subscription: Effective May 5, 1988, Venezuela subscribed to 3,867 IBRD capital shares that had been allocated to it under resolutions dating back to April 1982. This added US\$466.5m to Bank capital and brought Venezuela's shares to 11,427. Also, in April of this year Venezuela ratified the GCI, with an allocation of 8,934 shares. Both of these actions indicate Venezuela's continued very significant support to the institution. Venezuela's contribution is also sizeable: the 11,427 shares is 1.51% of the institution's total, and ranks number 4 among all borrowing Part II members (trailing only China, India, and Brazil, each of whom has a GDP four to six times as large). You may wish to extend our thanks to Venezuela for this support, but also note the need for an early subscription to the shares allocated under the GCI. Such a subscription, while adding US\$1,077.8m to the Bank's capital, would require a paid-in share of just US\$3.2m (0.3%) in US dollars and US\$29.1m (2.7%) equivalent in bolivares.

**VENEZUELAN ANNUAL MEETING BRIEF**

Biographies for Selected Officials

**HECTOR HURTADO NAVARRO**, age 69, presently holds the position of Minister of Finance. Long an active party member of Acción Democrática, he is also an adviser to President Lusinchi. He has extensive experience in managing the Government's petroleum reserves and directing major public sector projects.

Hurtado holds a law degree from the Central University of Venezuela. He was a justice of the Supreme Court during 1962 and 1963 and from 1963-69 he was the head of CORDIPLAN. In 1974 Mr. Hurtado founded the Venezuelan Investment Fund (FIV) of which he was made President from 1977-78 and from 1986 until assuming his present duties. During 1984-86 he was also Minister of Development.

Hurtado has considerable foreign affairs experience as well, including helping to design the Andean Pact during the 1960s. Mr. Hurtado understands English, and is married with seven children.

**MODESTO FREITES PIÑARTE**, presently holds the position of Minister of Planning. He has a Bachelor in Statistics from Universidad Central de Venezuela (1966), a M.S. from Iowa State (1972). Mr. Freites has occupied outstanding positions through his public career including: Governor of Guárico State (1985-87), Vice President of the Finance Commission of Congress (1984-85), and elected Senator for Guárico (1984-89), President of the Economics Commission of Venezuela's Workers Confederation [CTV] (1984-85), Chief of the Central Office of Statistics and Informatics of Venezuela.

In addition he has held managerial positions at the Venezuelan Investment Fund. He has been Adviser at the Central Bank, the Central Office of Statistics, and the Government's Planning Office. The Minister holds a sound academic background as member of the faculty of Venezuela's Central University and Andrés Bello Catholic University.

He has written numerous papers related to the Econometric Modeling of Inflation, Price Indices, Wages and the Monetary System. He is the current Governor for Venezuela at the World Bank.

**MAURICIO GARCIA ARAUJO**, age 50, is currently the President of the Central Bank of Venezuela. Mr. Garcia has been a successful businessman and respected economist in Venezuela. He served on a committee which advised the Government in 1984 and 1985 on rescheduling Venezuela's foreign debt. At one time, he was the director of PEDEVESA, the petroleum holding parastatal in Venezuela and has also been an executive in a large commercial conglomerate.

Mr. Garcia is a graduate of the Columbia University in New York. He has also been a fellow at the American Enterprise Institute in Washington.



## 1988 ANNUAL MEETING BRIEF

Name of Country: Zaire

Date: September 1, 1988

Meeting with: Cit. Kamitatu Massamba, Minister of Finance  
Cit. Kinzoni, Mvutukidi Ngindu Kogbia, Minister of Budget  
Cit. Pay-Pay Wa Syakassige, Governor, Central Bank

Population: 32m (1987) Estimated Growth Rate: 2.7% (1987)  
GNP per capita: \$160 (1987)

	(\$m)		(\$m)
Total commitments, end-June 1988	1,443	FY88 Commitments: (IDA)	56
of which:		Disbursements:	206
Bank (10 operations):	302	Amortization:	14
IDA (53 operations) <sup>1/</sup> :	1,141	Commitments from SFA:	0
Total Undisbursed:	446	Commitments from SJF:	0
Lending Program: FY89-90	468		

<u>Summary Data</u>	<u>Average</u>	<u>Projection</u>	
	1983-87	1988	
GDP growth	2.2	2.8	Aid Group Meeting: CG
Export growth	6.5	-1.2	Last Meeting: May 1987
Import growth	-1.0	0.7	IMF Status: In arrears; the
Current Account Deficit % GDP <sup>2/</sup>	11.9	17.3	May 1987 Standby lapsed.
Gross Debt Service Ratio	23.2	65.5 <sup>3/</sup>	
Annual Inflation Rate	57.8	100.0	

Background. The Government's structural adjustment program was financially supported by an Industrial Sector Adjustment Credit (June 1986 - fully disbursed), a Structural Adjustment Credit (June 1987), and a combination of IMF facilities (Stand-by, SAF and CFF). However, the release of the second tranche of the SAL, scheduled for March 1988, and the purchases under the stand-by arrangement further to the September 1987 SAF drawings were held up because the Government did not meet a number of specific conditions for disbursement. In 1987, domestic credit expansion and budget deficit exceeded the IMF performance criteria by large margins. Regarding the SAL, no agreement could be reached on a satisfactory macroeconomic framework for subsequent years. Disbursements on Highways VI were suspended because the Government failed to raise the road tax. Also, in March 1988 the Government stopped honoring its debt service obligations to creditors with negative cash flows to Zaire (including the IMF), but is still paying the World Bank.

Issues likely to be raised by the delegation:

1. Need for better conditions on debt and larger capital in-flows.
2. Political problems in adjusting the exchange rate, and raising petroleum prices and real interest rates.
3. National sovereignty in key areas such as investment planning.
4. Advisability for the Bank to take positions independent from the IMF.
5. Conditions under which the Bank would release the 2nd tranche.

Issues to be raised by Bank management:

1. Urgency of the situation.
2. Link between growth and stabilization (see para. 6).
3. Need to improve credibility both for donors and private sector investors.

Attachments:

1. Five-year lending program: FY89-93 (FY88 actual)
2. Biographical information

<sup>1/</sup> Including 3 SFA credits.  
<sup>2/</sup> Excluding transfers.  
<sup>3/</sup> Before rescheduling.