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SOUTH ASIA

SOUTH ASIA REGION - FACT SHEET

Vice President	:	W. David Hopper
Total HL Staff	:	229
of which field	:	31

Country Programs	Projects
Director: Russell J. Cheetham	Director: Enrique Lerdau
Total HL Staff: 53	Total HL Staff: 135

Number of Field Offices: 5

Regional Overview

Number of Borrowers : 8
Total Population ('000) : 986,503

Work Program

	FY81-85 Annual Avg.	(Est.) FY86	(Projected) FY86-88 Annual Average
Lending -			
IBRD ($ current millions)	1,414.6	2,219.3	2,226.8
IDA ($ current millions)	1,764.2	1,443.0	1,421.3
Number of Loans/Credits	39	34	35
Supervision Portfolio ($ million)	-	19,239.1	
Number of Loans/Credits	-	263	
Cofinancing Mobilized ($ million)	993	1,050	
Number of Operations	16	15	
Number of Countries with active Aid Group Meetings chaired by Region		6	

ASNVP
4/16/86

SOUTH ASIA REGIONAL BRIEF

1. Background on Region

The region includes eight countries with a population of one billion persons. The three largest are: India (750 million), Bangladesh (99 million) and Pakistan (93 million), as of 1984. The remaining five -- Bhutan, Burma, Maldives, Nepal and Sri Lanka -- range in size from the Maldives (only 170,000) to Burma (36 million). Agriculture is the dominant economic activity and 75% of the population live in rural areas.

There is considerable ethnic and religious diversity. The main religions are Buddhism, Hinduism and Islam, the latter especially prominent in Bangladesh, Pakistan and the Maldives. Within several of the countries there are significant minority populations. Religious and/or ethnic diversity, along with federal-regional frictions, have been and continue to be sources of internal political tension, especially in India, Pakistan and Sri Lanka.

Forms of government vary: Western style democracies exist in India and Sri Lanka. Strong leaders from the military characterize government rule in Bangladesh, Burma and Pakistan, though all three have introduced forms of parliamentary political participation. Two countries -- Bhutan and Nepal -- have hereditary monarchies.

Average per capita income is $260 per annum; the number in "absolute poverty" (i.e., with incomes too low to afford an "adequate diet") is around 500 million persons, more than the total population of Sub-Saharan Africa. High population growth rates, poor health and nutrition and widespread illiteracy are among major socio-economic problems. There is a strong tradition of governmental intervention in the economy -- through regulation, licensing, subsidization and public ownership -- but in recent years in a number of countries, e.g., India, Pakistan and Sri Lanka, there has been a tendency toward more market oriented policies.

As compared with their position in the early 1960s, the South Asian economies have made impressive economic gains. Most countries have recorded steady growth and have made progress in creating the institutional structures needed to accomplish sustained development. They have made admirable progress in tackling the problem of food supply, long regarded as a Malthusian nightmare in South Asia. However, with population increasing by around 2.4% per annum, incomes per capita have grown very slowly.

Since the early 1970s, when the world economic environment was anything but conducive to sustained growth on the part of developing countries, the South Asia region did better than most, adjusting relatively well to the most severe economic shocks in a generation. The past decade has seen acceleration of the process of structural change and major advances, not only in agriculture and food production, but also in the development of manufacturing industry. South Asian governments in the past decade showed better judgment in managing their external borrowings than did most LDCs. Resort to borrowing on commercial terms was restrained and concessional assistance, while exhibiting little growth in recent years, continued to be substantial. As a result, at present the level of external debt, and the burden of debt service on the balance of payments, is generally moderate for most countries. Compared with other developing countries, indeed, the South Asian countries have only a modest "debt problem". As a consequence, South Asian countries today have a relatively comfortable balance of payments position and considerably greater room for maneuver in managing their economies than many LDCs and especially many African and Latin American governments. The challenge for the countries, and for the Bank, is to translate this advantage into the policies and programs required to address effectively the major development issues summarized below (Section 3B).

2. Major Aspects of Work Program

A. Major country and sectoral distribution of lending.

The main features of the FY81-85 and FY86-90 lending programs are as follows:

(i) The FY81-85 program (commitments basis) totalled $15.9 billion; in FY86-90 it is planned at $18.6 billion.

(ii) IDA lending will decline from $8.8 billion to $7.4 billion.

(iii) IBRD loans will rise from $7.1 billion to $11.2 billion.

(iv) Main changes in country allocations will be, in major countries, large relative increases to Bangladesh and Pakistan and a large relative reduction (and little absolute nominal change) to India. Among smaller countries there will be declines to Nepal and Sri Lanka.

(v) The increased lending to Bangladesh represents a rise in its allocation of IDA resources. Sharp declines in IDA credits to India and Pakistan will be more than offset by the large planned increases in IBRD loans to both countries.

(vi) By sector, the major allocations will continue to be towards agriculture, power/energy and industry (in that order), but with a significant increase to industry and a relative decline to agriculture. There will also be increases in the share to social sectors and for lending in support of economic reforms. The increase in the latter will be even greater than shown in the table if we are able to reach agreement with Nepal on a series of structural adjustment operations beginning in FY87.

SOUTH ASIA

Lending Program Summary
(in US$ millions)

	FY81-85				FY86-90			
	IDA	IBRD	Total	%	IDA	IBRD	Total	%
By Country								
Bangladesh	1,751	0	1,751	11	2,539	0	2,539	14
Bhutan	17	0	17	0	33	0	33	0
Burma	334	0	334	2	285	0	285	1
India	4,918	6,178	11,096	70	3,035	8,606	11,641	63
Maldives	5	0	5	0	15	0	15	0
Nepal	362	0	362	2	303	0	303	2
Pakistan	1,022	778	1,800	11	817	2,444	3,261	18
Sri Lanka	412	117	529	3	358	130	488	3
TOTAL	8,821	7,073	15,894	100	7,385	11,180	18,565	100
By Sector								
Agriculture	4,214	580	4,793	30	3,283	1,931	5,214	28
Education	268	0	268	2	253	0	253	1
Industry/IDF	1,221	1,281	2,502	16	339	2,713	3,052	16
Transportation	511	955	1,466	9	465	960	1,425	8
Power & Other Energy	1,335	3,996	5,330	34	556	2,876	3,432	19
Urban/Water	565	24	589	4	1,053	280	1,333	7
Pop./Health/ Nutrition	88	0	88	1	414	0	414	2
Tech. Asst.	64	0	64	0	7	0	7	0
Adjustment Lending	555	238	793	5	1,015	2,420	3,435	19
TOTAL	8,821	7,073	15,894	100	7,385	11,180	18,565	100

B. Key issues being addressed in country economic and sector work (CESW)

The main rationale guiding our CESW will continue to be provision of the analytical basis for (i) our lending program, and (ii) achieving government policy reforms at several levels -- macro, sector, subsector (our "policy dialogue"). These two elements in the rationale are increasingly tending to merge as more of our lending has stressed the policy changes needed for effective loan operations and, in particular, lending in support of sectoral and structural adjustments. Within this general approach, the emphasis of the CESW in particular countries in FY86-87 reflects: our analysis of the issues related to the lending program of the next three to four years; the nature and adequacy of previously undertaken CESW, especially in the last few years; the degree to which countries have acted, or failed to act, on past CESW recommendations. A final general point: CESW will continue to be rather limited in our smaller borrowers, given staff limitations. In Burma, this reflects mainly the government's wariness towards work that prescribes policy change; in Bhutan and the Maldives, small lending programs dictate a CESW emphasis on periodic macroeconomic updating/monitoring work; it is desirable in these countries to carry out sector analyses in the context of project preparation.

In addition to the need to carry out periodic macroeconomic analyses of domestic issues and performance, balance of payments developments and external resource needs for our several audiences (governments, country aid consortia, and Bank management), the main areas of CESW in the next few years are shown below. Two themes are especially prominent in this work. One is the emphasis we are placing on policy analysis of issues relating to the increasing participation of the private sector in economic activity. A second theme is a major increase in the staff time devoted to analysis of issues related to our expanded program of sector and structural adjustment lending.

Topic	Policy Concerns	Country Examples /a
Trade policy, industry reforms	Need to increase industrial efficiency, competitiveness; encourage export expansion	Bangladesh, India, Nepal, Pakistan, Sri Lanka
Agricultural sector studies	Sector infrastructure inefficiencies; inadequate producer incentives; crop diversification needs	Bangladesh, Burma, India, Nepal, Sri Lanka
Resource mobilization issues	Inadequacy of domestic savings, especially public savings and inefficiencies due to subsidy practices	Bangladesh, India, Nepal, Pakistan
Public enterprise reform	Widespread inefficiencies in this major sector; heavy drain on government budgets due to large public enterprise losses	India, Nepal, Pakistan, Sri Lanka
Social sector issues	Need to identify priorities for future Bank lending; problems in inadequate self-funding and inefficient services provision	Bangladesh, India, Nepal, Pakistan
Energy sector issues	Need to identify main policy issues for possible sector lending	Bangladesh, India
Financial sector issues	Need to identify main policy issues to strengthen financial intermediation to promote private savings and efficient allocation of credit to private sector	Bangladesh, Sri Lanka

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/a Not all listed policy concerns in CESW apply to each country named.

C. Trends in Bank assistance strategy

Our assistance strategies vary among the South Asian countries reflecting different needs, development stage and thrust, and, above all, the foci of Bank involvement as agreed with governments. But, there are a number of common themes in the strategies aimed at meeting our major objectives. The latter include expansion of employment opportunities, easing the burden of poverty by transferring modern technology to agriculture, reduction in population growth, improvement in access to education, better urban services, greater availability of clean water, slowing environmental degradation, and improving urban management and planning.

Given the widespread need to expand the capacity to pay for imports and to enhance creditworthiness, we are greatly expanding our assistance aimed at helping countries in achieving structural adjustment. This underlies the emphasis in our policy dialogue with and lending to our member countries on enhancing domestic resource mobilization capacity, defining investment priorities, and achieving greater efficiency and productivity in the major sectors of the economy. We are paying particular attention to the need to strengthen the role of the private sector through reducing distortions and controls, and improving production and investment incentives to private entrepreneurs through a greater reliance on market forces. An important element in this strategy is the support we are providing to encourage the shift from public to private sector economic activity while improving the efficiency and profitability of state enterprises.

Achieving their development objectives requires larger national investment programs in all countries as well as more efficient use of existing investments. Creditworthiness considerations, and the need to avoid debt management difficulties, require countries to exercise prudence in foreign borrowing. We are therefore placing considerable emphasis in our macroeconomic analysis and dialogue on the need for improvements in domestic resource mobilization capability. Accordingly, we are devoting increased staff resources to improved budget management and revenue raising, as well as improved performance by public sector enterprises, which have a dominant role in South Asian economies.

Given the need for comprehensive policy reform as a central element in the needed restructuring of South Asian economies, we are increasing substantially the share of our assistance in the form of structural and sectoral adjustment lending. We see sector adjustment loans as an especially flexible approach to enable us to define the key issues, needs and requirements for policy action in the various sectors, while linking our lending to the policy reforms agreed with governments.

As major South Asian countries approach self-sufficiency in basic foodgrains -- to a considerable extent as the result of foreign (IDA, USAID, etc.) assistance -- we are supporting efforts directed at agricultural diversification towards production of higher valued crops including vegetable oils, fruits and vegetables, and dairy products. The other main challenge in agriculture, especially in India, is to extend the technological ("Green") revolution to rainfed areas where tens of millions of the poorest people live.

An important aspect of our assistance strategy is the catalytic role we play in helping countries to mobilize capital from other sources. As chairman of the country aid groups or consortia, we coordinate the activities of donor nations, defining external resource needs of the client country and the appropriate mix and terms of assistance required. In addition, in recent years, we have taken an active role in assisting client countries in organizing the commercial cofinancing of our projects.

3. Major Issues of South Asia Region in FY87

A. Issues internal to South Asia Region of the Bank

(i) Need to strengthen our capacity to undertake country economic and sector analysis and to translate this analysis into country strategies and programs for action, both for lending postures and for policy advice.

(ii) Importance of investing sufficient staff resources in supervision in order to:

(a) assure successful completion of loan operations;
(b) learn from our lending experience.

(iii) The need for removal of constraints on Bank's lending resources through a general capital increase (GCI) and larger IDA-8.

(iv) Upgrade and renew the professional staff, many of whom have not kept up with the technological advances in their fields in the last 20-30 years (retraining, early retirement, etc.). Change the skill profile of the staff to match the requirements of shifting composition of lending program.

B. Major "country" issues

(i) South Asian countries, with large rural populations, need to continue past progress in agriculture so as to absorb rural poor into economic activity.

(ii) Need to focus attention on improving industrial performance in order to provide employment and to expand exports as part of needed structural adjustment. Need to continue progress already initiated towards liberalization of economies so as to increase efficiency and competitiveness and enlarge the role of the private sector.

(iii) Problem of large public sectors

(a) Need to continue and expand market orientation through privatization, deregulation, introduction of competition into monopolized sectors, etc.

(b) Need to increase efficiency of public enterprise sector from viewpoints both of need for greater productivity and resource mobilization.

(iv) Need for increased access to concessional funds of special importance to region, and need for more World Bank resources. Availability of concessional resources is limited in current international economic climate.

(a) In consequence, countries are increasingly turning to commercial borrowing. This has limited potential for South Asian countries, except India, on account of creditworthiness limits.

(b) Creditworthiness also limits potential for IBRD lending, except to India.

(c) Importance therefore of generous IDA-8 replenishment.

(d) Importance of GCI since ability to expand IBRD lending to India, in particular, is constrained by Bank portfolio restriction.

4. Country Profile - India

Basic Data

Population (1984)	: 750.0 million
GNP per capita (1984)	: $ 260
External debt (1984)	: $ 25.9 billion
Debt service ratio (1984)	: 17.0%
of which Bank/IDA	: 2.6%

A. Recent assistance efforts

Bank/IDA lending (commitments) in FY81-85 totalled $11.1 billion, comprising $4.9 billion IDA and $6.2 billion IBRD. In line with past Government of India (GOI) development objectives, lending has focussed on support to agriculture, energy and infrastructure.

Agricultural investments in irrigation, research, extension and on-farm development have aimed to increase agricultural productivity. Additionally, Bank/IDA assistance has sought to improve availability of basic agricultural inputs to farmers through credit, fertilizer, marketing, storage and seed projects.

Energy and other infrastructure bottlenecks have been addressed through our investments in energy, namely power generation and distribution, oil and gas exploration and development, coal production, and railway and telecommunication projects.

Industrial enterprises in the private sector especially have been assisted through our support of industrial development finance institutions.

To help meet the essential needs of urban and rural populations, our assistance has supported nutrition and family planning programs, rural roads, and various urban infrastructure projects.

B. Key problems being addressed through Bank assistance

The recently inaugurated Seventh Plan (1985/86-1989/90) sets a GDP growth target of 5% per annum. This is an essential objective if the Government is to deal more effectively with the twin challenges of alleviating pervasive poverty and providing an accelerated rate of growth in employment opportunities. To achieve the objective of 5% per annum growth while maintaining a viable balance of payments, a number of major issues need to be addressed, requiring assistance in policy change and through our investments. These issues include the need to:

(i) accelerate growth of industrial production and exports through policy changes to enhance efficiency and competition and promote a greater role for the private sector. This is essential to ensure that the country's creditworthiness is safeguarded.

(ii) improve overall productivity of investment in the economy, and especially the basic infrastructure;

(iii) maintain the increased rate of agricultural expansion achieved under the Sixth Plan; and

(iv) expand domestic resource mobilization, especially in the public sector.

The area in which the most progress will be required is in improving industrial efficiency and competition. The Government and the Bank have had divergent views on the broad direction of industrial policy in the past such that our involvement in the sector has been very limited. However, under Rajiv Gandhi, India's economic policies, as they affect the industrial sector, have been improving although the political constraints against rapid liberalization have not made steady progress possible. To support India's efforts in the industrial sector, our assistance strategy provides for a major expansion of Bank involvement in this sector. Given lending and budget constraints, this requires major restructuring of our assistance program, involving expanded industrial support at the expense of the traditional emphasis on the energy and infrastructure sectors. However, Bank support for the agriculture sector will be maintained while support to the social sectors will be expanded.

The object of our lending and sector analysis in industry is to support the needed structural changes and policy reforms in industry -- both private and public sectors -- which will result in increased industrial efficiency and strengthen India's export performance. The aim is thereby to foster overall growth and to maintain India's creditworthiness. Future industrial loans will be associated with needed policy actions growing out of our policy analysis and dialogue with the Government. The loans under consideration include (i) sector lending for industrial adjustment, export and technology development; (ii) subsector-restructuring loans for financing expansion, maintenance, rehabilitation and modernization in key subsectors (fertilizer, steel, engineering, electronics and textiles).

Lending to agriculture over the next five years will be constrained given the increased priority to industry in the lending program. We will focus on the core elements needed to support overall agricultural development, including extension and research, water management and new irrigation, credit, forestry and resource conservation. In all these fields, the modernization of the respective public services through the introduction of new technological and organizational approaches is the central element of our contribution.

Lending constraints have called for a consolidation of the Bank's involvement in the energy, transport and communications sectors. Our assistance strategy in the energy sector will focus on supporting the Government in bringing about more efficient use of investment resources and existing capital in exploration and development of energy resources and their generation, distribution and utilization. We will also seek improved financial performance of sector institutions, in particular the State Electricity Boards, whose losses -- which are largely due to low tariffs -- constitute a major drain on state budgets. In addition, we will support GOI's efforts to encourage private investment in the energy sector, in particular in oil and gas exploration and thermal power generation. In the transport and communications sectors, our assistance strategy will focus on improving the efficiency of asset use and the financial performance of sector institutions.

Apart from industry, the social sectors are the only other area where we plan an increased effort over the next five years to help the Government in its efforts to alleviate poverty. We will support programs and projects in urban development, water supply, nutrition and population. India's population continues to grow by 2% per annum or 16 million per year, the total size of Nepal or Sri Lanka. The urban population will grow by 3.6% per annum.

We will continue to assist the Government in developing the infrastructure, shelter and municipal services for urban areas by focussing on the policies and programs needed for improving resource utilization and resource mobilization in urban development. In the population field, the main objective of Bank lending will continue to be the reduction of fertility and morbidity through support of the Government's family planning and maternal and child health service programs in both the rural and urban areas.

In developing our program of support for policy based operations, we will be calling into contention many of the most cherished and fundamental economic policies pursued by India's political, business and bureaucratic leaders of the post-Independence period. Given India's understandable sensitivities with respect to outside influence on key policy issues, it will be necessary to ensure that we do not appear to be pushing the Government more than it can handle politically and that we do not appear to be appropriating actions which in its judgment only the Government can decide on. In all our policy-based operations, therefore, we will continue quietly to urge the Government to adopt reforms in advance of lending operations whenever this is feasible in order to minimize the Bank's public association with the debate within India of sensitive policy and institutional issues. Thus our lending would largely support policy actions already taken.

Our CESW will reinforce the above country lending strategy through analysis aimed at supporting our dialogue on: trade and industrial policy reform issues; macro and sector developments affecting creditworthiness; resource mobilization issues; and various social issues relating to the Government's anti-poverty strategy.

The restructuring in lending contemplated is proceeding in carefully planned stages. There is a need for substantial preparatory work in the industrial sector. Additionally we will continue to devote an important part of our staff resources to implementing and supervising the large portfolio of projects in agriculture and infrastructure.

The increase in the overall size of the lending program in nominal terms between FY81-85 and FY86-90 is expected to be only 5%, even lower in real terms. Total lending (commitments) will be $11.6 billion, including $3.0 billion IDA and $8.6 billion IBRD. The IBRD program will increase by 40% to compensate for the nearly 40% decline in IDA lending. The FY86-90 program is thus heavily constrained both by India's reduced share in IDA resources and by portfolio considerations in the allocation of IBRD resources.

INDIA

Bank Group Lending Program, FY81-90
($ billions)

	Actual FY81-85		Current Program FY86-90	
	Amount	%	Amount	%
Agriculture	2.8	26	3.1	27
Industry	1.4	12	2.4	21
of which: Region Adjustment Lending	-	-	1.1	9
Energy	4.8	43	3.6	31
of which: Region Adjustment Lending	-	-	0.7	6
Transport & Communications	1.5	13	1.3	11
Social	0.6	5	1.3	11
TOTAL	11.0	100	11.6	100

Country Profile - Nepal

Basic Data

Population (1984)	: 16.3 million
GNP per capita (1984)	: $ 160
External debt (1984)	: $ 427 million
Debt service ratio (1984)	: 3.4%
of which Bank/IDA	: 0.7%

A. Recent assistance efforts

Total lending to Nepal in FY81-85 was $362 million, all IDA. Until recently, lending was distributed over some 16 subsectors, the lion's share going into power, highways and telecommunications and education. Smaller amounts went to agriculture, including forestry, cottage industry and technical assistance credits. In order to increase the impact of our operations in high priority sectors and be more effective in our institution building efforts, we have now focussed our program on fewer sectors, with emphasis mainly on agriculture/forestry, human resources, the problem of population growth and the requirements for improvements in transit and rural transport.

B. Outstanding problems being addressed through Bank assistance

Today, after nearly three decades of development efforts supported by growing foreign assistance, Nepal remains one of the poorest nations in the world. Over the past several years, increases in agricultural production and incomes have barely kept pace with population growth and the rising demand for food and fuel has led to rapid environmental degradation. While this economic stagnation can be explained partly by factors beyond Nepal's control, such as the difficult terrain, its landlocked position and poor resource base, a major factor is the Government's ineffective policies and weak institutions. The budgetary and balance of payments problems Nepal is facing today are more far-reaching and severe than anything the country had experienced in the past and are to a large extent the cumulative outcome of many years of ineffective policies and management.

The need for corrective actions is now urgent. Immediate action is required to deal with short term stabilization problems and to address in particular the critical budgetary and balance of payments problems. In the medium term, the Government needs to focus on policies that stimulate production, promote the country's limited exports and improve public administration.

The main objective of IDA's country assistance to Nepal over the next three years will be to support the Government's stabilization and economic adjustment efforts. Our exact approach, however, will be determined by the nature of the government response to the present crisis. Agreement last November with the IMF on a standby program is a first encouraging step.

Successful implementation of such a program would meet the pre-requisite for short-term stabilization and set the stage for formulation and implementation of a program for medium-term adjustment. We are helping the Government develop a medium-term program and, if the political commitment exists, we will help in its implementation. Because of the existing uncertainties, however, we are not yet introducing such a structural adjustment operation in our lending program.

Our current strategy is attempting to strike an appropriate balance between the necessary emphasis on quick and high yielding investments (e.g., maintenance in irrigation, cottage and small industry, transit and transport) which is dictated by Nepal's short-term financial concerns, and our equally important commitments to those sectors where the impact cannot be felt immediately but which nevertheless are critical to the country's long-term development (e.g., community forestry, population and human resources development). Our operational involvement has become very selective also because of the constraints on IDA resources as well as Nepal's limited capacity to undertake new projects. Nevertheless, we are likely to be called upon to play a catalytic role in helping mobilize aid resources for the development of the power sector as well as providing a wide range of technical assistance in policy formulation and institution building.

Our strategy and lending will be supported by a strengthened economic and sector work program. In agriculture, we plan to review agricultural marketing and pricing which are central to the producer incentive questions we are raising. In irrigation, our primary concern continues to be improved cost recovery and operation and maintenance. In industry, the first priority is to take stock of numerous studies on industrial and trade policies and incentives included under ongoing operations to develop a cohesive body of work and a meaningful program of policy action. Work is also planned in the area of public enterprise performance and in the social sectors, with emphasis on sector finance issues and efficiency in provision of services.

Our lending program for FY86-90 amounts to $303 million, nearly one-fifth below that of FY81-85 in nominal terms, much lower in real terms. The actual level of our overall assistance will, however, be primarily determined by country performance. As shown in the attached table, the focus of our lending to Nepal reflects the strategic considerations outlined earlier and it will involve an increasing emphasis on a limited number of sectors where we have already had a major involvement -- agriculture, transport and social sectors -- while reducing our activity in other areas. In addition, as noted earlier, we are engaged in discussions with the Government which may result in a series of structural adjustment credits which are not yet reflected in the program.

NEPAL

Bank Group Lending Program, FY81-90
($ millions)

	Actual FY81-85		Current Program FY86-90	
	Amount	%	Amount	%
Agriculture	82.4	22.8	203.0	67.0
of which: General Agriculture	62.9	17.4	88.0	29.1
Irrigation	19.5	5.4	115.0	37.9
Energy and Power	127.2	35.1	-	-
Industry	14.0	3.9	9.7	3.2
Infrastructure	69.5	19.2	60.0	19.8
of which: Telecommunication	22.0	6.1	-	-
Transportation	47.5	13.1	60.0	19.8
Social	62.5	17.3	30.0	10.0
of which: Education	35.5	9.8	15.0	5.0
Population	-	-	15.0	5.0
Urban & Water Supply	27.0	7.5	-	-
Technical Assistance	6.0	1.7	-	-
TOTAL	361.6	100.0	302.7	100.0

SOUTH ASIA COUNTRY INDICATORS

	Population (mln)	GNP Per Capita /1 (US$)	Total MLT Debt /2 (US$ bln)	World Bank Exposure /3 (%)	Total MLT Debt as % of Exports /4 (%)	Level of Bank Effort /5 (Staff Years)	Performance Rating /6
Bangladesh	99.0	130	5.67	34.4	343.6	40	3
Bhutan	1.2	n/a	n/a	n/a	n/a	2	3
Burma	36.5	180	2.22	16.2	36.9	10	2
India	750.0	260	25.90	41.1	17.0	75	4+
Maldives	.2	n/a	0.05	5.9	12.5	1	3
Nepal	16.3	160	0.43	46.8	5.4	13	2
Pakistan	93.3	380	9.95	16.2	258.0	34	3+
Sri Lanka	15.6	360	2.42	15.1	14.2	17	3

/1 1984, Atlas Methodology.
/2 Total medium and long-term debt outstanding and disbursed at end of 1984.
/3 IBRD and IDA outstanding and disbursed debt as a percentage of total MLT debt as of end 1984.
/4 Medium and long-term debt as % of exports of goods and non-factor services and private transfers.
/5 FY86 budget.
/6 Countries rated on a 1 to 5 scale, (5 high) on their recent performance; Bank-wide exercise of December 1985.

WEST AFRICA

Vice President: Thalwitz
Total HL Staff: 318
of which - Field: 38

Country Programs I	Country Programs II	Projects
Director: Alisbah a/	Director: Serageldin	Director: Fuchs b/
Total HL Staff: 38	Total HL Staff: 46	Total HL Staff: 181

Number of Field Offices: 13

Regional Overview

Number of borrowers 23
Total population 179 million

Work Program	FY81-85 Annual Average	(est) FY86	(Projected) FY86-88 Annual Average
Lending -- IBRD ($ million):	555	571	776
-- IDA ($ million):	382	425	447
-- SFA* ($ million):	-	293	175
Total	937	1289	1398
Number of loans/credits:	36	37	39
Supervision Portfolio - ($ million)	5,448	6,966	
Number of loans/credits in Portfolio:	271	282	
Cofinancing mobilized ($ million)		507	
Number of operations cofinanced		28	
Number of countries with active Aid Group Meetings chaired by Region		10	

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a/ Koch-Weser as of July 1, 1986.
b/ Alisbah as of July 1, 1986.

(*Special African Facility)

April 23, 1986

Western Africa Regional Brief

A. Background

1. The 23 countries and 180 million people covered by the Western Africa Regional Office are in the grip of a crisis of development; most Africans today are worse off in real terms than they were in 1960. The cause of the crisis is the weakness of Western African economies. Not only are they linked to a fragile ecosystem degraded by drought and high rates of population growth, but they have also been battered by a series of internal and external misfortunes. External problems include the oil shock, depressed commodity prices and high interest rates which were compounded by over-borrowing, bad investment decisions (some involving the donor community) and mismanaged resources. The colonial era left economies heavily dependent on the export of one or two vulnerable primary commodities, while the weak administrative systems inherited at independence have not had time to gain sufficient strength and experience. Because there was no strong class of African entrepreneurs, the state was used as the engine of economic growth as well as for nation-building, but the effectiveness of state intervention has been hampered by pervasive corruption and political instability. Governments are often indecisive: the whole decision-making process is overpoliticized, and preoccupied with ethnic rivalries. While the public sector has been overfavored, the key agricultural sector has suffered from a lack of incentives. These development constraints make all the more remarkable the genuine progress that has been achieved since independence -- life expectancy has risen, infant mortality declined, and school enrollments increased.

2. Although all West African countries face similar development constraints, we must also be aware of their striking diversity. In terms of colonial heritage and language we deal with 14 francophone, 5 anglophone, three Portuguese, and one Spanish-speaking countries. Their physical environment ranges from the arid northern Saharan and Sahelian belt to the tropical rain forests of the southern coasts. They range in size from microstates such as Sao Tome and Principe (population 100,000) to Nigeria, whose population of 97 million accounts for one in four of all Sub-Saharan Africans. Regional economies range from Chad, one of the poorest countries in the world, through lower-middle-income countries including Côte d'Ivoire and Cameroon, to oil-exporting Nigeria and Gabon. Gabon has the highest income per head in the Region - around $3,500; only Congo ($1,120), Cameroon ($810), Nigeria ($770) and Côte d'Ivoire ($610) also have incomes per head over $600. The entire annual output of the Region is roughly equivalent to that of Sweden -- which has a twentieth of the population -- or to what the U.S. produces in under two weeks.

3. The challenge facing our countries and the Bank is to put in place those politically feasible structural reforms which will get economies back on a growth path. This means policies which stress greater reliance on market forces, and especially on the production of goods which

can sell competitively on world markets -- and thus a far greater focus on agriculture. It entails more efficient and productive use of public and private investment, with the public sector cut back to a supportive role. It involves across-the-board measures to strengthen management and technical capacity and to reduce bureaucratic controls. Our countries also need to get out from under a massive debt overhang, through a combination of debt rescheduling, greater net flows of concessional capital from abroad and economic, especially export, growth. All this requires a very high degree of fiscal and monetary discipline. In the French franc zone, to which 13 of our countries are linked, monetary discipline has been imposed supra-nationally, but at the expense of removing the exchange rate as an instrument of policy.

4. Many governments are now moving to tackle the crisis, with the strong urging of the IMF and Bank, and growing international support. Although the extent of reform efforts varies, progress is clearly underway. In introducing reforms many countries have shown a welcome pragmatism. Guinea and Mali have been able to escape from past ideological straightjackets. Ghana, Côte d'Ivoire, and Togo have sustained their reform programs over several years. New programs of structural adjustment have been, or are being, started in Senegal, Guinea, Niger, Mali, Mauritania, and Gambia. This is not to underestimate the difficulties involved. The discipline of reform involves painful measures to cut overgrown civil service staffs, close down unprofitable state-owned enterprises, and reduce subsidies -- measures which may have unfavorable effects on the poor. Freeing up exchange rates also affects entrenched groups. Many of these measures are slow to yield tangible returns. The momentum of Bank-supported programs sometimes falters. Yet the only alternative to planned reform is an even more painful unplanned and forced adjustment. An intellectual revolution -- to which the Bank has substantially contributed -- has undoubtedly taken place in attitudes to reform, and steps are being taken to link reform to sustainable growth. Nevertheless, because the crisis is deep-rooted it will take a generation or more to fully resolve.

B. Major Country and Sectoral Distribution of Lending

5. To support our countries in meeting the above objectives, the planned FY86-89 Bank/IDA lending program for the Western Africa Region amounts to $5.7 billion and 160 operations. In the case of Bank lending, there are major year-to-year uncertainties because of the preponderance of Nigeria, which will account for 44% of IBRD lending, closely followed by Côte d'Ivoire (41%). Major IDA borrowers are Ghana (a share of 19%), Mali (13%), Niger (13%), Senegal (9%) and Guinea (8%). The major sectoral emphases of our FY86-89 program are agriculture (particularly in the Sahel countries): 29%; structural adjustment and rehabilitation lending (18%); and public sector management and population and human resource development (together 11%).

	FY86	FY87	FY88	FY89	TOTAL
IBRD ($m) a/	571	913	845	1,015	3,344
IDA ($m)	425	412	503	503	1,843
Special African Fac. ($m)	293	233	-	-	526
TOTAL ($m)	1,289	1,558	1,348	1,518	5,713
No. of Operations	37	37	42	44	160
IBRD	(10)	(12)	(13)	(14)	(49)
IDA	(27)	(25)	(29)	(30)	(111)

a/ All dollars are current, and reflect our latest work program.

C. Key Issues being Addressed in Country Economic and Sector Work (CESW)

6. The expansion of country economic and sector work from under 15% to close to 20% of staff resources over the past five years has been linked principally to the dramatic increase in lending to support policy reforms and to the need to help borrowers and the donor community coordinate and direct the use of foreign aid. This work plays an important role in assisting countries in the development of reform programs, as they have a very limited capacity for economic analysis and policy formulation.

7. Our CESW in the past few years has thus been concentrated on medium-term adjustment issues. One of the main areas of concentration has been Public Investment/Public Expenditure reviews, which examine the overall size and quality of public expenditures, their distribution among sectors, and the efficiency with which resources are mobilized and allocated. The IMF relies heavily on these reviews in designing its stabilization programs. Closely related is work under the general heading of financial restructuring - creditworthiness analysis and determination of external resource requirements including debt rescheduling, to support the adjustment process. Such work has been done or is ongoing primarily in the heavily indebted, medium income countries such as Nigeria, Côte d'Ivoire and Congo, but is also underway, in support of structural adjustment lending, in Guinea, Mauritania, Senegal, Niger and Ghana.

8. Other components of CESW which support policy reform include work on public sector management and public enterprise reform. Another essential element is reform of the incentive structure for private sector activity including exchange rate, trade and pricing policies. Here CESW has concentrated on the vital agricultural sector.

9. Beyond medium-term adjustment we are addressing critical underlying issues affecting Africa's prospects for economic growth and social development over the longer term - high population growth rates, low levels of development of skills despite massive government efforts,

widespread poverty, and the diminishing resource base - mineral depletion, deforestation, fuelwood depletion and desertification. We have for example, expanded our work in the population, health and nutrition sector by 50% since 1980, but plan even further increases, given the severity of the problems presented by high and accelerating population growth in West Africa. Work has also been launched, and is being expanded, to address some of the environmental and social issues associated with the implementation of structural adjustment programs.

D. Trends in Bank Assistance Strategy

10. Supported by our analytical work, our lending now increasingly focuses on policy reform. The central problem addressed is reducing the excessive role of the state. This has been a problem throughout the Region and especially in such countries as Mali, Guinea, and Ghana. Even in others more oriented toward the private sector, such as Nigeria, Côte d'Ivoire, and Cameroon, government employment grew by leaps and bounds and the state played a major role in large industrial projects. The state needs to cut back its role to what it can prudently finance and efficiently implement, recognizing that the private sector is the key to growth. Our lending has a heavy emphasis on policy changes such as reducing price distortions, cutting back and often privatizing state enterprises, and increasing efficiency in the use of public sector resources. This complements the emphasis in project loans on positive steps to encourage increased output, such as by better agricultural research and extension.

11. This set of objectives is pursued in some countries through loans supporting a broad range of macroeconomic policies geared to structural change, and in others through loans linked to reforms in particular sectors. Although lending linked to overall sectoral policy is fairly new for our Region, we are finding it increasingly valuable in our country programs. It enables us to get into depth on sectoral policies and programs to help countries accelerate growth in, for example, agriculture and industry, and to help them address longer-run development issues of education and health/population. Perhaps Ghana has the most evolved country program in this respect. Here our lending program for FY86-89 includes not only a Structural Adjustment Credit, but sectoral credits in industry, agriculture, education and health, which we attempt to link optimally with conventional project loans: in ports, and perhaps in power or petroleum. The Côte d'Ivoire program includes the third in a series of Structural Adjustment Loans to be followed by agriculture and energy sector loans. The Senegal program also includes a Structural Adjustment Credit and sector operations in energy, industry, transport, and rainfed agriculture.

12. Another important means of supporting policy reform is through the help we give in coordinating aid flows. Too many donors focus on their individual priorities, some regrettably derived from trade interests, a political desire to please the recipient country by agreeing to fund projects of doubtful viability, or simply lack of knowledge of country needs. Thus a major part of our efforts to help countries adjust now

involves working increasingly closely with other donors to achieve better aid coordination. This takes a variety of forms. There are formal Consultative Groups, chaired by the Bank, in Ghana, Senegal, Mauritania and Guinea. In other countries (e.g. Togo, CAR), we work with UNDP on so-called "Round Tables", although our experience with these has been mixed. And from our 13 field offices, our Resident Representatives are active in in-country coordination among donors. Providing other donors an opportunity to participate in projects we are financing (i.e. cofinancing) is of critical importance in securing external funding for our countries.

E. Major Issues in FY87 and Beyond

13. In FY87 we must intensify our efforts at promoting adjustment with growth and equity. For those countries that have adopted substantive reform programs we must ensure adequate financial assistance to support them through the painful process of adjustment. This will require more efforts at Aid Coordination aimed at improving the effectiveness of aid flows as well as increasing their amounts. In this context the promised use of the IMF Trust Funds through the IMF's new Structural Adjustment Facility, will require an even greater degree of Bank-IMF collaboration to develop medium-term scenarios for the eligible countries. A parallel effort is also needed to help with the debt rescheduling and financial restructuring required for a number of our countries.

14. This puts a premium on using existing resources more efficiently, given the inadequacy of the available resources vis-à-vis the magnitude of the challenge we face. Financially, the concessional resources available are far short of the requirements. Administratively the total staff available is inadequate -- and in some cases our current skill mix is inappropriate given both the complexities inherent in our program and changes in the sectoral balance of the assistance we need to provide. We are working to achieve this greater efficiency and optimal placement of available resources through the Country Assistance Management (CAM) process which deploys staff and lending resources by country over a two-to-three year horizon.

COUNTRY PROFILE: COTE D'IVOIRE

Population: 9.9 million (1984)
GNP per capita: US $610 (1984)
Main exports: Cocoa, coffee, timber
Debt outstanding and disbursed: US $4,834.6 million (end-1984)
Debt outstanding including undisbursed from IBRD & IDA: US $1,784.9 million

Background

In spite of recent difficulties, the Ivorian economy is one of the success stories of Western Africa. The country's per capita income of US $610 in 1984 was only exceeded by that of four oil-exporters in the 23 countries of the Region. Since Independence in 1960, Côte d'Ivoire has enjoyed remarkable political stability. Its octogenarian President, Félix Houphouët-Boigny, was reelected to another 5-year term in 1985, and procedures are in place for an eventual orderly transfer of power. Rapid economic development has been boosted by favorable natural resources, a steady flow of cheap labor from poorer Sahelian countries to the north, and an openness to foreign investment and technical assistance and to the market economies generally.

Until the mid-1970s, Côte d'Ivoire experienced rapid economic growth. The stable and outward-looking policy environment and an effective combination of foreign and domestic factors produced a rapid exploitation of comparative advantage, especially in agriculture. The resulting surpluses were used by the Government to support a rapid diversification of the economy towards the secondary and tertiary sectors, which in turn induced rapid urbanization.

In the later 1970s, however, Ivorian development was derailed by a series of external shocks and by domestic mismanagement. A boom in the world coffee and cocoa markets from 1975-77 was followed by a bust from 1977-79 and a sharp rise in import prices, especially of oil, in 1979. But under the stimulus of the boom, the Government had launched an over-ambitious public investment program, heavily dependent on foreign borrowing with a focus on costly projects with low returns. When the boom ended, the foreign debt burden remained. Meanwhile, incentives to producers of export crops were reduced in real terms, and import restrictions stifled export potential in industry. By 1980, all the main economic indicators had deteriorated and Côte d'Ivoire had exhausted its foreign reserves.

Prodded by donors who were disconcerted to see their star West African performer falling down on stage, in 1981 the Government launched a structural adjustment program (detailed below). Half a decade of painful retrenchment followed (GDP per capita fell by 23 percent from 1980 to 1984). For the rest of the 1980s, the country must complete the structural adjustment process while concurrently laying the foundation for self-sustained growth in the first half of the 1990s. For this process to be successful, a sustained and coordinated effort will be needed by the IMF, the Bank, the French Government and other important donors, and the international commercial banking community.

The Structural Adjustment Process

The structural adjustment program launched at the end of 1981 by the Government was supported by two Structural Adjustment Loans (SALs) from the Bank in 1981 and 1983, and by use of Fund resources. A third SAL (US $250 million) has just been negotiated.

Adjustment measures forcefully applied by the Government have included: cutting back on domestic credit to the overfavored public sector; an interest rate policy designed to mobilize domestic resources; a sharp cutback in public expenditure; a shakeup of the parapublic sector to improve efficiency and stop the drain on public finances; increased producer prices for cash and food crops; a broad complementary reform of agricultural incentives covering import subsidies and external trade; and beginnings of a comprehensive reform to straighten out the over-cosseted industrial sector and to eliminate its anti-export bias.

The Government has generally stayed the course in this difficult process. Slippages occurred in 1982 and 1983 partly because of declining terms of trade, lower-than-forecast domestic oil production and, especially, the crippling 1983 drought. But its efforts were redoubled in 1984 and the 5.3 percent growth in GDP in 1985 was very encouraging after three successive years of falling output. The Government deficit, 13.1 percent of GDP in 1981, turned into a small surplus (1.5 percent) in 1985. The balance on trade in goods and services improved from a deficit of 5.4 percent of GDP in 1980 to a surplus of 13.9 percent in 1985. This mostly reflected import cutbacks, however. Exports lagged, partly because of delays in implementing policies to increase the prices of tradeable goods. And in spite of the improvements in the trade balance, the overall balance of payments gap continued to widen until 1983 as the Government found difficulty in raising fresh private money abroad. The situation eased somewhat with the reschedulings of debt service obligations coming due in 1984 and 1985 to bilateral (Paris Club) and commercial (London Club) lenders, as well as to some domestic creditors (Abidjan Club). Further multi-year (1986-89) reschedulings are in the works: Côte d'Ivoire is a leader in Africa in this key area.

The Bank's Role

The Bank has played the leading role in shaping the adjustment process by: maintaining a vigorous dialogue with the Government policymakers and also with technical counterparts, backed up by technical assistance; working very closely with the Fund, with other donors, and with co-financing sources (the FY85 Second Highway Sector Loan, cofinanced by commercial banks is the first "B-loan" in Africa); switching from project-oriented lending to quick-disbursing structural adjustment lending to support policy reform; and planning a five-year future lending program of about US $300 million a year which focusses on sector-specific policy changes, to increase efficiency through correct pricing and incentives.

Future Strategy

The Bank's view of medium-term prospects for Côte d'Ivoire is that continuation of the adjustment process will lead to renewed real growth in the 1990s. This will be based on: continued diversification and expansion of exports with a leading role for the private sector in directly productive activities; continued firm cutbacks in the public sector so that it focuses on those activities for which it is best suited; implementation of a strategy to enable the country to get out from under its heavy debt burden via multiyear rescheduling; continued injections of non-commercial external funding to stimulate further growth and ease the adjustment burden; and formulation of policies to address long-term problems of runaway population growth, an inadequate health system, and environmental degradation.

The main issues involved in carrying this strategy are: securing the continued political will of the Government, given that sustained real growth in per capita incomes will not resume until the 1990s; adjusting to uncertainties regarding such external factors as world commodity prices and interest rates; and assuring that sufficient new external financing is obtained and effectively deployed, and that the debt burden continues to be reduced.

COUNTRY PROFILE: GHANA

Population: 12.2 million (1984)
GNP per capita: $350 (1984)
Main exports: Cocoa and gold.
Debt outstanding and Disbursed: $1,122.4 million (Dec. 1984)
Debt outstanding incl. undisbursed from
World Bank (IBRD + IDA): $513.5 million (June 1985)

Background

Ghana's economy, one of Africa's most promising at Independence in 1957, sank steadily during the 1970s and early 1980s under the weight of severe mis-management and exogenous shocks. Between 1970 and 1982, real per capita income declined by a third, export earnings fell in real terms by 50 percent, and inflation averaged 44 percent yearly. Poor policies were at the root of Ghana's difficulties. Budgetary indiscipline fuelled inflation. An overvalued exchange rate eroded incentives to export and to efficient import substitution. A perpetual foreign exchange crisis forced successive governments to curtail imports which choked off investment and growth. With worsening economic conditions and the resultant political instability, external assistance declined and tax revenues fell, compounding the general deterioration in the economy, and in the country's once well-developed economic and social infrastructure. Price and other controls caused further distortions and created a vast black market. With economic opportunities declining and real wages down to some 20 percent of their 1975 level, educated and trained Ghanaians sought greener pastures abroad. In the early 1980s, the economy received three additional shocks: a severe drought, the expulsion by Nigeria of some 1 million Ghanaians, and a sharp worsening in terms of trade as petroleum prices rose and cocoa prices fell.

The Economic Recovery Program

A government headed by the Provisional National Defense Council, came to power in a coup led by Flight Lieutenant Jerry Rawlings, a young charismatic air force officer, on December 31, 1981, determined to reverse the country's slide. After initial experimentation with leftist policies, the government turned to the IMF and World Bank for policy advice and financial support. The resulting Economic Recovery Program has dramatically transformed Ghana's economic policies and turned its economy on the road to recovery. The reforms, supported by SDR 454 million in IDA credits and IMF drawings totalling some SDR 600 million, include:

- a <u>flexible exchange rate policy</u>. A series of massive devaluations have moved the Ghanaian cedi rate from 2.75 to 90 cedis = US$1.00, a depreciation of over 3200 percent.

- more <u>realistic relative prices and incomes</u>. Cocoa producer prices have been raised some seven-fold to restore incentives to Ghana's most important export crop; increased utility tariffs and energy and other administered prices have been raised to eliminate, or reduce subsidies; public sector wages and salaries have been substantially raised; price controls have been removed on all but a handful of commodities; and interest rates, which have been raised to 23%, are now positive in real terms.

. fiscal and monetary discipline: Revenues have risen sharply, expenditures have been contained, and the fiscal deficit substantially reduced.

Complementing these reforms are a series of rehabilitation programs to break supply bottlenecks and ease structural constraints, such as the railway and port system, whose deteriorations threatened cocoa, timber, manganese, and bauxite exports.

The reform program, assisted by more normal rainfall and substantial external aid, has already begun to reverse the long term deterioration of the economy. For the past two years GDP growth has exceeded 6 percent and inflation has decelerated sharply from 123 percent in 1983 to around 10 percent in 1985. Exports and imports have begun to recover.

The Bank's Role

The World Bank's role in this initial phase of the Recovery Program has been to provide:

. financial support from IDA in the form of (i) quick disbursing credits to meet the urgent import needs of key sectors such as agriculture, mining, industry and transport; and (ii) rehabilitation projects for exports, transport, ports, power, industry, education and health. Besides rehabilitation, IDA operations have supported essential policy reforms (such as price decontrol and improved prices for farmers).

. policy advice through substantial economic and sector work that has diagnosed in depth macro-economic policies, policies for agriculture, industry, transport and energy, and public expenditure policies. This diagnostic policy work has been a crucial input into the design of the Government's adjustment programs.

. technical assistance in the form of (i) policy and management reform; (ii) management consultants to provide temporary support for reform efforts in such institutions as the Cocoa Board and the State Gold Mining Corporation, and (iii) two seconded Bank staff members as economic advisers to the Ministry of Finance and Economic Planning.

. aid coordination in the form of (i) reactivating the moribund Consultative Group for Ghana, which has led to a substantial increase in aid flows to Ghana from DAC* members; (ii) starting to strengthen the

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*/ DAC: Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).

government's own aid coordination efforts; and (iii) providing donors with suitable vehicles for cofinancing such as the Reconstruction Import Credits.

Further Structural Adjustment

While the recovery process is now well underway, the government recognizes that the deterioration in Ghana's economy and administrative machinery has been so severe that there will need to be a further widening and deepening of the policy reforms, particularly in the following areas: (i) further progress towards a structure of incentives that adequately rewards efficient use of existing productive capacity, particularly for exports; (ii) increased and more effective infrastructure and private investment; (iii) substantial further domestic resource mobilization; (iv) improved viability of the balance of payments; and (v) improvement in the management of resources, particularly in the public sector.

The government is preparing a medium-term development program for 1986-88 in support of which it has approached the World Bank for a Structural Adjustment Credit, and the IMF for an Extended Fund Facility (EFF). The EFF is to be negotiated in June, the Credit is to be appraised in July.

Because Ghana has been in the vanguard of Sub-Saharan Africa reform efforts, it is a major recipient of Special African Facility funds, and a country chosen for both intensified aid coordination and intensified cooperation between the Bank and Fund.

WAN COUNTRY INDICATORS

		Population a/ (mln.)	GNP per Capita b/ US $	Total MLT Debt c/ US $ Billion	IBRD Exposure d/ %	Total MLT Debt/Exports e/ %	Level of Bank Effort f/ Staff Years	Performance Rating g/
1.	Benin	3.9	270	0.6	17.0	235.2	10.4	2
2.	Burkina	6.6	160	0.4	30.0	210.8	10.3	2
3.	Cameroon	9.9	810	1.7	27.0	69.6	20.0	3
4.	Cape Verde	0.3	320	§	01.0	§	2.4	3
5.	Central African Rep.	2.5	270	0.2	21.0	141.2	6.5	2
6.	Chad	4.9	§	0.1	34.0	73.7	4.3	2
7.	Congo, People's Republic of the	1.8	1,120	1.4	07.0	130.4	5.5	1
8.	Côte d'Ivoire	9.9	610	4.8	18.0	160.5	26.3	4
9.	Equatorial Guinea	0.4	§	§	0.2	§	3.5	2
10.	Gabon	0.8	3,480	0.7	1.0	32.9	0.2	NR
11.	Gambia	0.7	260	0.2	19.0	185.4	6.1	2
12.	Ghana	13.4	350	1.1	27.0	183.5	28.7	4
13.	Guinea	5.9	300	1.2	11.0	§	10.8	2
14.	Guinea-Bissau	0.9	180	0.1	19.0	911.3	6.9	3
15.	Liberia	2.1	470	0.8	21.0	154.1	5.9	1
16.	Mali	7.3	140	1.0	19.0	440.5	15.5	3
17.	Mauritania	1.7	450	1.2	09.0	319.4	7.9	3
18.	Niger	6.3	190	0.7	17.0	159.0	12.6	3
19.	Nigeria	96.8	770	11.8	09.0	95.4	34.6	2
20.	Sao Tome and Principe	0.1	310	§	§	§	2.3	2
21.	Senegal	6.4	380	1.6	18.0	189.1	20.0	3
22.	Sierra Leone	3.7	300	0.3	16.0	267.1	8.3	1
23.	Togo	2.9	250	0.7	19.0	260.1	9.4	4

§ = Not Available   NR = Not Rated

a/ Mid-1984; Financing Adjustment With Growth in Sub-Saharan Africa, 1986-90 (April 1986) Table 1. Except for Cape Verde, Equatorial Guinea, Sao Tome and Principe: mid-1983 data from World Development Report, 1985, p. 232.
b/ 1984; Financing Adjustment With Growth... Table 1, except for Cape Verde, Sao Tome and Principe: 1983 data from World Development Report, 1985, p. 232.
c/ External public and publically-guaranteed debt outstanding and disbursed, medium and long term (MLT), 1984. Financing Adjustment With Growth, Table 14. Numbers rounded.
d/ IBRD and IDA outstanding and disbursed debt as a proportion of total MLT debt.
e/ Medium and long term debt as % of exports of goods and non-factor services, 1984.
f/ FY86 Budget.
g/ Countries rated on a 1-to-5 scale (5 high) on their recent economic performance: Bank-wide exercise, November 1985.

EASTERN and SOUTHERN
AFRICA

EASTERN & SOUTHERN AFRICA REGION: Fact Sheet

Vice President: Edward V. K. Jaycox
Total H/L Staff: 308
of which: Field: 50

Country Programs I

Director: Jochen Kraske
Total H/L Staff: 47

Country Programs II

Director: Michael H. Wiehen
Total H/L Staff: 46

Projects

Director: Hans Wyss
Total H/L Staff: 152

Number of Field Offices: 13

Regional Overview

Number of borrowers: 21
Total Population: 215 million

Work Program		FY81-85 Annual Average	(est) FY86	(Projected) FY86-88 Annual Average
Lending:	IBRD ($ million)	251	352	280
	IDA ($ million)	687	750	770
	Special Africa Facility ($million)	-	455	345
		938	1557	1395
Number of Loans/Credits		42	43	44
Supervision Portfolio ($million)		5337	6000	
No. of Loans/Credits in Portfolio		262	295	
Cofinancing mobilized ($million)		416	425	
Number of Operations cofinanced		20	23	
Number of Countries with active Aid Group Meetings Chaired by Region			11	

ESAVP
04/23/1986

REGIONAL BRIEF: EASTERN AND SOUTHERN AFRICA REGION (ESA)

A. Main Regional Characteristics

1. The Eastern and Southern Africa (ESA) region comprises 21 countries; these range from some of the largest in land areas (the Sudan, Zaire) in Africa to some of the smallest (Comoros, Seychelles). The region's physical features, climatic conditions, historical experiences and cultural characteristics are diverse. The great majority of East and Southern Africans derive their livelihood from rainfed agriculture (much of which is at subsistence level). Farming is based on fragile and vulnerable eco-systems with large semi-arid and drought-prone areas. With the exception of Zaire, Zambia, Botswana, and Zimbabwe the region is not known to be well endowed with important mineral resources.

2. The colonial imprint on the ESA region has given it a legacy of British, Belgian, French, Italian, and Portuguese cultural and linguistic characteristics. The northeastern area and the coastal parts of East Africa were also exposed to Arab and Islamic influences. The southern tier of countries (Botswana, Lesotho, Swaziland, Mozambique, Zimbabwe, Zambia, and Malawi) have substantial trade and transport links with the Republic of South Africa; the semi-asiatic countries of Madagascar, Mauritius, and Seychelles sit astride, and have access to the Suez Canal and the Indian Ocean trade routes.

3. Most of the countries in ESA achieved independence in the early 1960s. Most are one-party regimes, but a few are multi-party parliamentary systems (Botswana, Mauritius, and Zimbabwe). Although many variants of African socialism have influenced economic policies in ESA countries, several of them have had a free enterprise orientation (Kenya, Malawi, Mauritius). Nevertheless, almost all ESA countries have experienced a large expansion of the role of the state in economic activities.

4. More than a dozen ESA countries have low per capita incomes ($400 or less in 1984). In most of them, education and health levels remain very low, and administrative and institutional structures are weak. There is also an acute scarcity of professional and managerial skills. The production and export structure of many ESA countries is dominated by primary commodities for which world markets are growing very slowly (e.g. coffee, tea, sugar, copper). The small economic size of these countries, and the fact that several of them are landlocked, are characteristics which tend to impede certain economic activities.

5. The region's economic record is mixed. Drought and famine have severely affected the economies of several of the ESA countries in the last four years. Between 1965-84, eight countries (Botswana, Mauritius, Swaziland, Lesotho, Kenya, Rwanda, Burundi, and Malawi) achieved per capita GNP growth of more than 2 percent per annum; but at the same time GNP per capita declined throughout this period in Zaire, Uganda, Somalia, Madagascar, and Zambia.

6. In broad terms, the region's economic experience could be characterized as follows:

- First, the initial period after independence yielded moderate expansion in output with a substantial expansion in infrastructure and a very large improvement in education facilities.

- Second, in the 1970s, the pace of growth slowed down, reflecting the impact of adverse changes in the external environment (particularly the oil price hike and the sharp fluctuations in commodity prices). To a significant extent, however, ESA countries' economic problems were also the result of their own political and policy decisions. In some cases these were exacerbated by civil conflict.

- Third, the early 1980s saw GDP stagnate or decline in many countries and financial imbalances assumed crisis proportions. This situation reflected the increasing impact of policy distortions, a severe deterioration in the terms of trade, a decrease in foreign aid after rapid growth in the 1970s, and steeply rising interest rates.

7. Adverse trends in the region's per capita output were also affected by rapid population growth. During the next two decades this is expected to increase at a rate exceeding 3% per annum. This will impose a major burden on several countries in terms of budgetary and overall savings requirements, as well as the need to generate a sufficient number of remunerative job opportunities.

8. The last two to three years have, however, seen a growing number of countries undertake important reform programs. These countries include Burundi, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Somalia, Tanzania, Zaire, and Zambia out of the 17 countries which are in need of major policy reform. In most cases, these programs of reform must be maintained for several years before the countries can be expected to resume solid growth. The risk is that the socio-political fabric of African societies or political skills of African leadership will not be strong enough or that the flow of external support will not be sufficient for this effort to be sustained. We must do a better job of explaining - to governments, the donor community, and the public at large - that the solutions to Africa's problems are going to be long-term. All of us in the development community must recognize that there are no "quick fixes" in Africa and make a real commitment for the long haul.

B. Major Aspects of Work Program

9. **Country Assistance Strategy:** In the early 1970s the Bank's emphasis was on financing projects. There was scarcely any policy-based or technical assistance lending, nor was there much focus on aid coordination or on collaboration with the IMF. We spent a relatively small part of our administrative budget on Country Economic and Sector Work (CESW) and we had few

resident missions. Today, a very large part of the ESA region's lending is aimed at rehabilitating existing investments rather than at building new capacity. Major emphasis is being placed on CESW, lending in support of structural and sectoral programs, technical assistance, training and aid coordination, including collaboration with the IMF. Also, the number of our resident missions has grown rapidly to 13.

10. In the 1970s about 40% of our lending was devoted to physical infrastructure, 9% to the development of human resources, 25% to agriculture, 18% to industry, and the balance to urban and technical assistance. The sectoral distribution of our lending remains much the same. What has changed is the need to rehabilitate the capital stock which has suffered substantial deterioration for lack of proper maintenance. Also new is the emphasis since 1980 on economy-wide structural adjustment and sectoral adjustment operations aimed at supporting policy and institutional reforms. Altogether there have been 15 such operations in the FY80-85 period; these accounted for 17% of total lending during FY83-85, and up to 50-60% of lending in countries undertaking intensive reform such as Malawi, Zambia, and Mauritius.

11. Structural and sector adjustment lending provides balance of payments support for imports, e.g. agricultural inputs, spare parts, industrial raw materials, etc. It aims at securing rapid increases in output and capacity utilization. The policies these operations address typically include price liberalization, industry deregulation, elimination of import quotas, incentives for exports, and restructuring of state controlled enterprises.

12. Gross IBRD commitments (in FY86 prices) to ESA countries peaked in the mid-1970s at an average annual level of about $400 million. The corresponding figure for FY83-85 was $320 million. IDA commitments (in constant prices) grew from an average level of $220 million in FY70-72 to $840 million in FY82-84. In all likelihood, the average level during the IDA-7 period will not be much above $770 million. To this amount should be added funds from the Special Facility for Africa amounting to $455 million in FY86.

13. Most countries have been eligible only for IDA funds, reflecting their low per capita income and non-creditworthiness. Botswana, Mauritius, and Zimbabwe received a blend of IBRD and IDA funds in earlier years but now receive IBRD funds only. Kenya and Malawi continue to be blend countries. Madagascar, Tanzania, Sudan, and Zambia used to be blend countries but subsequently ceased to be eligible for IBRD loans; now they rely wholly on IDA resources.

14. Given the scarcity of IDA funds in recent years, we have begun to place much greater weight than in the earlier period on country policy performance as a criterion for committing these funds. For example, Malawi, which has been consistently a good performer, has received average annual commitments per capita of about $9 during FY83-85. Zambian commitments rose from $3 in FY83 to $8 in FY85 as the country persevered with needed reforms. By contrast, Tanzania has not yet adopted a consistent reform posture and its IDA commitments have averaged only about $2 per capita over the same period.

15. The Region's CESW strategies focus on assisting governments in formulating policies and programs aimed at economic recovery. This country focus has three major priorities:

- analysis at macro and sector levels of the present structure and future requirements of public expenditure, and on procedures and institutions for formulating, monitoring and evaluating budgets, medium-term public expenditure programs, and the efficiency of parastatals;

- analysis of the present incentive structure as it is affected by fiscal, trade, exchange rate, and interest rate policies as well as by institutional arrangements such as land tenure, labor legislation and other government regulations; and

- the formulation of alternative medium-term, macroeconomic scenarios which take into account national income and balance of payments considerations and estimate required external resource transfers. These scenarios, in turn, require analyses at sector levels of future production, exports, imports, and investments.

16. The growth in CESW has been geared largely to: (i) intensifying our dialogues on policy reform and aid coordination; and (ii) identifying and preparing policy-based lending operations. The concern with policy and institutional reform has thus generated a marked increase in CESW, which has grown by about 70% since the end of the 1970s. Obtaining policy reform requires collaboration with governments in identifying the key issues, presenting analyses of approaches and their implications to policy makers, and promoting necessary reforms.

17. Policy reform in Africa requires substantial, dependable external finance on suitable terms and in an appropriate form. Since the Bank Group is currently only able to provide less than 10% of such finance, it has focused on building a consensus among donors on the policy framework for a given country, and on mobilizing resources from other multilateral and bilateral agencies. Bank-chaired Consultative Groups have grown in number and in terms of the frequency with which they meet. We have also contributed to UNDP-sponsored Round Tables which discuss aid coordination. Aid coordination activities are also carried out in ESA countries with the collaboration, or under the auspices, of our Resident Missions.

C. Major Issues for ESA in FY87

18. The major objective of the Region is to obtain the reforms in economic policy and improvements in economic management needed to place the ESA countries on a sustainable growth path. This means that our advice must be sound, timely, and practical enough - in both technical and political terms - to achieve these results. It is also essential that sufficient external financial resources be available to trigger the desired supply responses.

19. On both these issues - the Bank's advice and external financial support - I have doubts about whether we are in a satisfactory position today. First, regarding our capacity to give good advice, the fact is that given the problems in Africa and the priority we have given to Africa, not enough of the existing talent within the Bank is working on Africa. In particular, I believe we are suffering from important "skill-gaps" in terms of experienced macro and sectoral policy analysts.

20. Second, regarding the outlook for the necessary external financial flows to Africa, there are three major issues to be considered:

- IDA availability and the share allocated to Sub-Saharan Africa will be crucial. Most of the poorest Sub-Saharan countries are "IDA-only" countries; for creditworthiness reasons, the IBRD can not lend to 16 out of our 21 countries. Since the Bank will have to take the financial lead in most countries we should give top priority to a large enough IDA-8; moreoever, Africa's share of the replenishment must be commensurate with our objectives.

- Our "mandate" as aid coordinator for Africa is not yet clear enough. For instance, does this mandate include a role in decisions on how to handle the burden of existing debt? How far can we go in "disciplining" donors who insist on low priority projects of commercial or purely political interest? Do the donor countries see "aid coordination" primarily as a way to get the Bank to put pressure on countries for reforms, or also as a vehicle for ensuring that adequate resources are available to support these reforms and ensure they do not fail?

- Bank coordination with IMF is also a crucial issue. In our experience the theme of "adjustment with growth" put forward by Secretary Baker has not yet permeated to the working staff levels in the IMF. This requires our continuing attention. Also the IMF, even with the allocation of its Trust Fund reflows, will "go negative" in many ESA countries over the next few years, aggravating their cash-flow problems. While we want to see expensive Fund money removed from the debt structure of the poorest countries, insufficient new IMF drawings could precipitate insoluble financial problems. We need flexibility from the IMF in its dealing with Africa; and, as things stand, that is something we have not been able to count on.

21. Finally, a fundamental point: we must recognize that the role and reputation of the Bank Group is at stake in Africa. To be frank, the Bank has stuck its "neck out a mile" in Africa. We have said publicly on many occasions that we are giving Africa the highest priority among development problems in the world. We have been telling Africa how to reform, sometimes in terms of great detail. Now a significant number of these African countries are beginning to follow the Bank's advice. If these programs fail, for whatever reasons, our policies will be seen widely to have failed, the ideas themselves will be set back for a long time in Africa and elsewhere.

KENYA

Basic Data

Population (1984)	: 19.7 m
GNP per capita (1984)	: US$300
External Debt (1985)	: US$526.9 m
Debt service ratio (1985) 1/	: 34%
of which Bank share 2/	: 18.4%

1/ 27.2% excluding IMF charges: repurchases
2/ 23% " " " "

A. KENYA

General Background

1. With a population of 20 million and a per capita income of $300 (1984), Kenya is one of the more prosperous and politically stable countries in East Africa. Its natural resource base is, however, unexceptional with severely limited availability of fertile land and no indigenous coal or petroleum resources. A high population growth rate exacerbates the problem of limited land supplies, strains the economy's capacity to produce and create jobs, and leads to increasing public expenditures on education, health, and other services.

Recent Economic Developments

2. Kenya's first decade as an independent nation (1963-73) was one of remarkable growth and structural transformation, with GDP growing at 6.6% p.a. Agricultural GDP grew at nearly 5% p.a. in response to policies that converted high-potential land from extensive to smallholder cultivation and promoted the growth of high-yielding varieties and high-value crops. Growth of manufacturing (8.4% p.a.) was in response to rising agricultural incomes, and investment was encouraged by high levels of protection (quantitative import restrictions and to a lesser extent, tariffs), a liberal attitude towards foreign investment, and active government participation.

3. Since 1973, growth decelerated to about 4% p.a., or virtual stagnation in per capita terms (and a decline during 1980-84). This represents not only the oil shocks and severe drought in 1983-84, but also the emergence or intensification of structural constraints. Most importantly, the population growth rate accelerated from 3.2% p.a. in the sixties to nearly 4% p.a., the highest in the world. Positive factors which had sustained agricultural growth tapered off, the momentum in agricultural research was not maintained, and pricing and exchange rate policies turned the terms of trade against agriculture. Monopolistic Government involvement in agricultural marketing placed undue burdens on budgetary resources while restrictions on private trade discouraged smallholder production. The limitations of industrialization by import substitution behind high and increasing protection became increasingly evident as industrial growth stagnated, became costly in terms of use of scarce capital and imported inputs, and manufactured exports declined. As a consequence, Kenya's exports became concentrated on a few agricultural commodities making the country more vulnerable to commodity price fluctuations. Additionally, erosion of fiscal discipline following the coffee boom of the late 70s and deterioration in terms of trade after the second oil shock led to large domestic and external financial imbalances.

Recent Policies

4. The Government, by the early eighties, realized the need not only for stabilization, but also for policies and programs that would increase the efficiency and productivity of its main producing sectors and decelerate the growth of population. During the eighties, the Government (supported by IMF programs) successfully implemented policies to control

budgetary and external deficits. The budget deficit was brought down from 9% to 4% of GDP, the current account deficit from 12% to less than 4% of GDP and, inflation from over 20% to 10%. A major devaluation in 1982 restored the real effective exchange rate to the level of 1976 and the Government has subsequently continued to make adjustments to prevent sustained appreciation.

5. In recent years, there has been greater and more vocal support for family planning from President Moi and senior officials. Real producer prices for domestic crops were increased during 1982-84 and have since been maintained. Recognizing the need for intensification of production on small farms, the Government initiated actions in the areas of agricultural extension, research and input supply. In the area of external trade there was, in 1985, the first increase in several years in the number of items that could be freely imported, a reduction in some tariffs, and an increase in the rate of export compensation.

6. In both the industrial and agricultural sectors, public sector involvement in production and marketing continues to be excessive, inefficient, and unduly burdensome on the budget and the credit system. This has led, within the context of a reduction in real budgetary expenditures in the eighties, to a reduction in resources available for productive investment and maintenance. While the Government has begun to address these issues through improvements in budgetary planning and spending procedures, it needs to make far-reaching decisions in redefining the role of parastatals and containing wage expenditure. Second, despite recent steps, effective protection to industry has remained high and uneven. Discontinuation of quantitative restrictions and further movement toward a moderate and uniform structure of tariffs are required. This should be supported by a coordinated program of industrial restructuring and financial policies to mobilize long-term resources for the sector and effectively promote exports. Decelerating population growth is clearly of overriding importance. The Government's increased commitment needs to be supported by a well defined program for increasing information about and availability of family planning services, particularly in rural areas.

7. The recent sharp increase in the price of coffee and fall in oil prices are likely to increase export revenues, reduce the current account deficit, and increase budgetary resources in the next two years. This means that, for the first time in many years, the Government can divert its attention from short-term crisis management (such as the drought) to faster and more effective implementation of policies required to bring about structural change.

Bank Strategy

8. Since 1980, the Bank has emphasized lending in support of structural and policy reform. Two structural adjustment loans (SALs) were approved. The first emphasized rationalization of the trade regime and formulation of export incentives. The second, while continuing this emphasis, supported reforms in agricultural pricing and marketing and improving the implementation of agricultural projects and programs. Government implementation of SAL I and especially SAL II was relatively weak, reflecting divided or inadequate commitment, administrative weaknesses, inadequate preparation, and diversion of Government attention by

urgent short-term problems. In 1984, the Bank informed the Government that the Bank could not consider a third SAL until there had been more fulfillment of principal commitments under SAL II. In the period since then, there has been some progress in many of these areas.

9. Because of the difficulties experienced in the implementation of SAL II, the Bank has recently turned to policy-based sectoral lending with an agricultural sector operation currently being processed. This supports improvements in availability of farm inputs, restructuring of public expenditures, and addresses critical parastatal problems. In the medium term, additional policy based operations are envisaged in the areas of industrial restructuring, overall budget rationalization and trade policy, while continuing project lending in the population and other sectors that need longer-term and continuous support.

10. Bank economic and sector work has been generally supportive of our lending program in the past. Sector work in agriculture has, in particular, contributed importantly to the evolution of our lending strategy in the sector. Economic work will be more sharply focused in future to support policy-based lending in industry and public investment. Additionally, we are preparing a medium-term strategy paper detailing the policy reforms necessary to put the economy on a high-growth path.

11. Complementing these activities, the Bank has worked to strengthen the Government's budgetary planning and general management capacity, through both direct technical assistance projects and project related technical assistance. These efforts have sought to improve not only the technical capacity for implementing projects, but also to introduce more disciplined budgetary procedures.

Aid-Coordination

12. Consultative Group meetings date back to the mid-sixties and have been reasonably successful. Aid-coordination at the local level was, until recently, inadequate with the Government unwilling and unable to organize such coordination effectively. Recently, Bank staff in Nairobi have provided successful leadership in coordinating aid through the Agricultural Subcommittee. The Resident Mission will continue to take the lead in further development of local aid-coordination.

Future Prospects

13. The greatest risk we face with our strategy is the possibility that, for political reasons, Government may find itself unable to implement agreed policy reforms under the proposed sector operations. If the necessary measures to solve the economy's structural problems are implemented, the growth rate of GDP projected in the Fifth Plan (4.9%) is feasible. With such measures, Kenya will be able to resume positive growth in per capita incomes, meet the challenge of the fast growing labor force, and expand exports, thereby increasing its creditworthiness.

ZAMBIA

BASIC DATA:

Population (1984):	6.4 million
GNP per capital (1984):	$470 (World Bank Atlas)
External Debt (1985):	$3.2 billion
Debt Service[1] Ratio (1985):	11.8 percent
Of which Bank Share:	6.1 percent

1/ After debt rescheduling

B. ZAMBIA

General Background

1. Zambia, the former Northern Rhodesia, is a land-locked country approximately the size of Turkey but with a population of only 6.5 million people, growing at approximately 3.4 percent per annum. Zambia became independent in 1964 and since then has been ruled by President Kenneth Kaunda in the framework of a one-party system. Zambia's main resources are large copper reserves which are likely to be substantially depleted in about two decades and relatively rich agricultural potential, which has so far been largely neglected. The economy depends heavily on external trade and government activity. Mining provides over 90 percent of foreign exchange earnings and 15 percent of gross value added. Imports and exports range between 35 and 40 percent of GDP. The Government owns a majority share in mining and most manufacturing enterprises and has dominated the nationwide marketing and distribution activities.

Recent Economic Developments

2. The Zambian economy has been in a continuing state of contraction since 1975. Zambia was vulnerable to the combination of a deteriorating copper price, increasing costs for imported goods and raw materials, and regional unrest which occurred over the past decade. The country's external terms of trade fell by 70 percent during this period causing a severe compression of imports and a sharp decline in GDP. All sectors of the economy were affected by the contraction of imports with widespread underutilization of capacity. Between 1982 and 1984 a severe drought further eroded the country's productive base at the very time that a strong production response from the long neglected agricultural sector was required. Both the fiscal and balance of payments situations deteriorated dramatically as a result of their heavy reliance on the mining industry.

3. Zambia's difficulties were exacerbated by inappropriate economic policies and weakness in economic management. For instance, nothing was done prior to 1982 to alleviate the extreme overvaluation of the Kwacha, to establish appropriate price and interest rate levels, or to provide the incentives required to diversify the economy. Instead, the Government attempted, with some success, to slow the decline in GDP by heavy foreign borrowing, contributing to a serious debt-servicing problem which constrains many of Zambia's current options. Continued economic deterioration, however, led the Government to recognize the permanent nature of the imbalance in its external accounts and the corresponding need for deep-seated structural changes in the economy.

4. A number of policy reforms were introduced in late 1982/early 1983. These included a general price decontrol, increases in interest rates, budgetary measures leading to a large reduction in the budget deficit, and tax and other incentives for agriculture and non-traditional exports. In addition, there was an initial devaluation (20 percent) of the exchange rate, followed by introduction of an "adjustable peg" exchange rate system. The latter led to a further real reduction of 13 percent in the value of the Kwacha through the end of 1984. Despite these measures, the economic and financial situation in Zambia, especially the external liquiditiy position, continued to deteriorate in 1984 and 1985.

The Current Reform Program

5. In response, the Government, working closely with the Bank and IMF, undertook a number of strong policy actions in late 1985. These included the establishment of an auction system for allocating foreign exchange, widespread liberalization of the foreign trade regime, and decontrol of interest rates. In addition, the Government continued to push forward with already agreed reforms in the agricultural, industrial and mining sectors, including increases in producer and retail prices for agricultural products, including maize, adjustments to tariffs to reduce the dispersion of protection and completion of the action plan to rationalize mining activities. These sector reforms aim to maximize the short run supply response consistent with the longer term restructuring effort. Consistent with these reforms, the Government has embarked upon a program, agreed with the IMF in February 1986, to stabilize the economy.

6. The Government's long-term objectives are to diversify the economy through greater emphasis on agriculture, restructure industrial operations along the lines of comparative advantage, rationalize the mining industry to stabilize production at sustainable levels and increase productive efficiency, rehabilitate existing infrastructure, and encourage non-traditional exports.

Bank Strategy

7. To support the Government's objectives and ensure their consistency with the earliest possible resumption of growth, the Bank's strategy is threefold:

a) to assist the Government to identify and implement those policy and institutional reforms at the macroeconomic and sector levels necessary for quickly stabilizing the economy and restoring growth in the medium-term and ultimately restructuring the economy for self-sustained growth;

b) to assist the Government to improve the quality and efficiency of recurrent and investment spending in line with national priorities and within resource availabilities; and

c) to assist the Government to mobilize adequate external resources to sustain the reform program, improve aid coordination, and focus aid more precisely on national objectives and priorities.

8. Bank Country Economic and Sector Work (CESW) and lending support these objectives. A mining industry adjustment credit in 1984 aimed at raising the efficiency and international competitiveness of the industry was the first step. Concurrently, our CESW work focused on policy and institutional issues in agriculture and industry. This laid the foundation for sector adjustment operations in these two sectors, both approved in 1985.

9. Complementing these activities, the Bank has worked with the Government to strengthen its planning and budgeting capacity. These efforts have concentrated on implementing new procedures so that budget allocations reflect better Zambia's development priorities while introducing greater flexiblility in the planning process itself. Recently, the Bank has undertaken a comprehensive review of Zambia's public expenditure program. Additional operations in support of economic adjustment are anticipated to be a regular feature of the Zambia program.

Aid Coordination and Resource Mobilization

10. The Bank has played an active role in mobilizing resources for Zambia's reform program both through the Consultative Group which has met three times since mid-1984 and through direct contacts with the key bilateral donors and commercial lenders. In addition, the Bank has worked closely with the IMF including staff participation in missions which negotiated Zambia's current Standby Program. The Bank's sectoral policy operations and investment projects have also attracted considerable bilateral cofinancing, thereby bringing Zambia additional resources for its reform program.

Interim Assessment and Next Steps

11. Zambia faces a long period of economic restructuring even if it is able to maintain the momentum of reform reached during 1985. At the same time, the expected depletion of the major economically recoverable copper resources within 10-15 years lends a strong sense of urgency to the diversification of the economy. Quick production responses and continued international support will be key factors. Initial indications are mixed. The private industrial sector has responded well to the new environment; but the management reform of public enterprises will require more time to produce results. Commercial agriculture has not responded as anticipated in terms of import demand; but this may reflect an appropriate response to the significantly higher cost of imported inputs. While successful implementation of the reforms will improve the prospects of the average Zambian, particularly those in agriculture and the informal sectors, the costs borne by urban workers through lower real wages and higher transitional unemployment will continue to produce strong political reactions. Beyond its own borders, Zambia's efforts are being closely monitored, especially by other African countries faced with similar challenges.

EASTERN & SOUTHERN AFRICA REGION

Countries	Population 1/ mln	GNP per 1/ Capita US $	Total 2/ MLT Debt US$ bln	IBRD/IDA 3/ Exposure %	Total MLT Debt as 4/ % of exports %	Level of 5/ Bank efforts staffyears	Per- 6/ formance Rating
Botswana	1.0	910	0.3	39.0	37.0	6.9	4
Burundi	4.6	220	0.4	34.4	267.3	10.8	3
Comoros	0.4	340 *	0.1	11.6	670.0	4.0	1
Djibouti	0.4	480 **	0.1	6.3	60.0	2.5	1
Ethiopia	42.0	110	1.5	29.6	274.4	14.5	2
Kenya	19.7	300	2.8	39.6	181.7	26.7	3
Lesotho	1.5	530	0.1	44.0	37.0	5.3	2
Madagascar	9.7	270	1.6	19.6	423.6	21.9	3
Malawi	6.8	210	0.7	50.4	200.0	15.0	4
Mauritius	1.0	1100	0.4	31.8	95.7	8.8	5
Mozambique	13.4	397 *	n.a.	n.a.	n.a.	6.9	2
Rwanda	5.9	270	0.3	48.3	72.8	13.2	4
Seychelles	0.1	2430 ***	n.a.	n.a.	n.a.	0.5	2
Somalia	5.2	260	1.1	14.4	563.1	12.5	2
Sudan	21.5	340	4.5	12.1	583.5	16.2	1
Swaziland	0.7	800	0.2	14.4	50.6	3.1	3
Tanzania	21.5	210	2.3	36.3	482.0	16.7	2
Uganda	14.3	230	0.7	38.6	151.2	15.9	1
Zaire	30.6	140	3.8	10.5	202.4	22.0	2
Zambia	6.5	470	3.2	12.2	339.7	17.7	3
Zimbabwe	8.2	740	1.5	16.4	100.9	15.9	3

1/ 1984 (Atlas Methodology for GNP per capita)
2/ Total Medium and Long Term Debt Outstanding and Disbursed at end 1985
3/ IBRD and IDA Outstanding and Disbursed Debt as a proportion of Total MLT Debt; as of end 1985
4/ Medium and Long Term Debt as % of Exports of Goods and Non-Factor Services.
5/ FY86 Budget
6/ Countries rated on a 1 to 5 scale, (5 high) on their recent economic performance; Bank-wide exercise, November 1985.

* = relates to 1982. ** relates to 1981 and *** relates to 1983.

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April 24, 1986

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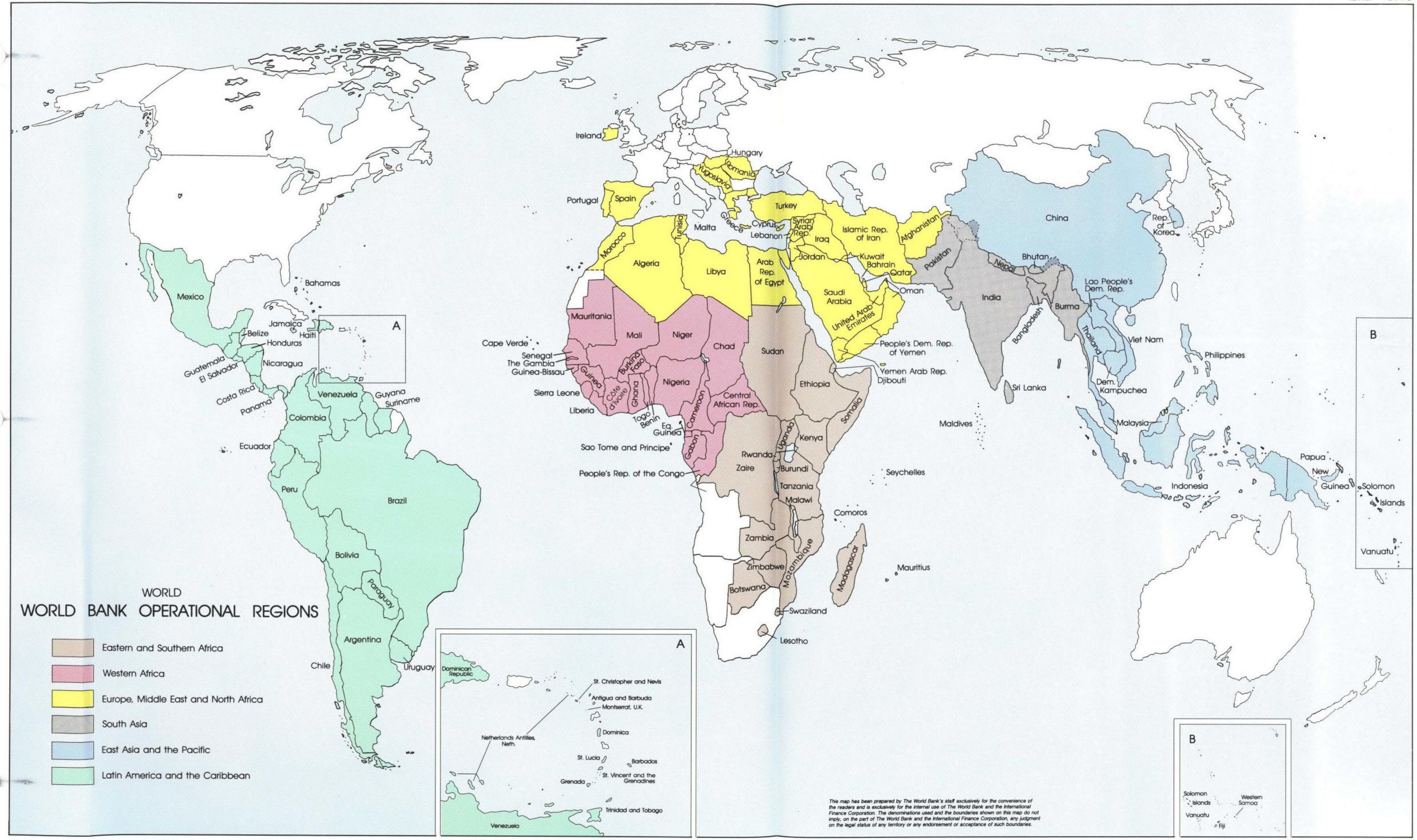
MAP


WORLD
WORLD BANK OPERATIONAL REGIONS
Eastern and Southern Africa
Western Africa
Europe, Middle East and North Africa
South Asia
East Asia and the Pacific
Latin America and the Caribbean
Ireland
Hungary
Romania
Yugoslavia
Portugal
Spain
Turkey
Malta
Greece
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Lebanon
Syrian Arab Rep.
Iraq
Islamic Rep. of Iran
Afghanistan
Tunisia
Morocco
Algeria
Libya
Arab Rep. of Egypt
Jordan
Kuwait
Bahrain
Qatar
Saudi Arabia
United Arab Emirates
Oman
People's Dem. Rep. of Yemen
Yemen Arab Rep.
Djibouti
Pakistan
Nepal
Bhutan
India
Bangladesh
Burma
Sri Lanka
Maldives
China
Rep. of Korea
Lao People's Dem. Rep.
Thailand
Viet Nam
Dem. Kampuchea
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Mexico
Bahamas
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Guatemala
El Salvador
Nicaragua
Costa Rica
Panama
A
Venezuela
Guyana
Suriname
Colombia
Ecuador
Peru
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Sao Tome and Principe
Gabon
People's Rep. of the Congo
Sudan
Ethiopia
Somalia
Uganda
Kenya
Rwanda
Burundi
Zaire
Tanzania
Malawi
Zambia
Mozambique
Zimbabwe
Botswana
Swaziland
Lesotho
Madagascar
Comoros
Seychelles
Mauritius
A
Dominican Republic
St. Christopher and Nevis
Antigua and Barbuda
Montserrat, U.K.
Dominica
Netherlands Antilles, Neth.
St. Lucia
Barbados
St. Vincent and the Grenadines
Grenada
Trinidad and Tobago
Venezuela
B
Solomon Islands
Western Samoa
Vanuatu
Fiji
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