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89093-01 LOAN COMMITTEE MINUTES AND REPORTS 1986

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LOAN COMMITTEE

L/C Number	Subject	Date of Meeting	Rec'vd For Clearance	Date Cleared	L/O & Ext.
LC/M86/01	Argentina - Agricultural Sector Loan	12/6/85	1/3/86	1/3/86	Sokol 74062
LC/M/86/02	Madagascar - Agriculture Sector	12/23/85	1/22/86	1/22/86	Devaux 75517
LC/M/86/03	Zaire	12/23/85	2/6/86	2/6/86	Pratt
LC/M/86/04	Zimbabwe - Export Promotion	01/09/86	2/07/86	2/7/86	Glaesse
LC/M/86/05	Jamaica - Ind. and Fin. Sec. Adj and Pub. Enterprise Sector Adj.	01/21/86	2/12/86	2/12/86	Voyadzi
LC/M/86/06	Morocco- Public Enterprise Ration.	01/21/86	2/19/86	2/19/86	Shillin 32323
LC/M/86/07	Kenya - Ag. Sector Operation	02/06/86	2/18/86	2/18/86	Amoako 72833
LC/M/86/08	Bang[illegible] Sec Bangladesh - Ind. Sector	03/04/86	03/21/86	03/21/86	Clift 32390
LC/M/86/09	Mauritania - SAC	03/03/86	3/24/86	3/24/86	Varon 73967
LC/M/86/10	Somalia - Agricultural Inputs	04/01/86	4/11/86	4/14/86	Pellekaa 75576
LC/M/86/11	Tunisia - Agricultural Sector	03/24/86	4/21/86	4/21/86	Stoutjes 32400
LC/M/86/12	BOLIVIA - Reconstruction Import Cr.	04/11/86	4/24/86	4/25/86	Marshall 72183
LC/M/86/13	ZAMBIA - Recovery Credit	04/~~25~~ 11/86	5/1/86	5/1/86	Gebhart 74025
LC/M/86/14	GHANA - SAL	03/06/86	5/2/86	5/5/86	Berk 78112
LC/M/86/15	CHILE - SAL	04/23/86	5/5/86	5/5/86	Kanchuge 75921
LC/M/86/16	Brazil - Marketing and Cr. Reform	05/14/86	6/9/86	6/9/86	Ruiviva
LC/M/86/17	Zimbabwe - Export Promotion	05/12/86	6/13/86	6/13/86	Walton
LC/M/86/18	CAR - SAC	06/20/86	6/26/86	6/26/86	Chevali

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LOAN COMMITTEE

L/C Number	Subject	Date of Meeting	Rec'vd For Clearance	Date Cleared	L/O & Ext.
LC/M/86/19	Zimbabwe - Export Promotion	6/20/86	6/26/86	6/26/86	Messeng
LC/M/86/20	Morocco - Agricultural Sector Adj	6/25/86	7/1/86	7/3/86	Mendoza
LC/M/86/21	THE GAMBIA - SAP	7/17/86	7/18/86	7/21/86	Dube
LC/M/86/22	The Philippines	7/17/86	7/28/86	7/28/86	Arrivil
LC/M/86/23	Malawi - Agricultural Pricing	7/23/86	7/23/86	7/23/86	Southwo
LC/M/86/24	Tanzania - Multisector Rehabilitation	7/21/86	7/24/86	7/24/86	Agueh
LC/M/86/25	NIGERIA - Trade Policy and Export	7/23/86	7/29/86	7/29/86	Swayze
LC/M/86/26	CHILE - SAL II	8/7/86	8/11/86	8/11/86	Jones
LC/M/86/27	TUNISIA - Agricultural Sector Adjmt.	8/15/86	8/21/86	8/21/86	Hubert
LC/M/86/28	PANAMA - SAL II	9/02/86	9/04/86	9/08/86	Laslett
LC/M/86-29	NEPAL - SA Credit	9/03/86	9/08/86		Tsantis
LC/M/86-30	ETHIOPIA - Peasant Agr. Dev.	9/08/86	9/11/86	9/12/86	
LC/M/86-31	TUNISIA - Ind.& Trade Policy Adjust.	9/16/86		9/22/86	
LC/M/86-32	HAITI - Structural Adjustment Operat.	9/22/86	9/23/86	9/30/86	Koenig
LC/M/86-33	URUGUAY - Structural Adjustment	10/20/86	10/22/86	10/22/86	Giral
LC/M/86-34	GUATEMALA - Structural Adjustment	10/28/86	10/31/86	10/31/86	Gonella
LC/M/86-35	MADAGASCAR - SAL	11/06/86	11/07/86	11/10/86	Sarris
LC/M/86-36	TURKEY - Energy Sector Adjustment	11/7/86	11/12/86	11/12/86	Balkind
[illegible]	Indon[illegible]				

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LOAN COMMITTEE

L/C Number	Subject	Date of Meeting	Rec'vd For Clearance	Date Cleared	L/O & Ext.
LC/M/86-37	Argentina - Trade Policy	11/12/86	11/13/86	11/13/86	
LC/M/86-38	Guinea-Bissau - SAC	11/14/86	11/15/86	11/15/86	
LC/M/86-39	Indonesia - Trade Policy	11/17/86	11/18/86	11/18/86	
LC/M/86-40	Ghana - Agriculture Sec. Rehab.	11/24/86			
LC/M/86-41	Costa Rica - Banking Sector	12/16/86	12/18/86	12/19/86	

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LOAN COMMITTEE

December 19, 1986

LC/M/ 86-41

Minutes of the Loan Committee Meeting to consider COSTA RICA - Proposed Banking Sector Adjustment Loan held on December 16, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Wood
Legal:	Mr. Scott
ERS:	Mr. Michalopoulos
OPS:	Mr. Husain
Region:	Mr. Knox

Other:

Messrs./Mmes. Clements
Picciotto
Steckhan
Pfeffermann
Landau
Knotter
Schultz
Larrain
Park
Baran
Fox
MacMullan
Coutinho
Umana

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OTHERS
Standard [illegible] 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The Meeting was called to discuss the proposals in the Initiating Memorandum attached to Mr. Knox's memorandum of November 26, 1986 for a Banking Sector Adjustment Loan to Costa Rica. The discussion focused on the main issues raised in the Country Policy Department's memorandum of December 12, 1986.

C. Discussion

Country Strategy and Pace of Adjustment

2. The meeting noted the difficulties experienced in implementing SAL I and the uneven country performance. The Region stated that given this background, appraisal of the proposed operation had been made contingent on satisfactory progress by the Government in carrying out the commitments agreed at the time of the Second Tranche release of the SAL, as well as on reaching an agreement with the IMF on a stand-by and making progress in negotiations with the commercial banks. The Government had recently expressed its determination to move forward in each of these areas. The Region also reported that the Government has just prepared a strategy document covering its overall adjustment objectives, which provided a reasonable basis for developing a detailed program. A Ministerial Committee had been established to prepare a detailed plan focussing on export and trade policy and on the financial, public and productive sectors. While past experience dictated caution, the Region felt that it might be possible to proceed with the proposed operation separately within the context of the Government's overall adjustment strategy, or to include the banking sector operation as part of a larger adjustment program.

3. The Committee concluded that, while this matter could be decided when the Government's detailed program was available, it would seem preferable in the light of past country performance to incorporate the operation as a component of a second SAL.

Reserve Requirements and the Banking Sector

4. The meeting reviewed the question of whether the proposed operation should address the issue of the level of reserve requirements and the possible payment of interest on reserves. The Region pointed out that, although the reserve requirements affected banks' profitability, the level of reserves in comparison with other countries in the region was not unusually high. Moreover, the payment of interest would exacerbate already high Central Bank losses. The Region felt that reserve requirements were predominantly an instrument of monetary policy and that the IMF should continue to take the lead in handling this issue in the context of the overall public sector deficit.

5. The Committee noted that Government policy regarding reserve requirements significantly influenced the operations of the banking system. This policy, therefore, needed to be reconsidered in any program to develop a more competitive and dynamic financial sector. The Committee also believed that measures to reduce the budget deficit under a government stabilization program should be accompanied by complementary action to contain this major indirect source of government financing.

Public Bank Portfolio Management

6. The meeting discussed the large public bank arrears. The Chairman enquired whether a change in the accounting mechanism to force the banks to show actual losses would by itself be sufficient to solve this problem without a specific plan on how to eliminate the arrears, taking into consideration the capacity of the borrowers to repay. The Region noted that the key step was to change the signals and prevailing attitudes, both by forcing the banks to show actual losses and convincing borrowers that it was necessary to pay. The Region was satisfied that borrowers' capacity to pay was not a serious general problem and could, where necessary, be dealt with on a case-by-case basis.

7. The Committee noted that the proposed reforms would require major adjustments (including staff reductions) by the public banks. The Region confirmed that the Government was prepared for this consequence.

D. Conclusion

8. In view of the Government's decision to prepare a broader adjustment program the Committee agreed that a decision on the proposed operation would be postponed until the Region has had an opportunity to review the Government's adjustment plans in more detail. As part of a broader approach to adjustment, the proposal was important; as a free-standing operation, it seemed inadequate to support a quick-disbursing loan of the size proposed.

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December 3, 1986
LC/M/86-40

Minutes of the Loan Committee Meeting to consider
GHANA - Proposed Agriculture Sector Rehabilitation Project
held on November 24, 1986, in Conference Room E-1208

A. Present

Committee:		Others	
Chairman:	Mr. Stern	Messrs/Mmes	Alisbah
Finance:	Mr. Wood		Koch-Weser
Legal:	Mr. Scott		Eccles
ERS:	Mr. Michalopoulos		Imam
OPS:	Mr. Husain		El Maaroufi
RVP:	Mr. Thalwitz		Donovan
			O'Brien
			T. Husain
			Squire
			Walton
			Hindle
			Reese
			Berk
			Lateef
			Brathwaite
			Singh

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Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to discuss the proposals in Mr. Thalwitz's memorandum of November 12, 1986, for an agriculture sector rehabilitation project for Ghana. The discussion focussed on the issues raised in the Country Policy Department's memorandum of November 20, 1986.

C. Discussion

2. The discussion concentrated on whether or not the conditions in the proposed operation warranted the provision of an additional US$24 million in quick-disbursing funds through the foreign exchange auction in Ghana, besides the $20 million for financing institutional development, particularly in view of the Structural Adjustment Credit to be negotiated shortly. Further issues concerned the project's relationship to a separate public enterprise project and whether or not the proposed actions on agricultural state-owned enterprises (SOEs), research, extension and food security were sufficiently developed.

3. The meeting questioned the need for providing quick-disbursing funds in an agriculture sector operation in FY88 additional to the SAL. The latter operation, already appraised and scheduled for Board consideration in FY87, covered cocoa, the most important agricultural issue. A state enterprises project was also scheduled for FY88. The Committee agreed that the conditions left for the proposed project were too modest to justify the quick-disbursing funding proposed. Providing quick-disbursing funds through the auction as a means for facilitating dialogue with the Ministry of Agriculture was also questioned, since presumably the Ministry would only be specially interested in resources specifically earmarked for agriculture.

4. Regarding agriculture SOEs, the Committee felt that a more specific action plan should be formulated, and interventions in research, extension and food security should be more fully developed.

5. There was discussion about how the proposed cofinancing by KfW and AfDB fitted into the operation and the impact on the cofinancing of eliminating Bank funds for the auction from the operation. The Region said that it would continue to urge the confinanciers to put their funds into the auction, but it was unlikely that KfW at least would do so.

D. Conclusion

6. The Region was asked to redesign the operation as a sector-wide investment project linked to actions on institutional improvement. The quick-disbursing funds could be added to the SAL.

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LOAN COMMITTEE

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LC/M/86-39
November 21, 1986

Minutes of the Loan Committee to Consider
INDONESIA - Proposed Trade Policy Adjustment Loan
Held on November 17, 1986, in Conference Room E-1208

A. Present

Committee		Others
Chairman:	Mr. Stern	Messrs/Mmes:
Finance:	Mr. Hittmair	Bhattacharya,
Legal:	Mr. Goldberg	Clements,
ERS:	Mrs. Krueger	Davar,
OPS:	Mr. Husain	Doultsinos,
Region:	Mr. Karaosmanoglu	Dubey,
		El Maaroufi,
		Hamilton,
		Kaji,
		Katz,
		Mead,
		Ripley (IMF),
		Roger,
		Vorkink,
		Yenal

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OTHERS
Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the proposals in the Initiating Memorandum attached to Mr. Karaosmanoglu's memorandum of November 10, 1986, for a Trade Policy Adjustment Loan to Indonesia. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 14, 1986.

C. Discussion

External Financing Gap

2. The Committee noted that the balance of payments projections showed a large external financing gap and were sensitive to assumptions regarding world oil prices. The meeting discussed how the external financing gap of $3.7 billion projected for the next two years on the basis of oil at $18 per barrel would be covered. The Region explained that, taking into account this proposed operation and other envisaged quick-disbursing loans from the Bank, a substantial amount of additional official financing, possibly as much as $2.1 billion, was expected over the next two years without recourse to the IMF. The financing gap includes amortization payments to commercial banks of $1.5 billion over the next two years. Therefore, Indonesia could borrow this amount without increasing net exposure. Together with official financing, this would come close to financing the gap without reserve use. However, if needed, Indonesia could draw down reserves by $1 billion, while maintaining a comfortable import cover ratio. Should oil prices be significantly lower than projected, Indonesia would have to undertake further domestic adjustments and seek additional financing, including possibly from the IMF.

Trade and Related Policies

3. The meeting reviewed the Government's recent policy initiatives and areas for further reform. The Region noted that a preliminary assessment indicates that about four-fifths of non-oil imports are not subject to non-tariff restrictions. Of the rest (about $2.4 billion of imports at 1985 levels), over one-third had been affected by the trade reform. This was a first but significant step in trade policy reform, which would complement the other adjustment measures taken by the Government. An estimate was being made of the significance of the remaining quantitative restrictions in terms of the percentage of domestic production benefitting from this protection. Concerns were expressed by the Committee about other distortions, in particular about regulations affecting domestic investment and public enterprises and export restrictions. The meeting concluded that the appraisal mission should look at the impact of the recent policy reforms on the overall incentive structure. Given the important linkages and interdependencies between domestic and trade policies, the importance of reducing barriers to domestic competition and enhancing the flexibility of the economy was stressed as an important area for follow-up.

Conditionality

4. The Committee enquired about the medium-term framework for policy reform, the nature and timing of further envisaged reforms, and the Government's commitment to them. The Region, while noting that the proposed loan was in support of policy actions already taken, identified several areas where further policy action could be expected. These included: further removal of QRs, reduction in number of tariffs above 60% and movement towards more uniform protection, an active exchange rate policy, further progress on eliminating investment licensing requirements and regulation, and appropriate fiscal and monetary policies as reflected in the next budget. Based on progress in these areas, the Region would consider proposing a further policy-based loan. The Chairman suggested that the President's Report should indicate the expected timing of the next loan, as an indication of the time frame in which further policy actions could be expected. In view of the untranched nature of the loan, the meeting also stressed that the Letter of Development Policy and the President's Report should clearly state the Government's future policy objectives, without necessarily providing a set timetable for further reforms.

Other Matters

5. In response to a question about the possibility of retroactive financing, it was agreed that this should be pursued only if there were clear and pressing reasons for it. Finally, the Committee noted that the technical assistance component should not be included in this loan but be processed separately, as it would have a much longer disbursement profile.

D. Conclusion

6. Subject to the above modifications, the Loan Committee agreed that the Region should proceed with the preparation of the Trade Policy Adjustment Loan as proposed in the Initiating Memorandum.

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LOAN COMMITTEE

LC/M/86-38
November 20, 1986

Minutes of the Loan Committee Meeting to consider GUINEA-BISSAU - Proposed Structural Adjustment Credit held on November 14, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Hittmair
Legal: Mr. Scott
ERS: Mr. Michalopolos
OPS: Mr. Husain
Region: Mr. Thalwitz

Others

Messrs. Serageldin
O'Brien
Westebbe
Gorjestani
Clawson
Gil
Eccles
Birnbaum
El Maaroufi
Katz
Jansen
Rigo
Mmes. Haug
Girardot-Berg
Guerard
Donovan
Messrs. Brou (IMF)
Neuhaus (IMF)
Enders (IMF)

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Standard (see OMS 9.25 page 7)

B. Issues

1. The meeting was called to discuss the proposals in Mr. Thalwitz' memorandum of November 10, 1986, for a Structural Adjustment Credit to Guinea-Bissau. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 13, 1986.

C. Discussion

Macroeconomic Program and Monitoring

2. With regard to the Government's commitment to the reform program, the Region stated that in recent months, the authorities have adopted adjustment measures that go beyond what the Bank staff had proposed in the context of other operations. Although the supplement to the Reconstruction Import Credit called only for reducing the scope of intermediation margins as a form of price controls, the authorities abolished the margins in August. The supplement also called for raising producer prices in line with continuing weekly devaluations; however, in August, the Government decreed that merchants can buy crops at any price above certain minima and keep 50% of their export receipts for import purposes. These actions are indicative of the Government's commitment to reform. Furthermore, the President has travelled extensively throughout the countryside explaining the need for the adjustment program to the people. The ongoing Party Congress was to discuss and approve the principal elements of the program.

3. In discussing the Government's implementation capacity and IDA's profile in financing high-level advisors, the Chairman stated that Bank staff should not be seconded to Guinea-Bissau to assist in the implementation of the adjustment program, in view of the potential conflict of interest. The required experts should be outsiders and could be financed under the TA project or by other donors.

4. The Chairman expressed concern that the proposed SAF would not provide the regular monitoring capability of a Stand-by Agreement. He wondered why a Stand-By agreement could not be put in place. The IMF staff stated that the statistical base was weak and the country currently does not appear to have the capacity to implement a Stand-by. The Chairman requested that the issue of adequacy of monitoring arrangements under the SAF be addressed by the Region and their IMF counterparts. He also stressed that the Bank should not monitor implementation of monetary policy, since this is the responsibility of the IMF.

5. With respect to growth prospects, the Chairman wondered whether the projections were realistic, since they appeared to imply major improvements in efficiency. The Region stated that the current level of production is considerably below the country's potential. In agriculture, the cropped area and yields are far lower than the levels attained in the 1950's. Furthermore, mangrove areas suitable for growing rice can be brought under cultivation with little investment. Also, at an equilibrium exchange rate, rice production in Guinea-Bissau for domestic consumption is

fully competitive with imports. Finally, in the past, the ICOR has been between 40 and 50 due to considerable investments in uneconomical projects. The ICOR is expected to decline substantially, since the Government and the Bank have agreed on an investment program focussing on high priority investments in the productive sectors and rehabilitation of infrastructure.

6. With regard to producer price policy, the meeting agreed that the Bank should not recommend elimination of support prices. It would be appropriate for the Government to provide a safety net through a system of floor prices which are set below border parity prices.

Exchange/Trade and Fiscal Policies

7. With respect to the proposed reform of the exchange rate system, the IMF staff indicated that a recent mission had more or less persuaded the authorities to abandon the idea of a second window. Instead, the Government is now giving serious consideration to the IMF recommendation of a 200% devaluation to bring the official exchange rate close to the parallel market rate.

8. With regard to civil service salaries, the meeting agreed that, particularly if the second window mechanism is abandoned in favor of a substantial upfront devaluation, the Government's intention to provide some increase in nominal wages and effect a decline in real terms is appropriate. The objective should be to contain the wage bill rather than wages.

D. Conclusion

9. Subject to the modifications indicated above, the Committee approved the Regional proposal to appraise a SAC along the lines set out in the Initiating Memorandum.

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LOAN COMMITTEE

LC/M/86-37

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November 17, 1986

Minutes of Loan Committee Meeting to Consider
ARGENTINA - Proposed Trade Policy and Export Diversification Loan
Held on November 12, 1986 in Conference Room E-1208

A. Present

Committee:		Others:		
Chairman:	Mr. Stern	Messrs/Mmes.	Dubey	Lysy
Finance:	Mr. Qureshi		Gue	Nissenbaum
Legal:	Mr. Shihata		Scott	Roger
ERS:	Mr. Michalopoulos		Pfeffermann	Schwedhelm
OPS:	Mr. Husain		Collell	Sokol
Region:	Mr. Knox		Schultz	Clements
			de Souza	Donovan
			Fox	El Maaroufi
			Lachman (IMF)	

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B. Issues

1. The meeting was called to discuss the proposals in Mr. Knox's memorandum of November 6, 1986 for a Trade Policy and Export Diversification Loan to Argentina. The discussion focussed on the main issues raised in the Country Policy Department's Memorandum of November 11, 1986.

C. Discussion

Macroeconomic Framework

2. The meeting discussed the adequacy of Argentina's present macroeconomic framework. The Region noted that the recent rekindling of inflationary pressures had been mainly caused by expansionary, uncoordinated monetary policy while the fiscal deficit had been kept in check. The IMF Representative agreed and noted that a Fund mission was in the field to initiate negotiations on a new Stand-by. The Fund would press for a reduction of the overall public sector deficit, projected to be 4% of GDP in 1986, to 3% in 1987.

3. Regarding the exchange rate, the Region noted that the Austral had appreciated by about 10% with respect to the July 1985 trade weighted currency basket level. The IMF Representative stated that the Fund mission was considering various options on the exchange rate to promote exports and sustain an agreed level of liberalization, as well as the timing of adjustments. The Chairman indicated that the Bank should coordinate with the Fund and come up with a joint view on the proposed exchange rate and trade liberalization policy.

4. The Region noted that the proposed operation was based on the assumption that agreement on a new Stand-by would be reached by the time of Board presentation. Endorsing this position, the Committee agreed that further major lending to Argentina would be dependent on the removal of the present price controls, and that the Government should be advised accordingly.

Trade Liberalization

5. The meeting reviewed the main elements of the proposed trade liberalization strategy. Given Argentina's prior unsuccessful import liberalization experiences, it was agreed that a gradualist approach was warranted, but without losing sight of the final liberalization objective. The Region said that the Government is committed to this goal, for which important reforms had already been implemented in line with the Bank's recommendations in preparation for this loan. Furthermore, Argentina's tariffs are not excessively high, and, therefore, further efforts should be concentrated on replacing the remaining non-tariff restrictions with an appropriate tariff regime. The meeting agreed with the proposal to reach agreement on a multi-year program of liberalization, coordinated with the Fund, before release of the second tranche.

6. The meeting noted that the proposed loan would provide exporters with a de facto free trade regime for imported inputs. It would thus expose domestic producers of these materials to competition at international prices as a first step towards more general import liberalization. The meeting directed the appraisal mission to quantify the significance of the proposed partial liberalization of imports in terms of its impact on Argentine manufacturing production. The Chairman indicated that, if the production value of the proposed partial liberalization is relatively insignificant, it would be necessary to reach agreement on the phasing out of QRs on the remaining tariff positions within a briefer period than recommended in the Initiating Memorandum. Conversely, if the amount involved in the partial liberalization is relatively significant, a suitably longer period for the phaseout of the remaining QR's would be acceptable.

7. The Committee also instructed the appraisal mission to review existing incentive programs for exporters, some of which reportedly have been the subject of countervailing action by other countries, and to formulate plans for their elimination or modification as appropriate.

8. The meeting discussed the system of import permits for goods entering the country automatically. It was agreed that goods in the automatic list should not require import permits, even if only for statistical purposes, and that the Region should seek a commitment to eliminate these permits before second tranche release.

External Borrowing

9. The meeting discussed the Government's proposal, in order to avoid domestic political difficulties, to use World Bank (in place of its own) balance-of-payments projections in Argentina's medium-term framework paper to be presented to the commercial banks. It was recommended that the paper indicate that these projections are based on data furnished by the Government as a disclaimer, in order to guard against any claim of liability from a third party. The Chairman indicated that it would be more desirable for the Government to present its own projections and that the Region should persuade it to do so.

D. Conclusion

10. Subject to the modifications noted above, the Committee approved the regional proposal to appraise and process the Trade Policy and Export Diversification loan along the lines set out in the Initiating Memorandum, including the proposed US$400 million loan amount.

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THE WORLD BANK

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LOAN COMMITTEE

LC/M/86-36
November 13, 1986

Minutes of Loan Committee Meeting to consider TURKEY - Proposed Energy Sector Adjustment Loan held on November 7, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman: E. Stern
Finance: S. Asanuma
Legal: I. Shihata
OPS: P. Hasan
Region: E. Lari

Others:

Messrs./Mesdames Stoutjesdijk
Rajagopalan
Chaffey
Reekie
Dubey
El Serafy
El Maaroufi
Harrison
Balkind
Dally
Hadler
Donovan
O'Donnell

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Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to consider the proposals set forth in the Initiating Memorandum (IM) from Mr. Stoutjesdijk, dated October 30, 1986. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 5, 1986.

C. Discussion

2. Economic Management. The Region briefed the Committee on the slippages in Turkey's economic performance in 1986 and the medium-term outlook. Excessive fiscal spending, accommodated by monetary expansion, led to a deterioration in the balance of payments and in the debt service ratios. Other factors over which Turkey had little control - such as a slow-down in exports to the Middle East and to a lesser extent the EEC markets - also contributed to a widening of the current account deficit. Nevertheless, there was continued progress in reducing inflation. The Region briefed the Committee on the interim measures the Government had taken to slow growth and spending.

3. With respect to the medium-term, while there was some difference of view regarding projected growth rates for exports and workers' remittances, the general feeling was that the macro-framework remained in order, although the 1987 program would warrant close monitoring. The Region's Quarterly Economic Assessments were providing this. In this context, the Chairman agreed that the Region was correct not to focus on particular indicators. However, he suggested that the Region should routinely, in letters of Sectoral Development Policy, seek reconfirmation that the Government's basic economic policies would remain in force and that the trade regime will continue to be liberalized.

4. Country Program. The Chairman noted that the last time a Country Program Paper for Turkey had been discussed by the Operations Policy Committee was in 1983 and requested the Region to submit a revised CPP to the OPC for discussion no later than January 1987.

5. Energy Investment Program. The Committee noted that agreement on the size and composition of the energy investment program was required, including contingency planning in the event of shortfalls in private investment. This was thought to be adequate involvement in the formulation of the investment program, making superfluous the condition that no less than 35 percent of total public fixed investment be in energy.

6. Phasing of Actions/Disbursements. The Chairman suggested that every effort should be made to complete as many of the actions as possible prior to Board presentation. The Region indicated that the actions proposed in the IM for completion prior to June 1987 were expected to be completed prior to Board presentation. Furthermore, a timetable would be agreed for the key actions for the remainder of 1987 (e.g., restructuring of the Board of Directors of the Turkish Electricity Authority (TEK) and establishment of the regulatory body within the Ministry of Energy and Natural Resources). Every effort would be made to accelerate such actions, which could form a basis for tranche release. The remaining activities would be set out in an Action Plan (e.g.,

preparation of the regulatory body's work program). The Chairman, noting that the Region was proposing not to tranche the policy component of the project, suggested that the Region should consider timing its disbursement in relation to the completion of an agreed set of measures, not necessarily immediately upon effectiveness.

D. Conclusion

7. Subject to the comments noted above, the Committee approved the recommendation to proceed with the appraisal of a proposed ESAL, as set forth in the IM.

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LOAN COMMITTEE

LC/M/86-35

November 10, 1986

Minutes of the Loan Committee Meeting to consider
MADAGASCAR - Proposed Industry and Trade Policy Adjustment Credit
Held on November 6, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Qureshi
Legal:	Mr. Shihata
ERS:	Mr. Baneth
OPS:	Mr. Hasan
Region:	Mr. Wiehen

Others:

Mmes./Messrs. Clements, El Maaroufi, Donovan, Dubey, Isenman, Doyen, Mwine, Schloss, Elmendorf, Armstrong, Imam, Agarwala, Penalver, Fox, Roger, Sarris, Gervais, Glaeser, Schmidt, Blay, Peloschek, Kalantzopoulos, Garcia-Zamor, Abu-Zobaa (IMF), Tyler (IMF)

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Vice President, Economics and Research (for non-project lending)

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B. Issues

1. The meeting was called to discuss the proposals in Mr. Wiehen's Initiating Memorandum (IM) of October 30, 1986 for an Industry and Trade Policy Adjustment Credit to Madagascar. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 5, 1986.

C. Discussion

Import Liberalization

2. The meeting discussed the alternative import liberalization proposals contained in the IM. The Region explained that all proposals related to interim arrangements leading to market-determined exchange rates (with minimal or no quantitative import restrictions) by 1988 and that the proposal involving a variable import licence fee built on agreements already reached in the context of the sixth IMF Stand-by. The IMF representative indicated that during the difficult negotiations for the Stand-by, the Government found the proposal of an immediate comprehensive foreign exchange auction unacceptable and that, therefore, second-best interim arrangements had to be worked out. The Committee stressed that under the proposed operation, a simple market clearing system should be established and funded by the Government's own foreign exchange resources, the proceeds of adjustment Credits from the Bank Group and, to the extent possible, other donors. The import coverage of the system would be decided once the amount of foreign exchange available was determined. The simplest mechanism would be a straight auction. If this is not acceptable, the "liberalized import regime" (LIR) system agreed with the IMF should be expanded and the rules simplified to ensure an efficient allocation of foreign exchange. The objective of either system should be a single pot for foreign exchange with supply and demand determining the price. The Committee also agreed that the foreign exchange rate determined under an auction system should be paid to exporters. In the absence of an auction system, alternative arrangements such as an expanded retention/drawback scheme should be adopted to promote exports.

Public Enterprise Sector

3. The Committee expressed concern about the status of the parastatal sector with a large number of inefficient public enterprises. The Region explained that the initial corrective actions undertaken or planned concentrated on a selected number of larger enterprises that account for a significant proportion of both output and total deficit of the public enterprise sector. Depending on the outcome of ongoing analysis, enterprises would either be rehabilitated or closed down. Under the proposed Credit, agreement would be reached on the studies needed for a classification of industrial enterprises for rehabilitation, privatization and/or closure. The Committee agreed that the Government needed to formulate a comprehensive strategy to cover all enterprises, to affirm in a statement of policy the principle of closing down or selling non-viable enterprises, and to develop criteria for the rehabilitation and possible privatization of viable enterprises. This would provide the framework for an agreed action plan to deal with individual enterprises.

Interest Rates

4. The Committee inquired about the Government's interest rate policy and credit allocation mechanism. The IMF representative said that interest rates are _de jure_, but not _de facto_, decontrolled; within a financial system which is wholly Government-owned and, therefore, has considerable direct and indirect Government interference, interest rates do not reflect market forces. The Committee concluded that given the crucial role of interest rates, agreement should be reached with the Government on the maintenance of positive real interest rates.

Banking Reform

5. The Committee reviewed the elements of the proposed action program of reform of the banking sector. The Chairman inquired about the strategy for bank reform, possibilities for more fundamental corrective measures including possible privatization and the fiscal implications of restructuring existing banks. The Region explained that the appraisal mission would carry out the analytical work to address those issues. The Committee agreed that, in view of the poor financial position and performance of the banking sector and its considerable impact on the economy, banking reform along the lines suggested in the IM should have high priority in the Government's reform program.

D. Conclusions

6. The Committee authorized the Region to proceed with the appraisal of the operation along the lines set out in the IM and subject to the modifications noted above.

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LOAN COMMITTEE

LC/M/86-34
November 5, 1986

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Minutes of the Loan Committee Meeting to consider
GUATEMALA - Proposed Export Development Project
<u>held on October 28, 1986, in Conference Room E-1208</u>

A. <u>Present</u>

<u>Committee:</u>

Chairman:	Messrs.	Stern
Finance:		Hittmair
Legal:		Scott
ERS:		Baneth
OPS:		Husain
RVP:		Knox

<u>Other</u>:

Messrs/Mmes. Steckhan
Picciotto
Dubey
Wessels
Elson
Schultz
Collell
Clements
Donovan
El Maaroufi
El Serafy
Gonella
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B. Issues

1. The meeting was called to discuss the proposals in Mr. Knox's memorandum of October 16, 1986, for an Export Development Project in Guatemala. The discussion focussed on issues which were raised by the Chairman and by the Country Policy Department's memorandum of October 24, 1986.

C. Discussion

2. Macroeconomic Framework: The Chairman inquired about the progress made by the Government in establishing an appropriate policy framework for economic stabilization and adjustment. Regional staff explained that in June 1986, the new civilian Government had introduced a first set of stabilization measures designed to reduce inflationary pressures and strengthen the country's external position. Over the past few months, the Bank and the Fund have been pressing the Government for a consolidation of the stabilization process in 1987 through a number of measures, including a further reduction of the combined Central Bank/public sector deficit, a reduction of external arrears, and a further substantial increase in interest rates. A Fund mission is scheduled to visit Guatemala in November to discuss these issues further and prepare a draft letter of intent for a possible stand-by early next year. The Bank has also stressed the importance of putting in place a medium-term economic development strategy and has been discussing with the Government the main ingredients of such a strategy, namely production and export diversification, greater resource mobilization and more efficient use of resources, improved basic services, and better public enterprise management. Discussions of the CEM next month will provide an opportunity to advance our dialogue with the Government even further. The Government has been receptive to Bank and Fund advice and is in substantial agreement with the objectives sought, but has yet to define specific targets, instruments and timetables. The Committee noted that the Bank and Fund were in broad agreement on the approach to Guatemala's problems. The Committee further noted that, prior to inviting negotiations for the proposed project, the Region will submit for the Loan Committee's review a DCB including an assessment of the country's creditworthiness and a proposed Bank lending strategy.

3. Project Concept: The Region clarified that the proposed operation consisted of two major components: (i) a quick-disbursing component in support of the policy reforms necessary to provide an appropriate environment for the development of Guatemala's exports, and (ii) a credit facility to finance imports required by non-traditional exporters to non-CACM countries. The trade policy reforms included under the proposed project are substantially neutral as regards specific commodities and sectors. The specific orientation of the credit facility to non-traditional exporters is justified, since such exports have far greater unsatisfied needs for financing and better demand prospects and potential

for expansion (with the possible exception of meat). Both traditional and non-traditional exports will benefit from the proposed acceleration of the phase-out period of the windfall export tax. Such phasing-out, however, has to be gradual, because of the time required for the introduction of appropriate alternative tax measures. For instance, introduction of a land tax may raise controversial issues in the country, and involve serious complications. The Committee agreed that a tax on coffee exports could be maintained, provided its rates continue to vary in accordance with changes in world prices.

4. <u>Hybrid Nature of the Proposed Loan</u>: The question was raised as to the rationale for not making this operation only a credit facility with similar conditions. The Region explained that the policy changes to be introduced under the project are essential to provide an appropriate environment for the development of exports and the use of the proposed credit facility and that it was questionable whether they would be put in place in a timely fashion without the leverage that a quick-disbursing component would provide.

5. <u>Common Approach to the CACM Tariff</u>: The Region confirmed that Guatemala will be requested to take all the actions on tariff reductions that Costa Rica has agreed to take.

6. The Committee also agreed that: (i) caution is required in the possible replacement of SGS by national staff, since only SGS can effectively carry out certain functions (e.g., audit and spot checks at ports); (ii) a sufficiently detailed Export Development Policy Statement before Board presentation should make the preparation of a National Export Development Strategy unnecessary; (iii) the proposal of an Export Credit Guarantee and Insurance is acceptable, because of the need to compete with other countries with similar facilities; and (iv) Free Trade Zone policies will focus on improving the operation of existing facilities.

D. <u>Conclusion</u>

7. Subject to the modifications noted above, the Committee approved the Regional proposal to proceed with appraisal of the proposed Export Development Project along the lines set out in the Initiating Memorandum.

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LOAN COMMITTEE

LC/M/86-32
September 30, 1986

Minutes of Loan Committee Meeting to consider
HAITI - Proposed Structural Adjustment Operation
held on September 22, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr.	Stern
Legal:	Mr.	Shihata
ERS:	Mrs.	Krueger
OPS:	Mr.	Kopp
Region:	Mr.	Knox

Other:

Messrs/Mmes.	Burnett	Koenig
	Choksi	Linde (IMF)
	Clements	McMullen
	Collell	Meo
	Donovan	Molares
	Dubey	Pfeffermann
	Fox	Picciotto
	Hino (IMF)	Roger
	Jacqmotte	

B. Issues

1. The Meeting was called to consider the Initiating Memorandum dated September 15, 1986 for a structural adjustment operation in Haiti. The discussion focused on the main issues raised in the Country Policy Department's memorandum of September 19, 1986.

C. Discussion

Nature of Operation

2. It was pointed out that, while the proposed operation is based on substantial adjustment policies, the high degree of uncertainty surrounding the outcome of the presidential elections in November 1987 made it imposible to consider a medium-term policy reform program which should be the basis for embarking on a series of structural adjustment credits. Consequently, it was decided to consider this initial operation an "Economic Recovery Credit."

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Macro Framework

3. The meeting noted that careful monitoring of Haiti's macro-economic performance would be essential. In that context, the representatives of the IMF explained that the benchmarks of the proposed IMF Structural Adjustment Facility (SAF) for Haiti would, in both content and monitoring, be identical to performance criteria for upper tranches under a Standby Arrangement. The Committee agreed, on that basis, that compliance with the benchmarks of the SAF would meet the Bank's concern and that satisfactory progress in implementing the macro program as certified by the Fund would be made a condition of second tranche release (without creating a formal linkage with the Fund operation).

Public Sector Reform

4. The Region explained that major public enterprise action had already been taken and that other restructurings would be determined at appraisal. Attention would be focused on the flour mill and the cement plant; a timetable for conversion of the cement plant to clinker would be agreed. Possible closure of the sugar mill in the north cannot be contemplated until alternative employment possibilities have been identified. The Chairman stressed the need to inform external donors through the Haiti Subgroup of the Caribbean Group for Collaboration of Economic Development (CGCED), as well as the Haitian authorities, that future policy-based lending by IDA would depend on donors' support in improving the public investment program.

Trade and Industrial Policy

5. The Region emphasized that the remaining import quotas were inconsequential and could not be used as a pretext for reimposing quotas on other goods. A Committee member remained concerned that the continued existence of the legal and bureaucratic mechanism for import quotas might facilitate the reimposition of quantitative restrictions in the future. The Region did not foresee this being a serious danger in the case of Haiti. It was noted that the industrial investment code would in due course need to be modified to reflect the new trade and investment regime; this, however, was not an immediate priority.

D. Conclusion

6. The Loan Committee approved the Region's proposal to appraise an Economic Recovery Credit in Haiti in the amount of $30-40 million, including the policy objectives noted in the Initiating Memorandum and the above discussion.

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LOAN COMMITTEE

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LC/M/86-33
October 23, 1986

Minutes of the Loan Committee Meeting to consider URUGUAY - Proposed Structural Adjustment Loan held on October 20, 1986, in Conference Room E-1208

A. Present

Committee:		Others:	
Chairman:	Mr. Stern	Messrs/Mmes.	Dubey
Finance:	Mr. Wood		Rogers
Legal:	Mr. Shihata		Fox
ERS:	Mr. Michalopoulos		Picciotto
OPS:	Mr. Köpp		Pfeffermann
Region:	Mr. Gué		Clements
			El Maaroufi
			Donovan
			Nankani
			Marshall
			Giral
			Collell
			Cucullu

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B. Issues

1. The meeting was called to discuss the Initiating Memorandum attached to Mr. Knox' memorandum of October 9, 1986 for a Structural Adjustment Loan to Uruguay. This discussion focussed on the main issues raised in the Country Policy Department's memorandum of October 17, 1986.

C. Discussion

Macro-Economic Framework

2. The meeting discussed the status of preparation of a medium-term macroeconomic framework for the Uruguay economy. The Region noted the Government's progress in developing a macro-economic framework and the importance of the political agreement it has reached with the opposition parties on the development program. The Committee stressed the need for an agreement with Uruguay on macroeconomic projections to establish clearly the framework for the medium-term program. The Region noted that it plans to prepare a medium-term framework paper towards the end of the fiscal year, and agreed that during appraisal of the SAL the macroeconomic framework would be further discussed with the Government.

3. The Chairman stressed that the Region should convey to the IMF and Uruguay the importance for the Bank of there being an IMF stand-by agreement with Uruguay, rather than only Article IV consultations or enhanced surveillance arrangements, to ensure the maintenance of a sound macro framework for a SAL program.

Program Contents

4. The Committee noted that the SAL operation should include an agreement with Uruguay on the level and composition of public investment as well as on investment criteria. Besides social security and financial reform, the program also needs to reflect other major areas of economic policy, notably on the trade regime, exchange and interest rates and fiscal issues.

5. With respect to the technical assistance component of the SAL operation, it was agreed that this should be presented as a separate operation.

Social Security Reform

6. The meeting discussed the Region's proposals for social security reform. The Region noted that the proposed reform would entail the provision of an affordable and equitable level of benefits to reduce the fiscal burden and ensure the viability of the system in the future. Questions were raised about the employment, savings and transfer impact of the reform. The Region indicated that the reform will be positive for savings, both private and public, and neutral for relative prices of capital and labor, while reducing Government transfers. The Chairman emphasized the need for more specific answers on the impact on incentives. He also underscored that the design of the revised system should take

account of experience with social security reform in other countries, and suggested that assistance should be obtained from consultants with this expertise.

7. There was discussion of the proposed conditionality of the SAL with respect to social security reform. The Committee supported the view that Second Tranche disbursement should not take place before legislation is approved. It was agreed that a formula should be found similar to that followed in the Argentina Agricultural Sector Loan, whereby the performance indicators established in the Loan Agreement implicitly require approval of legislation.

Financial Sector

8. The meeting discussed the solvency of banks, the potential impact on the economy, and the distribution of losses, including previous portfolio purchases by the Central Bank. The meeting agreed that, as a matter of general principle, the Government should not take over private losses. Clear criteria should be agreed to determine the nature of government intervention in the event of local bank failures.

9. The meeting discussed the spread between deposit and lending interest rates. It was noted that the high level of spreads indicated the existence of controls on competition or some other form of market impediment. The Committee agreed that this problem should be explored further by the Region and that conditionality should be developed as appropriate.

10. It was agreed that the Region would also explore the possibility of legislation permitting debt/equity swaps and debt conversions, though it was recognized that these may be of limited relevance in the Uruguayan context.

Trade Reform

11. A question was raised about official reference prices. The Region indicated that this issue will be covered in the study of tariff reforms nearing completion, which will be used for guidance on this matter. The Committee agreed that the trade reform should eliminate those reference prices which are not clearly justified and that the remaining ones should be very specific and limited in number. Where reference prices are used to prevent dumping, alternative anti-dumping devices should be explored.

12. It was noted that export incentives should be generalized and not confined to specific categories of goods. The matrix should conform to the language in the Government's letter of development policy in this respect.

D. Conclusion

13. Subject to the modifications noted above, the Committee approved the Region's proposal to proceed with the appraisal of a SAL along the lines set out in the Initiating Memorandum. It also approved a loan amount of US$80 million.

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LOAN COMMITTEE

LC/M/86-31
September 22, 1986

Minutes of the Loan Committee Meeting to consider
TUNISIA - Proposed Industrial and Trade Policy Adjustment Loan
held on Tuesday, September 16, 1986 in Conference Room E-1204

A. Present

Committee:

Chairman:	Mr. Stern
OPS:	Mr. Husain
Legal:	Mr. Goldberg
Region:	Mr. Wapenhans

Others:

Mmes/Messrs. Bachmann, Choksi, Clements, Donovan, de Vuyst, El Rifai, El Serafi, Hasan, Pranish, Roger, Sacerdoti (IMF), Sawaya, Segura, Stoutjesdijk

B. Issues

1. The meeting was called to discuss the Initiating Memorandum dated September 8, 1986 from Mr. Stoutjesdijk to Mr. Stern, submitted for approval to appraise a proposed industrial and Trade Policy Adjustment Loan (ITPAL). The discussion focused on the main issues raised in the Country Policy Department's memorandum of September 12, 1986.

C. Discussion

Macroeconomic Program

2. The Committee suggested that the proposed operation focus on critical issues in industrial investment and trade incentives and that the issues relating to money supply and credit allocation be left to the IMF. The IMF representative reported in this context that a Fund mission in the field had reached agreement with the Government on far-reaching liberalization of monetary and credit controls based on "classical" instruments such as active money-market management and liberalized interest rates, with only a few preferential rates remaining controlled.

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3. On exchange rate policy, the IMF representative noted the Government's intention, following the recent devaluations, to maintain the rate at its current effective level by making further periodic adjustments as appropriate. The IMF representative expected that a Standby proposal would be presented to the IMF Board around end-October.

4. The Committee noted that, as agreed during the Loan Committee meeting of August 21, 1986 on an Agricultural Sector Adjustment Loan (ASAL), the macro-ecomomic policy program would serve as the framework for both the ASAL and the ITPAL and would be a condition of both loans.

Liberalization Program

5. The Committee sought clarification on the proposals for decontrol; a speaker commented that the control system seemed to remain essentially in place until the early 1990s. The Region recalled that a five-year program for reform of the trade system had been agreed in connection with the Agricultural Sector Adjustment Loan, with specific actions defined for removal of quantitative restrictions and tariff adjustments during 1986-88. It is proposed that a general understanding would be reached under this operation on the rate at which remaining QRs (mainly on consumer goods) would be eliminated during 1988-91; substantial action is envisaged by 1989. The trade reform program would be an integral part of the proposed loan conditionality.

6. It was envisaged by the Region that investment sanctioning procedures would be progressively liberalized, broadly in line with the removal of price controls. The Committee agreed that all licensing should be removed by the end of 1988 at the latest on proposed investments below a specified threshold level and on investments in well-established industries; the Committee also thought that the threshold should be higher than the figure of DT 200,000 (about US$300,000) mentioned in the Initiating Memorandum. On this basis, by end-1988 at least 60% of investment would be decontrolled. A program to phase out remaining restrictions during 1989-91 should be agreed.

7. The Committee expressed reservations about the proposals for special incentives for exports, regional and technology development and employment. It noted that remaining bias against exports in the trade regime could be partially offset by tax drawback provisions and should be addressed by further adjustments of import tariffs; that special incentives for regional and technology development had generally been ineffective; and that employment could be encouraged through appropriate factor pricing as well as changes in labor regulations. Provision of any special incentives under the program would require strong justification. Moreover, they should be clear, simple, and of limited duration; available virtually automatically without requiring case-by-case government approval; and apply across the board. They should not undermine the beneficial effects of the reform package. The Region explained that where ERR tests were envisaged (e.g., for proposed projects involving regional development incentives), the analysis would be undertaken by the development banks financing the projects as part of their regular appraisal procedures, and would not involve the Government.

Business Environment

8. The Committee questioned whether sufficient action was envisaged to improve the business environment; the possible need for corporate tax reform was raised in this context. The Region explained that various aspects relating to the business environment were already being addressed through project work. The Committee requested that this subject be discussed systematically when the proposed operation was next presented to the Loan Committee for review, including necessary improvements.

Exchange Rate Risk

9. The Committee indicated that, as a general rule, exchange rate risks on foreign borrowings should be borne by final borrowers. Agreement should be sought with the Government on this general objective as well as on a program for a build-down of the existing exchange commission facility. Access to the Exchange Rate Guarantee Fund should be progressively restricted for borrowers able to protect themselves against the foreign exchange risk. The average level of the exchange guarantee commission should also be adjusted to more accurately reflect the risk involved.

Social Impact

10. The meeting discussed the social impact statement annexed to the Initiating Memorandum. The Chairman indicated that the President's Report should include a full statement on the impact of the program on the poorest segment of the population.

D. Conclusion

11. The Committee approved the Region's proposal to proceed with appraisal, subject to the comments and modifications noted above.

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LOAN COMMITTEE

LC/M/86-30
September 12, 1986

Minutes of Loan Committee Meeting to consider
ETHIOPIA - Proposed Peasant Agricultural Development Project
held on September 8, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Asanuma
Legal:	Mr. Goldberg
OPS:	Mr. Husain
Region:	Mr. Jaycox

Other:

Messrs/Mmes.	Ashworth	Iman
	Byamugisha	Mwine
	Clements	Nelson
	Donovan	Nooter
	Dunn	van Holst Pellekaan
	Farmer	Wiehen
	Hussain	Wyss

B. Issues

1. The meeting was called to discuss issues raise by the Decision Memorandum dated August 4, 1986 and related documents for a proposed Credit to Ethiopia for a Peasant Agricultural Development Project.

C. Discussion

Agricultural Policy Package

2. Clarification was first sought on the contents of the proposed agricultural policy package to be agreed in the context of this project. The Region explained that the policy package would involve restrictions to quota purchases by the Government's Agricultural Marketing Corporation (AMC), together with incentive prices for the quota purchases based on import parity prices.

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The size of the overall annual quota would be fixed for the project period, with restrictions on quota purchases by region and among farmers. Surplus grain would be sold on the open market, and trade barriers within and between regions would be removed. The Region's dialogue with the Government had resulted in a good understanding of the issues and the Government was preparing a study of relevant prices and quotas that would be discussed early in 1987. While agreement was expected, there was no guarantee of success.

3. The Committee was concerned that the interregional movement of grain from surplus to deficit regions would continue to be restricted. The Region responded that licenses would be issued in various regions but only as a means of providing permits to traders for access to private markets, not as a control mechanism.

Villagization

4. The meeting discussed the Government's program to change the residential pattern of peasant farmers who traditionally have lived in dispersed dwellings. The Government's stated purpose is to establish village clusters where it will subsequently be possible to provide improved social and agricultural services more efficiently.

5. Concern was expressed that in the process agricultural land might be collectivized, as had been the case in Tanzania, with deleterious effects on production. The Region explained that this was not the intention in Ethiopia; under this program villagers would continue to cultivate individual plots of land. Furthermore, when it became apparent that the pace at which villages were being established in some regions threatened to disrupt agricultural production, the Government took swift action to slow down implementation. The Government's approach was pragmatic.

6. Speakers were also concerned that, although villagization might be beneficial in some areas, it could be inefficient as a national approach. The Region stated that, at this early stage, it was not in a position to form a judgement or to advise the Government not to proceed with the program, other than to warn against possible disruption to farming activities. As the Government was intent on establishing rural villages, the best way to proceed, in the Region's view, was to monitor the program's progress and recommend adjustments as our knowledge increases. While execution of the program might be a heavy drain on administrative capacity, the drain on financial resources had so far been small; the Government, for example, was not providing assistance to individuals for the construction of their dwellings. The fact that the program would only alter the village structure, and not the structure of agriculture, was emphasized.

7. The Committee foresaw a danger that the social changes and bureaucracy involved in the implementation of the villagization program would erode the benefits expected to accrue from the establishment of an improved agricultural policy environment. The impact of the program on farmer motivation would require close monitoring.

Interest Rates

8. The Region explained that the Government had recently changed the structure of interest rates, lowering them significantly to reflect a sharp drop in inflation and excess liquidity in the banking system. As a result, the Government has asked IDA to consider reducing its covenanted rates under existing Development Credit Agreements as well as those proposed for this project. The Committee noted that some adjustment would be appropriate as long as the new rates were positive in real terms and provided an adequate spread to intermediaries.

Project Complexity

9. A Committee member, noting the institutional complexity of the proposed project, suggested that it would be more effective to undertake separate projects for the seed industry, the extension services and the provision of credit. The Region explained that it had been working with the institutions involved for an extended period under other projects and had a sound basis for addressing the institutional requirements. The Committee agreed with the Region's proposal to undertake the project as designed, with the understanding that adequate institutional treatment would be given to each of the project elements.

D. Conclusion

10. The Committee authorized the Region to proceed with the project as proposed, subject to the points outlined above. The Chairman stressed the importance of adequate institutional arrangements and of a strong policy package to liberalize the pricing and marketing system. The Region should monitor implementation of the villagization program closely to see that it did not evolve in a way that would negate the benefits of the policy improvements. He asked to be kept informed of developments.

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Clements

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86-29

September 8, 1986

DECLASSIFIED

MAR 04 2022

WBG ARCHIVES

Minutes of the Loan Committee Meeting to consider
NEPAL - Proposed Structural Adjustment Credit
held on September 3, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Messrs.	Stern
Finance:		Wood
Legal:		Scott
ERS:		Michalopoulos
OPS:		Kopp
Region:		Cheetham

Others:

Messrs.	Clements	Lerdau
	El-Serafy	Holsen
	Katz	Senner
	Krishna	Tsantis
	Singh	Gibson
	McMullen	Cruikshank
Ms.	Ripley	Schreiber

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Vice President, Economics and Research (for non-project lending)

OTHERS
Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to discuss the proposals in Mr. Hopper's memorandum of August 27, 1986, for a Structural Adjustment Credit to Nepal. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of September 2, 1986.

C. Discussion

Nepal's Readiness for a SAL

2. The first issue concerned Nepal's readiness for a SAL. The Region summarized discussions held with HMG since the January Aid Group Meeting, emphasizing the high level commitment to stabilization and structural adjustment encountered by preparation missions. Nepal was keeping substantially to its agreement with the IMF on a Stand-by and had introduced other policy and institutional reforms. The Region made it clear, however, that it had no illusions regarding the problems and the risks associated with a prospective SAL operation. Past performance did not provide much basis for confidence; this remained a high risk proposition.

3. On macroeconomic policy the Region explained that its approach is not to build in specific conditionality but to use the Stand-by, the SAF discussions and reviews during SAL supervision to ensure appropriate policy action. The main component of this SAL would be to improve performance on the development budget, particularly in the area of project implementation. In agriculture and forestry, several problems are being addressed; a main objective would be to shift significant economic rents being realized by intermediaries to the Budget. Additionally, the SAL would seek to strengthen two public enterprises (PEs) operating in the agriculture sector as an initial effort to help the Government institute reforms for the parastatals to be continued in subsequent SALs. In the areas of industry and trade, the actions proposed for this SAL are aimed at laying the foundation for subsequent reform.

4. In subsequent discussion the Committee sought clarification on the Region's proposals in a number of areas. The need for greater specificity both as to the details and timing of the Government's proposed program was emphasized.

Macroeconomic Policy

5. The meeting discussed the need for specific macroeconomic conditions. The Region explained that it was probable that Nepal would not want to enter into subsequent Stand-bys in order to reserve these resources for a time of need. The IMF representative explained that the paper on the mid-term review of the current Stand-by was scheduled for their board in mid-September. The Fund was not ruling out further Stand-bys. It was agreed that it would be highly desirable that Nepal enter into subsequent Stand-by arrangements to ensure the maintenance of a sound macroeconomic framework for a SAL program. The Region should inform the authorities accordingly. It should also explicitly advise the Government that further SALs would be dependent on the existence of an IMF Standby.

Development Expenditure

6. The meeting discussed the issue of improving the rate of project implementation and the quality of projects in the development budget. The criteria for selecting the core program were discussed. The Region stated that, in the main sectors, projects would be ranked in terms of the criteria indicated, and that priority in funding and managerial attention would go to the higher priority projects. Project implementation performance would be improved, and delays in disbursements avoided, through improved project monitoring procedures, changes in project accounting and auditing arrangements and delegation of greater authority to project managers. It was hoped to raise the disbursements-to-pipeline ratio to 25% (excluding SAL and SAF financing) compared to the 19% level of the recent past. The Committee felt that the conditions in this area needed to be rethought. Action was required to implement the January 1986 gazette notification on delegation of authority. The array of measures included long-term development/training objectives not readily monitorable in the short-term and short-term measures of uncertain practicality. Satisfactory progress in meeting the reformulated conditionality should be required before second tranche release.

Industry and Trade

7. The meeting discussed the proposed actions for industrial and trade policy reforms. The Region explained that Nepal's policies are seriously constrained by India's policies and prevailing price structure because of its long porous border. The Government has taken some action already and is currently reviewing an Industrial Sector Study financed by ADB with a view to preparing legislation to introduce measures regarding industrial and trade policy. It was the intention to discuss trade policy with the authorities with a view to addressing these questions in a major way in a subsequent SAL. However, there was scope for some policy changes in this SAL. The Committee agreed that more specific treatment was needed in defining what had already been done, what would be required prior to Board presentation and actions for second tranche release.

Agriculture and Forestry

8. It was questioned how greater private sector participation would be achieved in agriculture. The Region explained that public sector intervention is not great; private sector participation is already significant and is not encumbered by an extensive regulatory apparatus. The proposed actions are aimed at those areas where government activity needs to be liberalized or made more efficient. The Region noted that strengthening the operations and finances of the two PEs in the sector to which SAL actions are directed would in itself constitute an important achievement. The Committee agreed that fertilizer distribution should be open to the private sector. Regarding seeds, the Region explained that the Government could not move more quickly on the Seed Board and National Seed Act since legislative action could not be taken before the next parliamentary session. The Chairman said that an action plan

and initial measures for the rationalization of seed prices should be made a condition of second tranche release. On the question of foodgrains, the Committee felt that more specific treatment is required of what could be done up-front; this should be addressed during appraisal. Agreement should be reached on the principles for determining foodgrain floor prices.

Public Enterprises

9. The meeting enquired why broader treatment of PEs was not being proposed. The Region explained that the Government has already adopted a strategy for closing, divesting and/or strengthening PEs with a plan to sell some outright, others in part and to keep a third group in the public sector. It is intended to focus on the PE sector more broadly in a subsequent SAL. The meeting agreed that the Government's policy in the sector should be spelt out in the SAL documentation.

D. Conclusion

10. Appraisal of the SAL, along the lines indicated in the Initiating Memorandum, was not approved pending receipt by the Committee of more specifics on the policy actions to be sought and timing involved.

9-83

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86-28
September 8, 1986

Minutes of Loan Committee Meeting to consider
PANAMA - Second Structural Adjustment Loan
held on September 2, 1986 in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman:	Mr. Stern
OPS:	Mr. Husain
ERS:	Mr. Michalopoulos
Legal:	Mr. Shihata
Finance:	Mr. Vergin
Region:	Mr. Knox

Other:

Messrs/Mmes. Clements, Collell, Cortes, Coutinho, El Serafy, Picciotto, Steckhan, McMullen, Meo, Koenig, Newfarmer, Abd El Aty, Laslett, Peres (IMF)

B. Issues

1. The meeting was called to consider the President's Report for a proposed Second Structural Adjustment Loan (SAL) for Panama. The discussion focused on the main issues raised in the Country Policy Department's memorandum of August 29, 1986.

C. Discussion

Loan Size

2. A question was raised about the size of the proposed loan. The Region pointed out that the current five-year lending program for Panama was very similar in size to the one proposed in the last strategy paper in 1984, and that the increase in the Bank's exposure would be small. It was also noted that the proposed size of adjustment lending was not out of line with other cases. The Chairman concluded that the proposed loan amount was not disproportionate.

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Trade Reform Program

3. The Committee discussed the adequacy of Panama's trade reform program. It was thought that the proposed 60% maximum tariff on existing final products, combined with a 3% input tariff would provide excessively high effective protection. The Committee requested the Region to seek more action on the final tariff for existing industries, either in terms of the level or of accelerating the decline. The Committee also favored a reform which further restricted the element of discretion in awarding tariff protection and eliminated the dual treatment of intermediate goods. The Chairman said that, if the Government was not prepared to agree to such action under the SAL II program, it should be made clear that a strengthening of the tariff reform program would be a pre-condition for any further SALs.

Public Sector Employment

4. The Committee pointed out the lack of an objective for reducing public sector employment for the later years of the program. It also noted that, since public enterprise closures and divestitures would be occurring through 1986, the 2% reduction target should exclude these organizations. These issues should be taken up with the Government.

Financing Plan

5. The Region reported that there had so far been no negotiations with commercial banks regarding Panama's 1987 financing needs, but that the Government was intending to start talks on a possible multi-year rescheduling shortly. The Committee agreed that the increased second tranche of SAL II should be used to help put together a financing package, including new money from the commercial banks in conjunction with their 1987 rescheduling, and that the presentation by Panama of a financing plan satisfactory to the Bank for FY87 should be a second tranche condition. It was noted that the flow of funds would need to match the requirements of the investment program.

Retroactive Financing

6. The Region noted that its proposal for retroactive financing was linked to the availability of funds from other sources. The Committee agreed with the amount of retroactive financing proposed, but suggested that the financing should be restricted to a shorter period.

D. Conclusion

7. Subject to the above modifications, the Committee approved the Region's request to proceed with negotiations with the Government of Panama for a Second Structural Adjustment Loan of $100 million, as outlined in the President's Report.

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LOAN COMMITTEE

August 21, 1986
LC/M/86/27

Minutes of the Loan Committee Meeting to consider TUNISIA - Proposed Agricultural Sector Adjustment Loan held on August 15, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Qureshi
OPS:	Mr. Köpp
Legal:	Mr. Scott
ERS:	Mr. Michalopoulos
Region:	Mr. Stoutjesdijk

Others:

Messrs.	Rajagopalan	Messrs.	Clements
	Asfour		Schuh
	Erim		El Serafy
	Seth		Bertrand
	Bachmann		Rogers
	Lister		Choksi
Mesdames	Hubert		Bhatia (IMF)
	Hadler		Dairy (IMF)
	Engelhard		

B. Issues

1. The meeting was called to discuss the Green Cover package on an Agricultural Sector Adjustment Loan (ASAL) to Tunisia, submitted under cover of Mr. Wapenhans' memorandum of August 11, 1986. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of August 13, 1986.

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C. Discussion

Macroeconomic Situation

2. The Region explained that the external situation had worsened in 1986 because of the sharp fall in oil prices, lower than expected revenues from tourism due to recent events in the Mediterranean, the serious drought, and a decline in workers' remittances reflecting Tunisia's political problems with Libya as well as the economic slow-down in the Gulf. Nevertheless, through a number of tough measures to reduce budget outlays, the public finance deficit is expected to decline from 5% of GDP in 1985 to nearly 4.5% in 1986.

3. The IMF representative reported that the Fund had discussed a possible CFF with the Government on the basis of the economic adjustment program agreed with the Bank, but felt that this would not provide enough support under current economic circumstances, and had recently agreed with the Government to explore also Standby and higher tranche releases. To this end, an IMF mission is planned for early September. As regards the exchange rate, the IMF representative indicated that the dinar is now 5% lower in real terms than any historical base. The Fund felt that a 15% depreciation from current levels is needed (this includes the 5% devaluation expected before Board presentation of the ASAL); this would bring the nominal devaluation in 1986 to 28%. The Government should make subsequent changes as needed to the exchange rate in light of relative price movements in Tunisia's competitor countries. The IMF representative pointed out that the Fund envisaged these adjustments in the context of a continued administered exchange rate system, and was not proposing a market-determined rate. He indicated that the Government had reacted favorably to the Fund's exchange rate proposals. Concerning consistency of the Bank and Fund proposals, the IMF representative indicated that the Fund's 15% exchange rate adjustment proposal was consistent with the Bank's tariff recommendations and the 4.5% budget deficit envisaged for 1986, but that additional budget action might be called for in 1987. In this regard, the Fund would push strongly to increase revenues and reduce subsidies, so as not to put the whole burden of adjustment on public investments. The Committee cautioned against too heavy reliance on increased revenues, in view of the already high tax rate in Tunisia. It also encouraged the Fund to pursue a more rapid pace for reducing consumer subsidies (except bread) and identifying a better system to target these subsidies.

4. The Committee welcomed the increased involvement of the IMF, which it was noted might also pave the way for an eventual SAL, and agreed that Bank and IMF staff should meet prior to the ASAL negotiations to ensure consistency of the two programs. The Committee noted that no budget objectives were shown for 1987. While the multi-year objective seemed reasonable it was essential that a specific objective for reducing the budget deficit in 1987 be agreed.

Adjustment Program

5. As regards the tariff reduction program, the Region confirmed its intention to push in 1987 for a 10-point reduction of all tariffs between 35% and 59% and a reduction to 25% of all tariffs between 25% and 35%. Concerning future reductions, the Committee felt that there was no need for an industry by industry study of effective protection, and it was agreed to delete this

proposal. As regards QR elimination, the Region confirmed that under its proposal, QRs would be lifted on all raw materials and spare parts by January 1987. QR elimination in other product categories would be spread out over several years, to provide time for Tunisian enterprises to adjust after many years of heavy protection.

6. The Committee accepted the Region's program, which would serve as the basis for both the ASAL and the upcoming Industrial and Trade Policy Adjustment Loan (ITPAL). It indicated, however, that the adjustment operations after ASAL and ITPAL should seek to define a firmer program for the elimination of QRs (on consumer goods) during 1988-91.

Foodgrain Protection

7. The Committee, noting that Tunisia is already a large foodgrain importer, questioned the slow pace of the proposed reform of the foodgrain pricing system. The Region explained that its cereal price objective was to change from a system of setting prices on a cost-of-production basis to one linked to border prices, and that this would be phased over four years to allow time to pass consequent price increases on to consumers and to allow macro-economic distortions to be reduced. The immediate effect of the ASAL would be that domestic producer prices for bread and durum wheat would start to reflect the relationships on international markets. The formula for setting the official domestic producer prices for cereals would be based on the world market price plus 15% included as the minimum tariff on all imports proposed under the macro program. Through such an approach, incentives for efficient production would be maintained to reduce balance of payments burdens without raising the overall protection to the sector, while the relative underprotection for the sector would be corrected through the macro-economic actions on industrial tariffs and the exchange rate. The Region emphasized that this would not preclude Tunisia from continuing to take advantage of dumped cereals. While the Committee confirmed the appropriateness of the Region's formula for setting domestic cereal producer prices, it urged consideration of a shorter adjustment period.

Agricultural Sector Adjustments

8. The Committee questioned the speed of irrigation O&M cost recovery. The Region explained that the pace was agreed in the context of the recent Irrigation Management Improvement Project, based on a detailed analysis of each Irrigation Office's finances and farmers' ability to pay and taking into account the current low efficiency and reliability of water delivery; this latter issue will be addressed under the Irrigation Project. Furthermore, the Region felt that the 9% p.a. increase in water charges in real terms was not slow and pointed out that, at about 95%, payment of water charges in Tunisia is exemplary. Finally, unrecovered irrigation water costs (capital and recurrent) only amount to about 1% of Government revenues, so an accelerated pace of water charge increases would not greatly improve Government finances.

9. The Committee noted several areas in which it felt the Government's commitment to the objectives of liberalization and privatization could be

strengthened or the pace of reform speeded up. Specifically, it suggested that:

a) commitments be obtained to introduce capital cost recovery for irrigation works once O&M charges are fully recovered, and to turn over all input marketing functions to the private sector as soon as user subsidies are eliminated (in the latter case, the Committee questioned the need for a pilot program);
b) fertilizer margins be liberalized as a condition for second tranche release at the latest;
c) the elimination of credit subsidies and reform of the agricultural credit system be accelerated;
d) the budget allocations for subsidies (in particular for food grains and fertilizers) be reduced more expeditiously and foodgrain subsidies targetted more effectively;
e) the government equipment rental services be terminated and this objective be agreed to explicitly;
f) in several areas the immediate steps to be taken were satisfactory but a clear statement of medium-term objectives should be added.

Size of Loan

10. The Committee indicated that the Bank's agreement to the increase in the loan amount from $100 to $125 million proposed would be contingent on the overall strength of the reform package, including progress in the areas noted in para. 9 above. The IMF representative indicated that the Fund had calculated Tunisia's gap for 1986-87 at SDR 800 million, after taking into consideration existing commitments, and that total Fund support could be about SDR 225-240 million. He felt that the Bank's ability to support increased loan amounts for ASAL and ITPAL would be important, since it would help obtain commercial or bilateral fast-disbursing support to fill the remaining gap. The Committee reiterated that the ultimate size of the loans will depend on the strength of the packages.

D. Conclusion

11. The Committee authorized the Region to negotiate the proposed ASAL along the lines set out in the package, subject to the modifications outlined above.

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LOAN COMMITTEE

LC/M/86/-26
August 12, 1986

Minutes of Loan Committee Meeting to Consider CHILE - Second Structural Adjustment Loan held on August 7, 1986 in Conference Room E-1208

A. Present

Committee:		Others:
Chairman:	W. Wapenhans	G. Pffefermann (LCNVP)
Finance:	S. Asanuma	R. Clements (SVPOP)
Legal:	H. Scott	P. Donovan (SVPOP)
ERS:	A. Krueger	J. Edelman (CPDDR)
OPS:	S. Husain	S. El Serafy (CPDDR)
Region:	R. B. Steckhan	L. Fox (CPDDR)
		G. Schultz (LCPI2)
		L. E. Derbez (LC1PA)
		C. Jones-Carroll (LC1PA)
		R. Krishna (LEGSA)
		N. De Souza (LEGLC)
		N. Roger (VPERS)

B. Issues

1. The meeting was called to discuss the proposals in Mr. Steckhan's memorandum of July 31, 1986 for a Structural Adjustment Loan to Chile. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of August 5, 1986.

C. Discussion

Chile's Financing Plan for 1987-1988

2. The meeting reviewed Chile's needs for new money during 1987-88. The Region noted that, while commercial banks have informally indicated that new funds were likely to be made available to Chile in due time, they are unlikely to be able to focus on formalizing this until issues relating to Mexico's debt are resolved. Such a formal acknowledgement is a Board presentation condition of the proposed SAL II, and a firm financing plan for Chile's 1987 needs is a second tranche condition.

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Financial Rehabilitation

3. The meeting discussed the specific timebound program for rehabilitation of the financial sector. The Region indicated that schedules have been established for phasing out the preferential exchange rate by January 31, 1987 and the interest rate subsidies by April 1987, in time to permit release of the second tranche. The Government is on target so far on both items. The Region then detailed the costs of the banking system rehabilitation program, which were estimated at around $3 billion arising from purchase of commercial banks' bad portfolios and a bank recapitalization program. Annual service costs of these rescue operations were estimated at about two percent of GDP at this time and will be financed from the Chilean Central Bank's operations. The Region will monitor this annual cost and further fiscal actions will be taken if required. The sharing of the cost of recapitalization (around $250 million) is about 50 percent by the old shareholders, 25 percent by new shareholders and 25 percent by the Government.

4. With regard to the reduction of the debt-to-equity ratios for the financial sector, the Region indicated that the Government had agreed to a 15:1 ratio for intervened banks. Banks which do not reach this would not be permitted deposit insurance without a program to recapitalize so as to achieve the 15:1 ratio. The Region would monitor this by examining commercial bank statements at year end. The meeting agreed that this was a reasonable target.

Other Actions

5. The meeting agreed with the Region's proposal to monitor noncopper export growth and only specify further action needed (e.g., further possible devaluation) for second tranche release if the growth rate fell below the assumed six percent.

6. With regard to studies, the Region stated that terms of reference for the health and employment sector studies would be agreed during negotiations and the studies would get under way shortly thereafter.

7. The Region agreed to include a list of second tranche conditions in the President's Report, as well as more information on the medium-term framework and on the indications from commercial banks regarding the 1987-1988 financing plan.

D. Conclusion

8. The Committee authorized the Region to invite Chile to negotiate the proposed second SAL along the lines set out in the package.

9-83

THE WORLD BANK

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LOAN COMMITTEE

July 29, 1986
LC/M/86/25

Minutes of the Loan Committee Meeting to consider NIGERIA - Proposed Trade Policy and Export Development Loan, held on July 23, 1986 in Conference Room E-1208

A. Present

Committee:		Others:			
Chairman:	Mr. Stern	Messrs.	Choksi	Messrs.	Awunyo
Finance:	Mr. Qureshi		Koch-Weser		Isenman
Legal:	Mr. Goldberg		Eccles		Aiyer
ERS:	Mr. Michalopoulos		Humphrey		Allen
OPS:	Mr. Husain		Katz		Bhargava
Region:	Mr. Thalwitz		Rigo		Swayze
		Mesdames	Guerard		Goreux (IMF)
			Donovan		Hill (IMF)
			O'Connor		

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Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to discuss the proposals in Mr. Thalwtiz's memorandum of July 17, 1986, for a Trade Policy and Export Development Loan to Nigeria. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of July 22, 1986.

C. Discussion

Financing Plan and Bank Strategy

2. Three aspects of the financing gap were discussed: clarification on how it would be filled, contingent financing, and assurances being sought and their timing. The Region explained that the gap would be financed with Bank money, rescheduling by the Paris and London Clubs and new money from the banks. With regard to a possible IMF drawing, the Chairman said that Nigeria's political position against drawing from the IMF was clear but the IMF standby was an important reserve in the event that oil prices remained depressed. At this time it was agreed to pursue a financing plan that assumes no IMF money. At the meeting, the IMF confirmed their support of this strategy. At a later date, once the new foreign exchange market has taken hold, the opposition to the IMF may cool down to make a drawing politically possible; and if oil prices continue to weaken or sit at reduced levels, the Government may have to borrow from the IMF.

3. In the near term, the Region pointed out that contingency funding would be available after trade arrears were fully dealt with, through the renewal and development of trade lines. In addition, the financing package was viable even in the event of a further fall in oil prices, partly because imports for 1986 were turning out to be significantly below the level used in the financial workout in the President's Report and thus provided a lower base for growth in subsequent years. Also 1986 domestic oil production levels appear to be somewhat higher than had been assumed.

4. In discussing the Government's request to increase the size of the proposed Bank loan (to \$600m), the Chairman stated that there might be a possibility of some increase (over the currently proposed \$400m) as a future bargaining chip. The decision would be, in part, contingent on the Government's full response to the various conditions under discussion. The importance of keeping the option open was noted: adequate foreign exchange funding was essential to the success of the second-tier market and we should look at the rest of the funding envelope after a more complete picture emerges of what others will be able to do.

5. The Chairman reconfirmed that conditions of Board presentation would be an indication that the London and Paris Clubs are giving favourable consideration to the Government's request for debt rescheduling and new money, and that "satisfactory assurances that the Government's external financing needs for 1986 and 1987 will be met" would be a condition for loan effectiveness. There would be no need to specify any further conditions on external funding at the time of the release of the loan's second tranche.

Second-tier Foreign Exchange Market

6. The Region confirmed that all foreign exchange earnings, except (1) oil used for debt service and meeting international institutional obligations, and (2) foreign exchange retentions of non-oil exports, will be converted at the second-tier market rate. The IMF confirmed that it is largely in agreement with the Government on the timing of the convergence of the two-markets. The Loan Committee expressed support for the Region's concern that capital movement should only be gradually liberalized. If capital transactions were all initially placed on the second-tier market, capital flight could endanger market operations. The Chairman said that this loan is not being provided to finance capital speculation, and the timing of the liberalization of capital movements must be designed to insure such speculation is minimized. The Region would continue to pursue this point with the IMF.

Trade Liberalization

7. The Region outlined in more detail the proposed position on import bans and tariff rates. The Chairman stressed the importance of getting agreement at negotiations on the objectives and principles, and on a schedule for eliminating any outstanding bans and for adopting tariff recommendations. The Government should meet these objectives by the time the two markets merge.

Public Expenditure

8. Although the Bank would negotiate setting a ceiling on overall capital expenditures for 1987 and on expenditures on selected projects, the Region explained we are not now able to reach a decision on investments in the steel sector, and negotiations on this, as well as on any other outstanding major project investment issues will have to be undertaken after the sub-sector studies are completed. The Chairman acknowledged that these issues would probably have to be dealt with under a follow-up second trade policy loan.

Export Promotion

9. The Region clarified that the problem was access to export credit, not the cost of the credit, and agreed with the Chairman that export credits would not be subsidized. It is expected that many of the export promotion measures formerly recommended by the Government may not be required once the second-tier market is underway. The Region is focussing under this loan on eliminating export licenses and taxes, simplifying procedures and documentation, a duty drawback scheme, and strengthening the institution responsible for promoting exports.

Procurement

10. In addition to financing private sector imports using normal commercial practices, it was agreed that the proposed loan would provide financing for the public sector using the Bank's standard procurement procedures, including ICB for large contracts.

D. Conclusions

11. The Committee approved negotiations of the proposed loan as it is presented in the President's Report, taking into account the discussion recorded above.

9-83

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86/24
August 5, 1986

Minutes of the Loan Committee Meeting to consider Tanzania - Proposed Multisector Rehabilitation Credit held on July 21, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Asanuma
Legal:	Mr. Shihata
ERS:	Ms. Krueger
OPS:	Mr. Husain
Region:	Mr. Kraske

Others

Messrs. Goldberg
Ridley-Nelson
Rogers
Choksi
McMullen
Mwine
Christoffersen
Greene
Agueh
Isenman
Porter
Stevens
Kaufman
Wambia
Artus (IMF)
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B. Issues

1. The meeting was called to discuss the proposals in Mr. Jaycox's memorandum of July 15, 1986, for a multisector rehabilitation credit to Tanzania. The discussion focussed primarily on the issues raised in the Country Policy Department's memorandum of July 18, 1986.

C. Discussion

Government Commitment

2. The Region stressed that the agreement between the IMF and the Tanzanian Government had taken a long time to achieve, but was a major breakthrough in efforts to rehabilitate the economy. The Bank should now support the reform process by assisting the Government in developing appropriate sectoral policies as well as by providing quick disbursing assistance to meet immediate import requirements. But it should be recognized that progress to date owed much to the energetic efforts of a group of reform minded Ministers and officials and that there was still considerable political sensitivity concerning the reform program. The Region was, however, reasonably confident that the forthcoming mission would be able to make further progress in the development of sectoral policies. The Chairman stressed that the understandings reached by the mission on future policy directions would need to be set down in a letter of development policy which must cover macro as well as sectoral issues and policies.

Foreign Exchange Regime

3. The meeting discussed the future foreign exchange regime and the progress being made to achieve an equilibrium exchange rate, (defined as the rate at which Tanzania would be able to achieve a sustainable balance of payments position with minimal administrative restrictions). The IMF representative stated that the Government was committed under the proposed standby to major reviews of the exchange rate in early and mid 1987 and to the achievement of an equilibrium rate by mid 1988. The Chairman stressed that this was a critical element of the package which should be reflected in the letter of development policy. The letter of development policy should also stress that as they move towards this equilibrium rate, the Government would move away from quantitative restrictions on trade and foreign exchange and toward greater use of tariffs, and other indirect levers.

External Debt

4. The meeting discussed the substantial payments arrears of Tanzania, including arrears to the IMF. The Region stated that it expected the arrears to the IMF would be paid off very quickly and that Tanzania would also be going to the Paris Club. The recent Consultative Group meeting suggested that, with some debt relief, Tanzania would be able to finance the proposed recovery program.

Interest Rates

5. The meeting agreed that the letter of development policy should include a commitment on movement toward and maintenance of positive real interest rates for all credits.

Agricultural Sector

6. The meeting discussed the future framework for producer prices and agricultural marketing in Tanzania. The Region stated that the objective was to move to a system in which the official prices would be floor prices and agricultural marketing would be opened up to the private sector. The Government would, however, continue to license private traders. The meeting agreed that the letter of development policy should contain an explicit commitment to convert official prices to floor prices and to open up agricultural marketing to the private sector by the end of 1988. The Chairman also noted that, at the primary marketing stage, cooperatives should gradually become subject to competition from the private sector and that this should also be included in the letter of development policy. In regard to provision of agricultural inputs, the meeting agreed that the letter of development policy should contain a commitment that, within one year, the Government would license private traders for domestic marketing of all agricultural inputs, including fertilizer and seeds.

Industrial Sector

7. The meeting discussed the political feasibility of closing down enterprises and other measures to improve industrial efficiency. The Region stated that this would happen automatically under the proposed program unless the Government took explicit decisions to subsidize particular enterprises. The Chairman stressed that the forthcoming mission should agree with the Government on a framework for gradual liberalization and restructuring of the industrial sector.

Transport

8. The meeting noted that addressing the transport problem in Tanzania was critical to the achievement of a supply response. With regard to road transport, the Chairman stressed that ideally, there should be no price fixing and there should be free entry into the industry; as a minimum, it was essential that tariffs were reviewed frequently and were adequate to cover costs plus a reasonable profit for transport enterprises. It was recognized that the Government might wish to apply some licensing mechanism in transportation, but this should permit adequate competition.

Public Investment Program and Parastatal Efficiency

9. The Chairman stated that the mission needed to reach agreement with the Government on the whole of the 1986/87 development budget, not just the budgets for agriculture, industry and transport. He also stated that an action program for improving the efficiency of parastatals should be prepared before the Bank could consider another multisector rehabilitation credit for Tanzania and that this program should include specific

proposals for liquidating some enterprises, restructuring others, establishing contracts between the Government and parastatal enterprises, etc.

D. Conclusion

10. The Committee approved the regional proposal to appraise a multisector rehabilitation credit for Tanzania, subject to the points outlined above.

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THE WORLD BANK

CONFIDENTIAL

LOAN COMMITTEE

LC/M/86/23
July 28, 1986

Minutes of the Loan Committee Meeting to Consider
Malawi- Proposed Agricultural Pricing and Marketing Reform Program Credit
Held on July 21, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr Stern
Finance:	Mr. Asanuma
Legal:	Mr. Shihata
ERS:	Mrs. Krueger
OPS:	Mr. Husain
Region:	Mr. Kraske

Others

Messrs.	Christoffersen
	Isenman
	Agueh
	Tuncer
	Choksi
	Garg
	Taplin (IMF)
	Bell (IMF)
	Zerabruk
	Greene
	Southworth
	Greene
Mmes	Donovan
	Fox

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Vice President, Economics and Research (for non-project lending)

*Copy to all other Regional Vice Presidents

OTHERS
Standard (see OMS 9.25 page 7)

B. Issue

1. The meeting was called to discuss the proposals in Mr. Jaycox's memorandum of July 15, 1986 for a quick disbursing sector adjustment credit to support an agricultural pricing and marketing reform program in Malawi.

C. Discussion

2. The Chairman indicated that the Committee was unanimous in the opinion that the proposed program was not well-suited for a fast disbursing adjustment type operation, particularly since the proposed policy reforms did little to go beyond conditionality in past SAL operations. Instead, he noted that the proposed restructuring of ADMARC could be more appropriately addressed with a project credit. Moreover, the proposed pricing and marketing reforms (subsidy removal and increased private sector involvement) could also be handled in the context of such a project or included in the next SAL operation. Another alternative would be to include the proposed reforms and restructuring as part of a broader sector investment credit.

D. Conclusion

3. The region agreed to pursue alternative means of supporting marketing and pricing reforms and the restructuring of ADMARC.

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LOAN COMMITTEE

LC/M/86/22
July 28, 1986

Minutes of Loan Committee to consider
PHILIPPINES - Economic Recovery Loan
held on July 17, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman: E. Stern
Finance: J. Woods
Legal: I. Shihata
ERS: C. Michalopoulos
OPS: E. Köpp
Region: A. Karaosmanoglu

Others:

Messrs. Kaji
Golan
Goldberg
Clements
Vorkink
Choksi
Linn
Arrivillaga
Katz
Hicks
Hansen
Keller (IMF)
Smith (IMF)

Mmes. Donovan
Miyazaki
Kafka

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Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to discuss the proposal in Mr. Karaosmanoglu's memorandum of July 9, 1986, for an Economic Recovery Loan to the Philippines. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of July 15, 1986.

C. Discussion

Macroeconomic Framework

2. The meeting discussed the Government's plans to embark on an expansionary public expenditure program, the external financing plan, and the implications of the foreign exchange rate policy. The Committee also sought to ascertain the IMF's views on these issues. Regarding the first, the Regional staff explained that the deficit for 1986 was projected to be large (about 4.3% of GNP) because of election-related expenditures early in the year and of serious liquidity problems of Government Financial Institutions (GFI's). Both the IMF and Bank staff agreed on the size of the deficit for 1986 GNP. The staff of the two institutions still had some differences of opinion, however, on the size of the deficit for 1987. The Bank and the IMF will develop a common position based on the findings of two missions which are scheduled to be in Manila during the last two weeks of July. As regards the external financing plan for 1987, the Chairman indicated that the Region will need to determine the country's financial requirements, and its sources of finance, including the scope for further rescheduling of both commercial and official debt. As for the exchange rate policy, another area where there were some differences of opinion between the Bank and the IMF, the meeting was in agreement that the use of reserve targets, as proposed by the IMF, would be adequate to maintain an exchange rate policy consistent with an export-oriented growth strategy.

Tax Reform

3. The meeting agreed that the revenue-raising measures proposed in the program were desirable and that the main issue would be the extent of the Government's commitment to tax reform. The IMF will develop the program of tax reform with Bank staff collaboration.

Trade Reforms

4. The meeting discussed the scope of the trade liberalization program. The regional staff explained that under the new program the Government will complete the trade liberalization measures started under prior SAL's and start a new phase of a longer term program designed to eventually eliminate quantitative restrictions and reduce the maximum tariff rates to 30%. There was agreement on the Region's recommendation to insist, prior to Board presentation, on the completion of the earlier program, in particular on the removal of quantitative restrictions under the previously agreed list.

Public Investment Program

5. The meeting discussed the Bank's role in monitoring the investment program. In this regard the Chairman stated that agreement with the Government on the size and content of the public investment program would

be necessary. The regional staff will need to ensure that this program is consistent with the overall expenditure program agreed with the IMF. Prior consultation with the Bank will be necessary in the case of significant changes in the program's content.

GFI's

6. The meeting discussed the objectives of the program to address the problems of Government Financial Institutions. In this regard, the Region noted that the program for the GFI's, still being developed, would seek, first, to reduce the scope of the Government's participation in the financial system and, second, to help convert any surviving GFI's into viable financial institutions. The Chairman stated that the Region, on completion of appraisal, should outline the Bank's recommendations to address the GFI problem. The mission should seek to reach agreement with the Government on an overall policy statement, defining the Government's role in the financial sector, the scope of its direct participation in the financial system, and the institutional framework to efficiently carry out and/or channel resources for development finance purposes. Consistent with this statement, the mission should seek agreement on the main elements of: (i) programs of institutional and organizational reform for DBP and PNB, or their successor(s), establishing their newly defined functions and range of operations; (ii) financial restructuring plans for the individual institutions, including capitalization plans, and monitorable financial performance targets including appropriate debt/equity and liquidity ratios, elimination of preferential access to Central Bank and other public resources beyond the budget transfers required for the initial capitalization plan, and (iii) a time frame within which a phased program can be implemented. The Regional Staff stated that prior to Board presentation, it expected to have agreement with the Government on suitable framework plans for restructuring/rehabilitating both DBP and PNB. Regarding, the non-performing assets (NPA's), the meeting was in agreement that establishment of a suitable Asset Management Trust would be a condition of the loan. The role of IFC was up to the Government to decide but whatever be the specific arrangements, the Bank would need to be satisfied with them. In addition the disposal of NPA's and life of the Asset Management Trust should have a specified time limit. Finally, concerning the acquired private banks, the Bank should agree on a program for their privatization/liquidation, preferably to be implemented during the disbursement period of the loan.

Tranching

7. The meeting discussed the Region's proposal to disburse the loan in three tranches. Some members of the Committee had reservations about this proposal and suggested instead two tranches. The Region agreed to examine this issue in the light of the program as developed and the nature of actions taken and planned.

D. Conclusions

8. Subject to the modification noted above, the Committee approved the Regional proposal to prepare an Economic Recovery Loan along the lines set out in the Initiating Memorandum. Upon the mission's return, the Region will submit to the Loan Committee an updated and elaborated proposal for approval.

9-83

THE WORLD BANK

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LOAN COMMITTEE

July 21, 1986
LC/M/86/21

Minutes of the Loan Committee Meeting to consider
THE GAMBIA - Proposed Structural Adjustment Program
held on July 17, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Legal:	Mr. Shihata
ERS:	Mr. Michalopoulos
OPS:	Mr. Köpp
Region:	Mr. Thalwitz

Others:

Messrs.	Landell-Mills
	Goldberg
	Choksi
	Clements
	Husain
	Varon
	Katz
	Armstrong
	Cerych
	Dube
	Calamitsis (IMF)
	Martey (IMF)
Mesdames	Bruns
	Gentafons
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Vice President, Economics and Research (for non-project lending)

OTHERS
Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the proposals submitted under cover of Mr. Thalwitz's memorandum of July 11, 1986, for a proposed Development Credit and Special Facility for Africa Credit in support of a Structural Adjustment Program in The Gambia. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of July 15, 1986.

C. Discussion

Macroeconomic Framework

2. The meeting discussed the potential for expanding exports above the projected rate of population growth and the sufficiency of concessional resource flows for the medium-term. The Region pointed out that the aggregate growth of exports is slower than population growth due mainly to conservative assumptions used in projecting the growth of re-exports. The program includes measures to stimulate non-traditional exports, the growth of which is projected above the population growth rate, albeit from a very modest base, as well as studies to help define additional policy measures to achieve export diversification and faster growth. With respect to projected concessional aid, the Region noted that strong support among donors for The Gambia's Economic Recovery Program was evidenced at the Donors' Conference in 1985. The Gambia's major bilateral donors have committed significant aid in support of the program and indicated a readiness to continue such support for the foreseeable future. It was agreed that the President's Report would be modified to clarify these issues.

The Agricultural Sector

3. The discussion focussed on the present Government price support policy for groundnuts, for which producer prices have been raised to approximate parity with those in Senegal, causing a substantial drain on the Gambian budget. The IMF representative explained that this policy arose from the need to discourage the loss of Gambian groundnuts to Senegal and to maximize the flow of foreign exchange into official channels in The Gambia, in order to facilitate the provision of commercial bridging finance. The Chairman observed that a preferable mode of capturing foreign exchange earnings would be to use the inter-bank market and requested that the Bank, the IMF and the Gambian Government agree on a more sustainable alternative arrangement for groundnut producer prices for subsequent years as a condition of release of the Second Tranche.

4. The Region confirmed the Government's commitment to streamline GPMB by divesting all operations (except groundnut processing). A firm time-frame has been established for the preparation of a performance contract between GPMB and the Government.

5. With respect to producer prices for paddy rice and cotton, the Region pointed out that rice marketing is, in fact, private and prices are

market-determined; and while cotton marketing is currently being handled by GPMB in the context of a small pilot project financed by CCCE, the Government would like to move towards economic pricing for inputs and private sector marketing. The Chairman said that the Bank, in consultation with CCCE, should assist the Government in this effort.

Investment Code

6. In response to a question about the investment code, the Region stated that the Government was preparing a revised code in order to standardize investor benefits and streamline administration. The Bank would review the draft revised code as a condition for release of the Second Tranche. It was agreed that the Legal Department would assist the Region in this review.

Parastatal Reform

7. Questions were raised regarding FPMS and GCDB and Government plans for these parastatals. The Region informed the meeting that the Government has agreed to update the feasibility studies for FPMC and would proceed with the project only if an acceptable economic and financial rate of return is demonstrated and if a majority private equity contribution can be secured. The Region did not believe that AfDB's cofinancing support for the SAL would be jeopardized by these changes in the design of the FPMC project, which is also being financed by AfDB. As for GCDB, the ultimate objective is privatization, but, as a first step, GCDB has to be rehabilitated by strengthening the financial structure and improving internal management. The Chairman said that the question of privatization should be followed up with the Government and that, in any event, there should be an explicit agreement that there would be no further government funding of GCDB beyond the equity contribution required for the proposed financial restructuring.

Tranching, Disbursements and Retroactive Financing

8. The meeting discussed the proposals for disbursement of IDA funds, including the proposed retroactive financing. The Region stated that, based on present Government estimates, retroactive financing from April 1, 1986 (as proposed) may not be necessary to achieve the initial disbursement target of US$8 million, but such provision should be included to provide an adequate safety margin. This was accepted.

D. Conclusion

9. Subject to the modifications noted above, the Committee approved the Region's proposal to negotiate a SAL along the lines set out in the draft President's Report.

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THE WORLD BANK

CONFIDENTIAL

LOAN COMMITTEE

July 7, 1986
LC/M/86/20

Minutes of the Loan Committee Meeting to consider MOROCCO - Proposed Agricultural Sector Adjustment Loan held on June 25, 1986, in Conference Room E-1208

A. Present

Committee:		Others:			
Chairman:	Mr. Stern	Messrs.	Asfour	Messrs.	Clements
Finance:	Mr. Qureshi		O'Sullivan		El Serafy
OPS:	Mr. Husain		Seth		Fitchett
Legal:	Mr. Scott		Brigish		Hari Prasad
ERS:	Mrs. Krueger		Mathieu		Mendoza
Region:	Mr. Stoutjesdijk	Mesdames	Lewis		Francois (IMF)
			Hadler		Franks (IMF)

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Vice President, Economics and Research (for non-project lending)

OTHERS
Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the Initiating Memorandum on a Second Agricultural Sector Adjustment Loan to Morocco, submitted under cover of Mr. Wapenhans' memorandum of June 18, 1986. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of June 24, 1986.

C. Discussion

Macroeconomic Situation

2. The Region reported to the meeting that the public finance situation of Morocco was deteriorating and was a cause of considerable concern to the Bank and the Fund. The Government, having failed to restrain public consumption or increase public revenues adequately, was resorting to open market operations, the buildup of payment arrears, and credit from the Central Bank to cover the budget deficit. A Bank mission which had just returned from Morocco after supervision of ITPA II had recommended that, although the specific conditions for release of the second tranche of that loan had been substantially met, the Bank should not agree to tranche release unless the deterioration in the fiscal situation was corrected; otherwise, the reforms already undertaken could not be sustained. Similarly, although the Region was proposing to appraise the Second Agricultural Sector Adjustment Loan and process the Public Enterprise Rationalization Loan (PERL), these operations would not be negotiated until the short-term situation was improved and a medium-term framework was agreed upon.

3. In these circumstances, the Region was preparing a letter to the Prime Minister indicating the seriousness of the Bank's concerns and the implications in operational terms. The Government had been invited to send a delegation to Washington to discuss the current financial situation with the Bank and the Fund; indications were that such a visit might take place in mid-July. The Region also reported that the IMF, with which the Bank was cooperating closely, had recently declared its stand-by arrangement for 1986 inoperative, but was planning a mission for September to prepare a program for 1987. The sizeable repayments due by Morocco to the Fund in the next 4-5 years were noted.

4. Committee members expressed concern that the sending of an appraisal mission for the proposed Agricultural Sector Loan in these circumstances might give mixed signals to the Government and be interpreted as a willingness on the part of the Bank to proceed with substantial sector policy-based lending regardless of the public finance situation. It might also give the Government the impression that the finance situation could be easily resolved.

Agricultural Investment Program

5. The Committee agreed that the size and composition of the medium-term investment budget for the agricultural sector should be explicitly

agreed with the Bank. The Committee also stressed that such proposals must be compatible with the overall availability of investment resources and be an integral part of the Government's total expenditure programs.

Agricultural Price Liberalization

6. In discussing the proposed agricultural incentive system, the Chairman pointed to a lack of clarity in pricing objectives (eg. for sugar) and in the description of the mechanisms proposed, particularly for those commodities where market prices and administered prices were expected to coexist. He believed that the scope for reducing government market intervention needed to be further reviewed. The Region felt that the proposed reduction in government intervention in agricultural pricing from the high current levels was considerable, but noted that intervention in some form was unavoidable until consumption subsidies had been phased out, as was envisaged over the next five years.

7. On the specific proposals for cereal marketing, the Region clarified that what was referred to in the Initiating Memorandum as a "target procurement price" was in effect a floor support price. It outlined the market mechanisms by which this floor price was expected to be established. Noting that the trade system was to be liberalized, the Committee agreed that, to avoid direct market intervention by the Government, it would be preferable to establish floor prices for cereals by the appropriate adjustment of import tariffs. Similar arrangements might also be adopted for crop prices for oilseeds. The market mechanism and associated government storage policies would be agreed to and spelled out in the loan documents.

Food Security

8. The implementation of targetted food programs for low income groups was a critical part of the Government's plan to phase out food subsidies. The importance of these programs was emphasized. It was agreed that the details of the proposed food security programs should be formulated prior to negotiations.

D. Conclusion

9. The Committee decided that the appraisal mission for the proposed loan be postponed until the Bank has had the chance to discuss the macroeconomic situation with the Minister of Finance during July and that the reason for the postponement of the mission should be made clear to the Moroccan authorities. Should the Minister of Finance not come to Washington in July, the Bank could reexamine the timing of the appraisal mission in the light of the latest information available on the economy and the evolution of government policy. The Committee also agreed that the Region should look again at the proposed agricultural pricing regime in the light of the discussion at the meeting.

9-83

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86/9
June 26, 1986

Minutes of the Loan Committee Meeting to consider
ZIMBABWE - Proposed Export Promotion Project
held on June 20, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Asanuma
Legal: Mr. Scott
ERS: Mrs. Krueger
OPS: Mr. van der Tak
Regional Vice President: Mr. Jaycox

Others

Messrs. Kraske
Gulhati
Messenger
Huang
Clements
Mesdames Donovan
Fox

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OTHERS
Standard (see OMS 9.25 page 7)

B. Issues

1. The Loan Committee discussed the memorandum prepared by Mr. Jaycox dated June 13, 1986, on the proposed Zimbabwe Export Promotion Project. Through the memorandum, the Region sought guidance as to what would be an acceptable policy package for this project.

C. Discussion

Trade Liberalization

2. The Region indicated that the Government now appeared firmly committed to a program of trade liberalization. In confirming this commitment, the Government might be willing to agree on the broad timing of major reform steps. A more detailed action program would be expected to emerge from the liberalization study to be carried out under the project; agreement on this action program could be a condition of release of the second tranche of the loan. As a condition for proceeding with the project, it might also be possible to obtain agreement with the Government to adopt an open general licensing system for a specific percentage of imports.

3. The Committee agreed that a written commitment should be obtained from the Government to reduce protection substantially by removing quantitive restrictions and licensing, allowing free access to foreign exchange for imports and by adopting a simple and harmonious tariff regime. An indicative time-frame for the various elements of the trade reform should also be obtained. Agreement on a detailed action plan for trade liberalization would be required before release of the second tranche of the loan.

4. The Committee also thought that it was important to have some significant up-front action on the part of the Government to demonstrate its commitment to liberalization. It was agreed that the adoption of an OGL system for at least 10% of imports (by value) would be acceptable in this context. The Committee stressed that this initial shift to OGL should NOT be industry-specific; it should apply across the board and include competing goods.

Macro-Economic Framework

5. The Region had proposed to seek a reduction in the budget deficit of 1% per annum or more. The Committee felt that a 1% per annum reduction might be insufficient and suggested that the Region should seek a larger reduction. Noting that the IMF had assessed that a reduction in the deficit of around 2% per annum was needed, the Chairman said that discussions should be held at a senior level with the IMF to ascertain that the approach proposed by the Bank would represent acceptable progress to the Fund and would not be seen as undercutting the Fund's position if we decided to accept a lesser amount as an interim measure. A memorandum should be prepared as a basis for discussion with the Fund management. The Committee noted that an active exchange rate policy as well as sound budget management

would be essential in support of the trade liberalization program.

D. Conclusion

5. The Committee authorized the Region to proceed with the preparation of the project along the lines agreed at the meeting. The Chairman emphasized that, in the upcoming discussions with the Zimbabwe authorities, Regional staff should make it clear that details of the proposed policy package remain subject to the Committee's concurrence.

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86/8
June 26, 1986

Minutes of the Loan Committee Meeting to consider
CENTRAL AFRICAN REPUBLIC - Proposed Structural Adjustment Credit
held on June 20, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Asanuma
Legal: Mr. Scott
ERS: Mrs. Krueger
OPS: Mr. Husain
Regional Vice President: Mr. Thalwitz

Others:

Messrs. Serageldin
O'Brien
Bouhaouala
Palein
Huang
Westebbe
Singh
Vakil
Cronquist
Nicholas
Clements
El Serafy
Alba
Mesdames van Beek
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OTHERS
Standard (see OMS 9.25 page 7)

B. Issues

1. The meeting was called to discuss the proposal in Mr. Thalwitz's memorandum of June 12, 1986, for a Structural Adjustment Credit to the Central African Republic. The agenda for the meeting is attached.

C. Discussion

Government Administrative Capacity

2. The meeting discussed the capacity of the CAR administration to implement the program in light of the large number of studies and the heavy up-front conditionality. With respect to the number of studies, the Region stated that many were a continuation of the on-going work program of the experts already in the field financed under the Technical Assistance Project, and that others had been on-going for some time. Results of these studies are expected soon. With respect to the heavy up-front conditionality, the Region explained that implementation of many of the reforms had already commenced and that final actions could be expected soon, but that a careful review would be made of the feasibility of the target dates set forth in the Initiating Memorandum. The Chairman stressed that the expected completion dates for the program should be reviewed with care to ensure that compliance is feasible.

Trade Liberalization

3. The Meeting reviewed the question of whether the proposed liberalization program was compatible with improving the Government's budgetary position. The IMF representative stated the program was compatible with the IMF objectives and indicated that reducing tax evasion and fraud was more important for improving revenues than increasing tax rates. An IMF mission on tax reform and administration is scheduled for September 1986. The meeting was in agreement that the revenue-raising measures in the program appeared to be sufficient.

4. In discussing the appropriateness of the trade liberalization measures, Regional staff explained that both the "jumelage", a form of quantitative restriction on international trade, and import licencing systems would be eliminated. The Chairman stated that, after the completion of a study aiming to modify the tariff system prevailing under UDEAC, further liberalization would be required in the future to reduce the prohibitive levels of some of the prevailing tariffs.

External Debt Management

5. The meeting discussed the magnitude of the CAR's external debt burden, the need to limit new debt to concessional terms, and the issue of public guarantee for debt contracted by public enterprises. The Chairman indicated that, in light of the heavy debt burden, it was important for the CAR to avoid contracting new external debt of under twelve years' maturity. The Region noted that, under the IMF standby, the CAR is allowed to contract such debt if on concessional terms, and that the Government might resist a tougher conditionality than that already agreed with the IMF. The Region would discuss this issue once

more with the Government and refer back to the Loan Committee if no agreement is reached. With respect to guarantees, the Regional staff explained that control procedures in the debt management agency were being strengthened and that no new guarantees would be granted except for investment projects with appropriate financial and economic returns. The Chairman, while approving this policy, emphasized the need to set specific targets for government guarantees for public enterprise external loans with a view to phasing them out over a reasonable period.

Agricultural Reform

6. The Chairman indicated that price signals should be the main force behind reductions in cotton production in the marginal zones. The Region agreed, noting that non-economic public ginneries would be closed and subsidies on inputs would be phased out. The conditionality already in the Cotton RDP Project concerning the gradual elimination of subsidies on imported inputs would be reconfirmed in the SAL agreement. The Committee also agreed that the input distribution system now in SOCADA's hands should be opened up to private traders, who should be given access to inputs on the same terms as SOCADA.

Country Lending Strategy

7. The meeting discussed the issue of follow-up operations necessary to consolidate the reform process. To maintain the pace of macro-economic reforms, the Chairman stressed the need for further SALs; these could incorporate the sectoral reform programs envisaged as separate operations in the current lending program.

D. Conclusion

8. The Committee approved the Regional proposal to prepare a SAL along the lines set out in the Initiating Memorandum. In light of the advanced state of the operation and in order to accelerate the processing, the Committee also approved the suggestion by the Region to attempt to negotiate the SAL during the coming mission in late June 1986. It was noted that the outcome of negotiations would require the Loan Committee's approval.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 17, 1986

TO: Messrs. Stern, Qureshi, Shihata, Husain, Thalwitz, Mrs. Krueger

FROM: Y.H. for Basil Kavalsky, Acting Director, CPD

EXT.: 60115

SUBJECT: CENTRAL AFRICAN REPUBLIC - Proposed Structural Adjustment Credit

1. The Loan Committee will meet on Friday, June 20, 1986 at 2:30 p.m. in Room E-1208 to consider a proposed Structural Adjustment Credit to the Central African Republic of $14.0 million from IDA and $16.0 million from the Special Facility for Africa (of which up to $3 million -- 10 percent -- would be for retroactive financing). The Committee may wish to consider the following issues.

Implementation of the Structural Adjustment Credit

2. The proposed SAL would be the Bank's first adjustment operation in the Central African Republic. Our knowledge of the adjustment needs of the country is still at a relatively early stage, and for this reason much of the SAL's policy conditionality mandates studies which could establish the basis for future adjustment operations. In all some 30 studies or programs are to be prepared; many of them appear general or ambitious in scope. For example, the discussion of the civil service and public administration ends with the statement that the government will "review the educational system in the light of the nation's needs and redefine its policies on advanced and professional training" (para. 53). Similarly, in the discussion of agriculture (para. 34), the IM proposes that the Government will prepare "a program for the construction and maintenance of access roads and clarify institutional responsibilities for its implementation and coordination", and will "undertake a comprehensive study of export diversification possibilities". Para. 46 asks for "a study on the incentive structure affecting the efficiency of resource use in the small- and medium-scale enterprises".

3. Not only does the IM propose a large number of studies, but it also expects early completion dates for most of them. For example, six out of seven measures to be taken for food crops (para. 34) and five out of the six measures for coffee (para. 37) essentially require preparation of programs or studies, most of them to be completed this calendar year. The Region may wish to elaborate on the potential strains on the relatively weak administrative system of carrying out such an ambitious program of technical and institutional studies and the desirability of narrowing down the range and scope of the work to be done. To some extent these strains may be overcome by the use of at least nine outside consultants hired under the second IDA Technical Assistance project (para. 96). This extensive use of outside consultants does, however, raise a further issue of whether the Government's commitment to the reform process may be compromised by over-reliance on expatriate assistance.

4. There will be a need for the Bank to follow-up on these studies to ensure the implementation of their recommendations. The Initiating Memorandum mentions only one future adjustment operation, a sector adjustment loan in agriculture. Given the wide range of issues addressed in the studies, <u>does the Region plan to support a continuing reform process with a series of structural or sector adjustment loans</u>?

<u>Administrative Capacity</u>

5. During the period 1979-82 the country experienced an "almost complete .... disintegration of the public administration" (para. 8); civil service and parapublic wages have now been frozen (presumably in nominal terms) for five years, and the SAL proposes to further contain salary adjustments (para. 50-53). Real wages today appear to be about 55-60 percent of what they were in 1980. Experience from other Sub-Saharan African countries suggests that declining real wages in the civil service can have a seriously disrupting effect on government efficiency. In particular, low wages at senior levels can lead to a critical loss of management and technical personnel. <u>The Loan Committee may wish to discuss whether the envisaged civil service compensation policies are likely to weaken further the administrative capacity of the government to execute the SAL-supported reforms</u>. <u>What steps are being taken to motivate and retain essential personnel in the civil service while also reducing the numbers of redundant staff</u>?

<u>Monetary and Fiscal Policies</u>

6. Since the CAR, being a CFA Franc country, cannot influence its nominal exchange rate, monetary and fiscal policies are the principal means to ensure both macroeconomic stability and external competitiveness. Inflation appears to have averaged about 10 percent in recent years. <u>Has monetary and fiscal policy been satisfactory under the IMF program</u>? Under the terms of the Credit, the Government will undertake to increase public savings and budgetary receipts significantly (para. 25). The ways in which these goals will be achieved are not specified, and they will be made more difficult by the revenue-reducing aspects of the proposed liberalization program. The IM makes a number of proposals of an administrative nature for raising taxes, but there is no mention of increasing rates or broadening the tax base. Given the need to improve the government's budgetary position, <u>the meeting may wish to discuss whether the IM's revenue raising proposals are sufficient</u>.

7. Table 1 gives figures for the "Base Case" Scenario which show, over the period 1985-90, average annual real growth of public consumption of less than 1 percent, as against total investment growth of almost 9 percent. This breakdown suggests that current expenditures for rehabilitation and maintenance and for the conduct of economic services is satisfactory in relation to investment needs. <u>Is this balance between public consumption and investment in fact appropriate</u>?

Other Issues

8. Liberalization of the Trade Regime. Annex II (item D.2) indicates that first all quantitative restrictions on trade will be abolished and later import licences on all products subject to price controls will be eliminated and tariffs revised. This suggests that the quantitative restrictions are interpreted as excluding at least some import licences. What is the precise definition of import licences being used here? And does it make sense to remove quantitative restrictions independently of revising the tariff structure?

9. Agricultural Price Stabilization Fund. Paragraph 26 indicates that the second stage of the reform program for the Agricultural Price Stabilization Fund, CAISTAB, would be a "fundamental review of [its] role, organization and statutes". This stage would follow a number of specific reforms of the Stabilization Fund outlined in the first part of that paragraph. Would it not be more sensible for this fundamental review to establish the basis for reform? One of the specific reforms of CAISTAB would be a predetermined increase in the proportion of its revenues used for stabilization purposes. Such an allocation suggests that CAISTAB operates more on the lines of a price-support mechanism than of a stabilization fund. What are the objectives of CAISTAB's price interventions?

10. Cotton Sector. The IM notes (para. 38) that, to discourage cotton production, the government is both restricting the distribution of inputs, and lowering the subsidies on inputs from 55 to 45 percent of costs. Would it be preferable to reduce the subsidy by a larger amount rather than to restrict distribution of inputs?

11. Coffee Sector. An increase in the farmgate price of unprocessed coffee from CFAF 150 per kg to CFAF 190 per kg is proposed. This latter figure is equivalent, at current exchange rates, to about US 50 cents per kg. The current border price for processed coffee is $2 per kg, or four times the farmgate price. Are similarly large margins found in other African countries?

12. Parapublic Sector. It is proposed (para. 57) that subsidies and transfers to the parapublic sector be reduced by 10 percent in real terms in 1987. What specific policy changes are proposed to ensure that performance will improve to the extent consistent with a reduced budgetary transfer?

cc: Messrs. Serageldin, Fuchs, O'Brien, Bouhaouala, Westebbe, Palein, Knotter, Singh

Messrs. van der Tak, Rajagopalan, Michalopoulos, Roger, Jansen, Sigrist
Clements, Kopp, Ms. Donovan
Choksi, Huang, Nicholas, Ms. Brathwaite

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LOAN COMMITTEE

LC/M/86/17
June 18, 1986

Minutes of Loan Committee Meeting to Consider
Zimbabwe - Proposed Export Promotion Project
Held on May 12, 1986 in Conference Room E1208

A. Present

Committee

Messrs./Mmes E. Stern (Chairman)
S. Husain (OPSVP)
A. Krueger (VPERS)
J. Dherse (EISVP)
J. Wood (FPBVP)
H. Scott (LEGVP)
M. Wiehen (Acting ESAVP)

Others

N. Roger (VPERS)
H. Imam (PBD)
F. Mwine (LEG)
P. Ofosu-Amaah (LEG)
A. Choksi (CPD)
L. Fox (CPD)
P. Donavan (SVPOP)
E. Kopp (PPD)
J. Artus (IMF)
D. Ballali (IMF)

Region

J. Kraske (EA1DR)
R. Gulhati (ESAVP)
L. Christoffersen (EAPDR)
I. Moreithi (EAPSA)
P. Watson (EA1SA)
R. Grawe (EA1SA)
M. Walton (EA1SA)

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Vice President, Economics and Research (for non-project lending)

OTHERS
Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to consider the following issues recorded in the Country Policy Department's memorandum to the Loan Committee dated May 8, 1986 concerning the proposed Export Promotion Project:

(i) whether there were adequate assurances on future economic liberalization, and whether the study component would provide the basis for the formulation of a consensus and plan for liberalization;

(ii) whether the agreed policy actions provided an adequate basis for a sound medium-term macroeconomic situation;

(iii) the relationship with Fund activities; and

(iv) whether there was an adequate rationale for the agriculture and export promotion services components.

C. Discussion

2. The Committee raised a number of questions concerning the basis for the loan, in particular in view of the highly controlled foreign exchange and trade regime in Zimbabwe, the evidence that the exchange rate was not an equilibrium rate, the lack of a commitment to economic liberalization and the weak nature of the proposed incentive for manufactured exporters of a supplementary allocation of foreign exchange. The Region considered that the policy changes that had been agreed under the project constituted an adequate basis for the first phase of a program of macroeconomic adjustment. The scarcity of foreign exchange was in part due to unusual and temporary features of the Zimbabwean economy, including the bunching of debt service payments in the short term, the high demand for consumer durables from the high-income white population, and the pent-up demand for replacement investment. The Government was managing the exchange rate to effect a real depreciation that would gradually move it toward the long-run equilibrium rate. The supplementary allocation was a temporary measure, that would support the growth of manufactured exports in the short term, but would be made redundant in the medium term by real exchange rate movement and broader reform of the system of controls. It considered that the policy analysis that would be undertaken under the project formed an essential input to the policy dialogue and to the formulation and implementation of this broader reform of the foreign exchange and trade regime.

3. One committee member considered there was no basis for the loan in view of the lack of policy change with respect to the foreign exchange and trade regime. A second committee member questioned whether the proposed study component would provide any answers to the Government's concern over economic liberalization, given the extreme difficulty of assessing the distributional consequences of policy reform, especially on an ex ante basis. A third committee member considered there was a case for the loan if, as the Region judged, the alternative was little Bank involvement in, and support for, the process of reform of the foreign exchange and trade regime.

4. With respect to relations with the IMF, the Fund staff representatives said they considered that there would need to be more rapid and substantial adjustment with respect to the budget, the exchange rate and liberalization than would be undertaken under the project. This would be explored in the context of discussions on a possible two-year program during the May 1986 Article IV Consultation. The Chairman said he considered it inappropriate for the Bank to be involved in the monitoring of the budget when the IMF were about to hold discussions.

5. The Chairman also questioned the case for the individual components of the loan. He considered the linkage between the foreign exchange allocations for agriculture and increased agricultural exports to be weak, in particular in view of the lack of agricultural policy reform. There was little documentation of the policy environment for the mining sector. The change in regulations for capital goods exporters could be effected by the Government without any additional foreign exchange. The Region considered that the policy framework for agricultural exports was satisfactory, with little divergence from border prices for most products, and that the mining sector was both efficient and well run.

D. Conclusion

6. In summary, the Chairman said there did not appear to be a sufficient case for a loan of this magnitude, in view of the concern of the Committee over the lack of commitment to liberalization and over the macroeconomic framework for the loan, and because of the relatively favorable treatment that it would involve giving to Zimbabwe compared with other countries receiving export development loans. He concluded that the Bank would need to see evidence of the direction of Government policy in terms of actual policy movement and should, in any case, wait upon the results of the IMF mission before proceeding further.

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LOAN COMMITTEE

LC-M-86-16

June 10, 1986

Minutes of the Loan Committee Meeting to Consider BRAZIL - Credit and Marketing Reform Project Held on May 14, 1986 in Conference Room E-1208

A. Present

Committee		Others	
Messrs.	E. Stern, Chairman	Messrs.	A. Choksi
	S. S. Husain		J. Collell
	A. D. Knox		S. El Serafy
	J. D. Wood		R. Gonzalez Cofino
	D. Goldberg		J. Joyce
Mrs.	A. Krueger		E. Kopp
			C. Lewis
			F. Lysy
			N. Roger
			R. Ruivivar
			E. Schuh
			J. Wijnand
		Mmes.	P. Donovan
			L. Fox
			M. Molares
			L. Yap

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B. Issues

1. The Loan Committee met to discuss the operation and took up the issues raised in the Country Policy Department's memorandum of May 14, 1986. The discussion covered (a) the soundness of the macroeconomic framework for the loan and other macroeconomic issues; (b) the policy conditions for second tranche release;(c) the Government's new rural credit policy; and (d) tranching of the loan.

C. Discussion

2. Macroeconomic Issues. The question was raised as to whether the Bank should at this time be considering a substantial volume of program-type assistance to Brazil (totalling US$1.0 billion for the proposed Power and Credit and Marketing Reform Loans) when questions still remained about the Government's macroeconomic policies. The Chairman responded that Brazil's overall economic performance, especially in the external sector, had been good. Major improvements in policies had been made, particularly in recent months. The Region stated that the Government was aiming to reduce the public sector deficit from about 3.5% of GDP in 1985 to 2% in 1986, though it was likely that the final outcome would be somewhat higher, in the 2%-3% range. A reduction in the Government's outstanding debt was also being planned. The achievement of these targets might be made possible by the "seigniorage gains" emerging from monetary expansion in an environment of declining inflation and a corresponding willingness by the public to hold more money balances. This monetary expansion would increase the monetary base to GDP ratio from 2% in 1985 to slightly more than 5% in 1986. Responding to a question from the Chairman about the views of the Fund on the Government's fiscal program, the Region replied that the Fund would prefer to see a surplus and a sharper reduction in Government debt. The Region, however, believed that the level of the public sector deficit now being envisaged, which implied sharp cutbacks in the investment program for parastatals, and the likely means of financing the deficit, were consistent with the objectives of the stabilization program. The Region said that the Brazilian Government did not intend at this time to seek a Fund agreement nor to allow Fund monitoring of economic performance other than the usual Article IV consultations, and that a Fund mission for this purpose was scheduled to visit Brazil in the Summer.

3. Concerning the monitoring of fiscal performance, the Region stressed that a commitment was made by the Government during the recent negotiations on the Public Sector Management Technical Assistance Project to regularly provide to the Bank information on the public sector investment program as well as on the overall Government budget. The Committee agreed that monitoring the Government's performance in these respects would be carried out through that project, and not the proposed loan.

4. Regarding the prospects of debt repayments to Paris Club creditors, the Chairman inquired whether progress was being made towards the resumption of at least interest payments on debt owed by the Government. He was concerned that unless this issue was resolved soon, it would be difficult to defend continued Bank lending to Brazil at the

Board. The Region said that discussions with the Paris Club were continuing and that an informal Paris Club Meeting was scheduled to start on May 15, 1986. The Bank's concern about this matter had been conveyed to the Brazilian authorities, and the Region intended to keep reminding the Brazilians of the Bank's concern.

5. Second Tranche Conditions. The Committee discussed the trade and pricing policy reforms which would form part of the conditionality of the second tranche. According to the Region, the lifting of price controls was essential to the full implementation of these reforms, and the second tranche would not be released therefore until such lifting of price controls had started. The Region expected this process to be gradual. However, a number of important steps, comprising a substantial part of second tranche conditionality, could be taken in the interim. These would include specific actions to expand the access of producers and traders to the futures market; to improve the terms and increase the flow of financing for domestic storage; to improve stock information and crop forecasting systems, and to simplify trade regulations. Actions would also be taken, while the price freeze was in effect, to establish the system of minimum prices and market safeguards, which could be implemented in early 1987 once the price freeze had ended.

6. While recognizing that work was still ongoing on defining the details of the policy conditionality of the second tranche, the Committee directed that the President's Report should include in the body of the text an indication of the specific actions which the Bank expected the Government to take for second tranche release.

7. Rural Credit Policy. The Committee discussed the new system of variable interest rates on official rural credit, and the continuing system of mandatory credit allocations. The Region stated that under the Government's new rural credit policy, interest rates on official credit would be adjusted every six months, based on the current rate of discount on Treasury bills. The new policy was considered by the Region to be a major improvement as the Treasury bill rate would reflect inflationary expectations prevailing in the market at that time, helping to ensure positive real interest rates, albeit with some lag. The Treasury bill rate was determined in a relatively broad market, and was not likely to be easily manipulated. Although its use as a reference rate for long-term interest rates was not completely satisfactory, there were no market-determined long-term interest rates available. Whatever long-term rates existed (such as under certain industrial credit lines) were administratively determined. The Committee endorsed the use of this short-term market-determined rate as an objective basis for the structure of official interest rates. With regard to mandatory credit allocations, the Chairman believed that the gradual dismantling of the present system of directed credit should be the next step in the process of rural credit reform. The Region responded that they would seek to clarify the Government's position on this issue during negotiations, and that specific actions toward this objective would be pursued under the proposed Financial Sector Reform Loan, scheduled for FY87.

8. <u>Tranching</u>. The Chairman stated that a large first tranche could be supported based on the substantial macroeconomic and credit policy improvements that had already been made. Referring to other tranching arrangements advocated by some Committee members as an insurance against the risk of conflict between second tranche conditions and the price control program, the Chairman agreed to let the Region determine the exact tranching. The Region confirmed its proposal for two tranches of US$300 million and US$200 million, respectively.

D. <u>Conclusion</u>

9. The Committee approved the recommendation to invite negotiations on the terms and conditions proposed by the Region.

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LOAN COMMITTEE

LC/M/86/-15
May 12, 1986

Minutes of Loan Committee Meeting to Consider CHILE - Second Structural Adjustment Loan held on April 23, 1986 in Conference Room E-1208

A. Present

Committee:

Messrs./ Mmes.
E. Stern (Chairman)
S. Husain (OPSVP)
A. Krueger (VPERS)
I. Shihata (LEGVP)
M. Qureshi (SVPFI)
D. Knox (LCNVP)
A. Golan (INDDR)

Others:

Messrs./ Mmes.
A. Choksi (CPDTA)
L. Fox (CPD)
N. McMullen (PBDCP)
E. Kopp (SVPOP)
R. Clements (SVPOP)
P. Donovan (SVPOP)
R. B. Steckhan (LC1DR)
P. Meo (LC1DR)
G. Schultz (LCPI2)
L. E. Derbez (LC1PA
C. Jones-Carroll (LC1PA)
N. de Souza (LEGLC)
E. Abbott (LEGLC)

B. Issues

1. The meeting was called to discuss issues arising from the Initiating Memorandum (IM) seeking approval to appraise a US$300 million Second Structural Adjustment Loan to the Republic of Chile, under cover of a memorandum from Mr. Knox dated April 16, 1986. Issues dealt with included:

(a) the specific measures intended to support rehabilitation of the financial/banking sector, and the extent to which the public sector should share in the cost of this;

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Standard (see OMS 9.25 page 7)

(b) the respective roles of public and private sectors in promoting economic recovery and how the public sector would finance its contributions; and

(c) the size of the SAL and role of commercial banks.

C. Discussion

2. **Financial Rehabilitation:** In response to queries, the Region described the Chilean Central Bank's four programs to salvage the financial/banking sector--at significant initial cost to the Central Bank--and current plans to phase the Central Bank out of this role. These plans should reduce the annual costs of the program to the Central Bank from 4.5 percent of GDP in 1985 to 1.6 percent this year and less next year. These cash losses, once ended, must thus be added to the net stock loss; the net amount of bad debts in the banking system. Since much of this latter involves case-by-case workouts--and much of the workout costs could be borne by the private sector--precise costing--and burden sharing--is difficult and SAL II targets would thus focus on the institutional mechanisms. The Chairman nevertheless summarized that we should reach agreement on a time-bound program for the rehabilitation of the financial sector, incorporating a specific target on how much of the cost would be absorbed by the public sector. The Region further agreed that proposed actions to rationalize the banking sector would take into account the need to remove those incentives in the credit system that might be leading banks to overextend their operations.

3. **Public Sector and Finance:** The Region clarified that while the Government holding company, CORFO, will, as a policy measure, be divesting at market rates many of the enterprises it holds, others, because of their size and profitability (e.g. CODELCO, the Copper Company) will be retained by the State. Beyond that, public sector involvement will be chiefly in provision of necessary infrastructure to facilitate private production. The Region also noted that, as the IM stated, should public sector savings fall short of the targets, a variety of corrective measures might be urged, including more public expenditure cuts or more taxes. Similarly, if non-copper exports fall short of their targets, this would trigger further action, including adjustments in the foreign exchange rate policy. The Chairman also cautioned the Region to ensure the private sector was encouraged to assume responsibilities in export promotion (e.g. of small farmers) rather than depend on state institutions.

4. **Loan Size:** While some participants favored taking advantage of this year's potentially smaller financing gap resulting from oil price and interest rate drops to make SAL II smaller (saving our leverage perhaps for next year), the Chairman pointed out the need to avoid overstating such potential savings since the IM's projections show that Chile faces a very difficult situation, with little breathing space. He also noted that the Bank's role now was more aggressive than in the past, and per capita lending levels thus may have to be reconsidered. Loan Committee members were, in general, impressed with Chile's performance to date, supportive of the Bank doing as much as it could after the private banks had maximized their

support, and cognizant of the considerable effort Chile would have to make just to keep its adjustment program on track. Indeed, this effort must be continued since Chile still had little margin for error in its economic program.

5. After the meeting, the Region decided, in view of the discussion, to initiate the SAL II appraisal discussions based on a proposed loan of $250 million.

D. Recommendation

6. The Loan Committee gave approval to the Region to appraise the proposed Second SAL to Chile.

Cleared with and cc: Loan Committee

CJones-Carroll:ab

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LOAN COMMITTEE

R. Clements

LC/M/86-14
May 8, 1986

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Minutes of the Loan Committee Meeting to Consider Proposed Credits in Support of Structural Adjustment and Education Sector Adjustment in Ghana
Held on March 6, 1986

A. Present

Committee:	Others:
Messrs. E. Stern (Chairman)	V. Dubey (CPDDR)
I. Shihata (LEGVP)	S. Asanuma (PBDDR)
Mrs. A. Krueger (VPERS)	B. Alisbah (WA1DR)
J.-L. Dherse (EISVP)	S. O'Brien (WANVP)
W. Thalwitz (WANVP)	S. Eccles (WAPDR)
	R. Clements (SVPOP)
	R. Harbison (EDTEP)
	D. Reese (WA1DB)
	P. Isenman (WA1DR)
	D. Berk (WA1DB)
	S. Lateef (WA1DB)
	N. Bennett (WAPED)
	Mrs. M. Brathwaite (CPD)
	Ms. L. Fox (CPD)
	Ms. M. Guerard (PBD)

B. Issues

1. The meeting was called to consider the proposed credits in support of structural adjustment and education sector adjustment programs in Ghana. The Country Policy Department's memorandum of March 5, 1986 provided an agenda for the discussion.

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C. Discussion

STRUCTURAL ADJUSTMENT

2. The dicussion centered on the following topics:

(a) Government Commitment and Institutional Capacity - The size of the program prompted questions as to the Government's commitment and administrative capacity despite high marks for both commitment and implementation so far. The Region briefed the Committee on the Government's actions to date. However, it noted that more was needed and the problems would be tackled under the SAL. The Bank (and other donors) would provide technical assistance for core economic and financial management functions.

(b) Exchange Rate Policy and Trade Liberalization - The Region reported that the Government had devalued from C60=$1 to C90=$1 in January 1986 and was committed to reach an equilibrium rate by mid-1987, possibly via discrete large changes. It had introduced a significant measure of liberalization by permitting imports under Special Import Licenses (which use foreign exchange held outside Ghana) of all but a short negative list of goods. Under the Industrial Sector Adjustment Credit (ISAC) just negotiated, the Government had agreed to a process and timetable for introducing a program of import liberalization; its content and implementation plan would be part of the SAL conditionality. The Chairman stated that, as the import allocation system remained very interventionist, the Government should be encouraged to introduce a foreign exchange auction, possibly financed by inter alia the SAL and ISAC funds, for as many items as possible and to liberalize their importation.

(c) Cocoa - For cocoa prices, the meeting noted that there should be agreement with the Government on explicit policy objectives and the incentives required. The aim should be to work towards giving producers a certain share of the world price, through increasing real prices within a sound fiscal framework. The factors involved should be agreed, but a strict formula approach was not appropriate. The annual approval exercise now permitted full discussions with the IMF. As for the Cocoa Board, the aim should be to squeeze its costs. Initially this would be done via a ceiling on expenditures; then a corporate plan would be prepared, incorporating the shedding of unprofitable or inappropriate activities, and agreed as a SAL condition. There was not yet agreement on ending the Cocoa Board's monopoly. The Chairman stated that the Cocoa Board's corporate plan -- including a strategy, targets and a timetable -- should be finalized by negotiations.

(d) Financial Sector - Inclusion of removal of the withholding tax on interest from time deposits as a SAL condition was called into question. It was unclear to Committee members why this interest should not be taxed; and this proposal did not address the public's major fear which was of lack of confidentiality and of freezing of bank accounts.

(e) Development Program - The status of the three-year program (1986-88) was explained by the Region. The macro numbers were more or less known; an extensive public expenditure review had led to identification of the major projects; but the Government was continuing its work to finalize the program. The questioning of the projected ICORs at the January 1986 CPP review was recalled. The Chairman stressed the importance of specific agreements on the level and composition of public expenditures.

(f) Credit Conditions and Public Finances - While the IMF's total credit expansion was probably not unduly restrictive, in the view of the Region the sub-ceiling on Government borrowing might be too tight. Thus there could be room for greater expansion without crowding out the private sector. It might be necessary to revert to Senior Management on this after the next mission. The Chairman stated that domestic resource mobilization measures required should be spelled out in the SAL, not only in the proposed EFF.

(g) External Debt and Forms of Aid - It was noted that, given the burden of existing debt and the medium-term balance of payments projections, the commercial borrowing projected by and acceptable to the IMF appeared high. The Region explained that what was involved was largely conversion of short-term oil credits to medium term; the Chairman suggested that the IMF should be requested to limit commercial borrowing to such conversion. The Region also intended to press for more quick-disbursing aid from other donors. It clarified that, while the IMF agreement would cover borrowing policy, the Bank planned to assist in improving the external debt management system.

(h) Public Enterprises - The Chairman emphasized the relationship of the public enterprises with the budget. Their losses should not be covered from the budget. As for investment financing, most enterprises should contribute from internally generated funds, and use of the banking system should be encouraged; this should be specified in connection with the SAL.

(i) Oil Procurement - It was noted that Ghana's oil procurement, which was inefficient, should be discussed with the Government. The Region responded that this problem would be discussed in the context of a proposed project for oil refinery rehabilitation and distribution.

(j) Labor Market Issues - The proposals for redeployment in the public sector looked optimistic to one Committee member. The Region pointed to the Cocoa Board's past action as proof of the Government's seriousness. The first round would be relatively easy, being based largely on voluntary retirements. The Government had no choice but to proceed with redeployment; its intentions would be reflected in the forthcoming budget. In the private sector, the Prices and Incomes Board approved agreements with unions within Government guidelines. Labor market rigidities would be discussed under the Industrial Sector Adjustment Credit, but did not appear very important at present.

EDUCATION SECTOR ADJUSTMENT

3. The discussion covered the following topics:

(a) Priorities - The Region considered that all the proposed reforms were important. However, imposing fees at the university level might have to be deferred in view of likely political opposition. Similarly, the redeployment of non-teaching staff might have to be stretched out in view of its budgetary cost.

(b) Cost Recovery - The rationale and adequacy of the proposed approach was queried. The Region explained that the Government proposed to combine fees at the university level with (a) loans for all who needed them and could afford to repay and (b) scholarships earmarked for poor regions. The Government would not be discouraged from cost recovery. However, the present proposals did not solve the political problem of lack of wide eligibility for scholarships; having scholarships for poor students anywhere would do so. The proposed loans would be repaid over 10 years after graduation at 10% annual interest; payments would be equivalent to about 20% of graduates' projected salaries. The Chairman suggested setting the interest rate at a proportion of prevailing market lending rates to take account of inflation.

(c) Access - There was a discussion of the equity issue. The Region noted that the project would increase access to primary and -- with the proposed change in the structure of the education system -- secondary schools, largely to the benefit of the rural population. The northern part of Ghana would receive preference. The Committee suggested that if boarding subsidies were phased out, scholarships should be introduced for poor students.

(d) Civil Works - The scale of civil works within the sector program and the rationale for IDA financing were questioned. The Region explained that the works, which were quite small, were needed to increase access to primary education; there would be none at the secondary level. IDA would be financing a time-slice of sector expenditures.

D. Conclusion

4. The Region was authorized to proceed with both operations on the lines proposed in the Initiating Memoranda, modified by the Committee as indicated above.

cc: Messrs. X. de la Renaudiere, R. Agarwala, V. Rajagopalan,
E. Rotberg, L. Pouliquen, A. Churchill, A. Golan,
P. Knotter, H. Fuchs, J. Ijichi, A. Habte, J. Baneth,
C. Jansen, Ms. I. Husain, K. Awunyo,
C. Walton, A. Soto, F. Bauer, E. Chaparro,
A. ter Weele, A. Pellegrini, S. Aiyer, A. Al-Khafaji,
Mmes. D. Reinke, P. Jones
Messrs. J. Kratz, H. Lorie, K. Huh (IMF)
WA1DB Staff, S. Choi, R. Sharma (RMG), WAN Files

DBerk:bp

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LOAN COMMITTEE

LC/M/86/13

April 25, 1986

Minutes of the Loan Committee Meeting of April 11, 1986 to consider ZAMBIA - Proposed Recovery Credit

A. Present

Committee:	Others
Messrs. Stern (Chairman)	Kopp
Dubey (OPSVP)	Rogers
Krueger (VPERS)	Imam
Goldberg (LEGVP)	Fox
Dherse (EISVP)	Christoffersen
Jaycox (ESAVP)	Messenger
	Grawe
	Durdag
	Gebhart
	Mwine
	Al Habsy
	Aguirre-Sacasa
	Penalver-Quesada
	Gulhati
	Hopcraft
	Acquah (IMF)

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Vice President, Operations Policy
Regional Vice President concerned*
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1. The meeting was called to discuss the Initiating Memorandum on the proposed Zambia Recovery Credit.

B. Issues

2. The discussion touched on a number of issues raised in the Country Policy Department's memorandum of April 9, 1986 on the subject. Issues discussed included agricultural pricing and marketing (particularly the issue of maize subsidies and the role of private traders in the marketing process), the functioning of the foreign exchange auction in Zambia, the level of interest rates, the progress made on parastatal reform and the role of ZIMCO.

C. Discussion

Agricultural Pricing and Marketing

3. The discussion of agricultural pricing and marketing centered on how private traders will be able to participate in the marketing of maize under a system of subsidized pricing. The Region explained that while the phasing out of maize subsidies entirely and the introduction of private trading in an open marketing arrangement remain the objectives, there is a question of how to introduce private trading in the interim period until the subsidy is fully abolished. Because of the short-term burden on the population resulting from the economic reform measures with inflation running above 50 percent, it is not considered politically feasible to raise the consumer price of maize at this time. The interim mechanism being considered is to shift the maize subsidy from NAMBOARD to the millers so that private traders can recover their full distribution cost. The details of how this would work are being developed by the consultants carrying out the Maize Marketing and Fertilizer Distribution study. At the same time, discussions are underway on the system to be used to determined the floor prices to be offered farmers by NAMBOARD in its future role of buyer and seller of last resort. Finally, the impact on the poor of the elimination of the maize subsidy will be assessed later this year, along with the feasibility of targetting a future maize subsidy to the lowest income groups. It is expected that the maize subsidy will be eliminated in 1987 but that it might be desirable to provide specific relief for the lower income group. It was agreed that these issues would be further developed in the President's Report, including a timetable of actions.

Foreign Exchange Auction

4. The Region reported that the foreign exchange auction was running smoothly and that there were signs that the anticipated benefits were beginning to emerge, particularly in the industrial sector which had been receiving the bulk of the foreign exchange under the auction. One disappointment was the lack of successful bidding by farmers and agricultural machinery supply firms, and thus the lack of imported inputs going into that important sector. The Region indicated several possible reasons for this, including the fact that the cost of imported items had

shot up tremendously due to the devaluation, interest rates had increased sharply and the farmers and traders lacked the Kwacha to bid because of suppressed profits prior to the recent reforms. Further analysis of the problem and the development of possible solutions are underway. In response to a question from the Committee, the Region noted that about 50 percent of all foreign exchange transactions are now passing through the auction which sets the rate for all foreign exchange transactions. Under the proposed Recovery Credit we expect to agree with the Government on a timetable for including government transactions in the auction.

Interest Rates

5. In response to the question as to why interest rates were not yet positive in real terms, the Region noted that there had been a sharp rise in interest rates following decontrol and that rates are now determined freely by the commercial banks. It is thought that the present inflation rate (50%) does not reflect the medium-term prospective rate which would be substantially lower. Compared with the medium-term inflation prospects, the current interest rate would probably be slightly positive in real terms.

Parastatal Reform

6. The Region reaffirmed its belief that the Zambian authorities were determined to undertake a systematic reform of the parastatal sector, including the public enterprises. Evidence of this is the extensive work underway on the parastatal sector. Most of the major parastatals are under review currently for the purpose of drawing up restructuring or divestiture plans. Privatization is an option being actively considered in this process. ZCCM heads the list of parastatals being, or to be, reviewed, and the list includes all public enterprised under INDECO, Nitrogen Chemicals of Zambia, Zambia Airways, Refined Oil Products, the National Brewery, and many more.

ZIMCO

7. One speaker questioned the role of ZIMCO in the management structure governing the parastatals. Practically all parastatals, including ZCCM, fall under ZIMCO's purview, and, with the President as the Chairman of the Board, ZIMCO wields considerable weight as regards parastatal policy and operations. The Region responded that its approach heretofore has been to focus on the individual parastatals or enterprises (and INDECO itself) rather than to work on a global level through ZIMCO. Of course, ZIMCO's management has been involved and approved of the work that has been going on with the parastatals. The Region agreed that the role of ZIMCO was of great importance and was presently being reviewed as part of the Bank's ongoing public expenditure review.

Conditionality of the Credit

8. The Chairman said that while everyone recognizes the advances that Zambia has made on the policy and institutional reform front, the economic situation remains extremely grave and the authorities must press ahead to broaden and deepen the reform effort. The Region, he said, must continue to insist on progress in the various reform areas in return for continued Bank support. He said that the President's Report should indicate clearly the advances being made in this regard under the proposed credit, in the context of a medium-term policy program. Also, there should be a firm timetable agreed, with specific dates, for phasing out the consumer subsidy, and any remaining producer subsidy, on maize.

D. Conclusion

The Committee authorized the Region to proceed with the appraisal of the proposed credit.

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LOAN COMMITTEE

LC/M/86-12
April 28, 1986

Minutes of Loan Committee Meeting to Consider
BOLIVIA - Reconstruction Import Credit
Held on April 11, 1986 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
Dherse, EISVP
Knox, LCNVP
Goldberg (Acting LEGVP)
Mrs. Krueger, VPERS

Others:

Messrs. Gue, LC2DR
Dubey, CPDDR
Finzi, LCPDR
Asanuma, PBDDR
Lysy, PBDCP
Collell, LEGLC
Carter, LC2DR
Köpp, SVPOP
Roger, VPERS
Flickenschild, IMF

Mesdames. Marshall, LC2PB
Javier, LC2PB
Manley, LEGLC
Fox, CON

B. Issues

The meeting was called to discuss the proposed Reconstruction Import Credit (RIC) of US$55 million to Bolivia as described in the documents submitted to the Committee under cover of a memorandum dated March 27, 1986 from the Regional Vice President. The discussion focussed on the issues raised by the Office of Financial Policy, Planning and Budgeting and the Country Policy Department's memorandum of April 9, 1986.

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C. Discussion

1. Medium-term Development Program. The Committee raised the issue of whether it was appropriate to proceed with the proposed operation before the Bolivian Government has defined a satisfactory medium-term development program and has reached a satisfactory arrangement with its various creditors, including the commercial banks. The Region replied that the country has suffered from a long history of disastrous economic management. The Government has now initiated a far reaching stabilization and structural reform program and urgently needs the international community's support to sustain its implementation. The proposed operation should be viewed as the first in a series of financial and technical assistance efforts needed to rebuild Bolivia's productive capacity. The Bank is actively assisting the Government in putting together a medium-term program; this will be discussed at a Consultative Group Meeting tentatively scheduled for October 1986. It was noted that the implementation of the stabilization reform is a pre-requisite for pursuing a medium-term development program. An IMF Stand-by is now being processed in support of the stabilization program. The Stand-by is scheduled to be presented to the Fund Board in mid-May. The Committee remarked that Bolivia is indeed in a transition period and it would probably take a year or two before a medium-term program can be fully put in place. The Chairman concluded that the Region should proceed with the proposed operation. It should be presented to the Board once the Fund Stand-by is effectively ready for Board approval (i.e., assurance that all outstanding issues have been resolved).

2. Credit Tranches. The Committee stressed the need to ensure that the Government is maintaining the momentum of implementation of the reforms and that adjustments to these reforms, if necessary, are undertaken. In this regard, the Committee inquired why the proposed credit is not to be disbursed in tranches. The Region replied that the proposed operation is structured in such a way as to permit it to be disbursed over a two year period against priority imports instead of against general import requirements. Both the mid-term program review and Credit allocation mechanisms would, in the event of Government's failure to sustain the reform program, allow a reassessment of the operation and possible recourse to suspension. The planned mid-term review of implementation progress of the program would be undertaken within nine months of Credit effectiveness but could be brought forward at IDA's request. Hence, although the Credit is not tranched, appropriate legal recourse exists to suspend disbursements if necessary.

3. Credit Allocation. The Chairman inquired why the proposed Credit is pre-allocated to specific enterprises and sectors rather than allowing the free foreign exchange market mechanism to determine the most appropriate use of the foreign exchange resources. The Region responded that the public enterprises and the private sector do not have the funds nor local credit to purchase the foreign exchange. Hence, the import financing under the proposed Credit has to be onlent to them. The

indicative allocation would ensure that the priority public enterprises, which account for almost 80% of Bolivia's exports, would get foreign exchange credit financing and at the same time would not crowd out the private sector. It was stressed that available financing to the public enterprises which are currently in dire straits, is a first step in their rehabilitation and reconstruction programs, which will be implemented with Bank assistance. The Chairman recommended that the justification in the President's Report for RIC financing for the public enterprises should be strengthened by emphasizing the linkages between the proposed operation and medium-term rehabilitation plans for these enterprises.

4. Mining Taxation. The Committee inquired about the implementation of the mining taxation proposals. The Region replied that the Government's initial decree establishing the program included a reform of the mining code which places a tax on profits. However, with low world prices, profits have been negative. Hence, the issue is academic at present. The Committee inquired about the reference made in the President's Report on the Government's delay in updating the presumed mining production costs. The Region clarified that these costs have now been updated. The Committee stressed that the Bank should ensure that the mining tax reforms which affect an important export sector of Bolivia are carried out efficiently.

5. Use of Local Funds. Referring to paragraph nine of the Region's March 27 memorandum, the Chairman disagreed with the proposal to explore during negotiations the use of reflows from the private sector subloans either as (i) a continuing credit line for the private sector with the funds maintained in a dollar-denominated account in the Central Bank; or (ii) counterpart funds for projects in an agreed public investment program. The Government should be allowed to use the local funds generated by the Credit for the purposes it deems appropriate, within the context of public expenditure programs which will in any event be under continuous discussions with the Bank Group.

6. Other Comments. In response to Mr. Stern's inquiries following the Meeting, the Region confirmed that (i) the economic projections in the President's Report are consistent with those of the IMF; and (ii) the President's Report will discuss to the extent allowed by available information the essential elements of the Government's medium-term economic program.

D. Conclusion

7. Subject to the clarification noted in paras. 1-5, the Committee approved the recommendations to proceed with the negotiations of the proposed Credit on the terms and conditions proposed by the Region.

Cleared with and cc: Messrs. Knox, LCNVP; Gue, Carter, LC2DR;
Ms. Manley, LEGLC

9-83

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LOAN COMMITTEE

LC/M/86/10

April 11, 1986

Minutes of Loan Committee to consider President´s Report/Loan Agreements for the Pakistan Export Development Loan held on March 31, 1986 in Room E-1208

A. Present

Committee:		Others:	
Messrs.	Stern	Messrs.	Cheetham
	Husain		Clements
	Dherse		Dubey
	Hopper		El Serafy
	Shihata		Gould
Mrs.	Krueger		Holsen
			Krishna
			Madavo
			McCleary
			Roger
		Ms.	Donovan

B. Issues

1. The meeting was called to consider the President´s Report/Loan Agreement for an Export Development Loan (EDL) submitted to the Loan Committee under cover of Mr. Hopper´s memorandum dated March 21, 1986. The discussion focussed on the issues raised in CPD´s memorandum dated March 28, 1986 on the proposed operation.

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C. Discussion

2. Macromanagement. Discussion centered upon the exchange rate and resource mobilization. The Region was asked to explain the nature of the Government's commitment on the exchange rate. The Region responded that a considerable real devaluation had taken place over the past year and the Government would commit itself to maintain a competitive exchange rate, measured not so much in terms of any target real rate but in terms of performance indicators--e.g. growth of export volumes, behavior of net foreign assets. With respect to resource mobilization and the budget, the meeting agreed that the low aggregate savings rates and weak budgetary performance was one of the most critical issues facing Pakistan and the Loan Committee asked the Region to continue exerting pressure on Government for accelerated progress in these areas. The Committee agreed with the Region that elimination of subsidies on edible oils and/or fertilizers--action on one of which was a condition of Board presentation for the EDL--would make a significant contribution to public savings and that further non-project operations would be made dependent upon Government achieving a recurrent budget surplus of 1.5% of GDP in FY1986-87 (compared to the present slightly negative level) and the initiation of a medium-term tax reform designed to broaden the tax base and increase its elasticity.

4. Export Incentives. Questions were raised whether input-output coefficients to support the standard rebate and open-bonded manufacturing system would be sufficiently robust as a basis for compensating exporters for taxes paid on their inputs and whether the system could realistically be put in place by December 1986. The Region responded that the objective was the development of the institutional capacity to making timely alterations in data needed to calculate standard rebates or allow duty-free imports under an open bonded manufacturing system; such capacity did not presently exist and the "free trade status" for exporters had been eroded. The deadline for implementation would be discussed at negotiations, but the workload for updating the standard rebate system or initiating "open-bonded manufacturing" for 70-80 existing bonded manufacturers did not seem onerous. The meeting expressed concern over the apparent complexity of establishing input-output coefficients for large numbers of firms and products and on the advisability of setting up coefficients for individual exporters. A number of suggestions were made to simplify the system by grouping like products. The meeting also asked the Region to look into the possibility of setting up a revolving fund for manufactured exports. It was noted that for an "export development loan" the loan proceeds may better be used to finance specific items needed for export development.

5. Import Liberalization. The Region stated that the appraisal mission had followed the Loan Committee's instructions to "identify possible actions and explore with Government if and when specific measures could be undertaken" in the area of import liberalization (Minutes of September 13, 1985 Loan Committee meeting). To date, Government had been

unwilling to undertake any broad trade liberalization without some ex ante analysis of the likely effects on production, employment, imports, and tax revenues, at least in the key sectors. Under the EDL, (a) the Government would commit itself to a phased, 4-5 year trade liberalization program to begin in FY1987-88 involving substantial reductions in tariffs and the number of imports subject to bans; (b) an "Industrial Efficiency Study" would support this process by designing reform programs, measuring their likely impacts, and estimating needs for financial and technical support for restructuring the key textiles, engineering, and chemicals subsectors; and (c) interim steps would be taken to eliminate or modify the effects of import bans (e.g. the elimination of bans of inputs/outputs in subsectors with export potential in the FY1986-87 Import Policy Order, and a commitment not to introduce further bans). The meeting agreed that import liberalization was crucial to efficient industrialization and export promotion, and that GOP should understand that without a clearly defined program no follow-up industrial sector loan would be possible.

6. <u>Deregulation</u>. The Region noted that the possible deregulation of edible oils and/or fertilizer would make a substantial contribution to resource mobilization and to industrial efficiency through the freeing up of entry, prices, and imports. While some progress had been made in relaxing investment sanctions, the size of the limits below which no sanction was required was too low and the number of cases where sanctions were required regardless of size of the investment remained too high. The meeting agreed that the dialogue with GOP should continue to stress the critical importance of relaxing entry restrictions to improved industrial efficiency, and the Deregulation Commission should be urged to tackle this issue.

7. <u>Technical Assistance and Monitoring of Studies</u>. In response to a question whether studies listed as special conditions (Annex III) of the proposed EDL (e.g. updating rebate rates, establishment of open-bonded manufacturing, creation of capacity for calculating input-output coefficients for manufactured exports) were already identified and supported under Technical Assistance Credit II (Cr. 1480-PAK; June 13, 1984), the Region stated that that Credit provided support for broadly defined components in various subsectors (e.g. planning, energy, industry) and that the listed studies had only been identified and terms of reference drawn up in the context of preparation for EDL. The Region also stated that within a few months Technical Assistance Credit II would be fully committed and, given the timetables for the various studies, the project should be fully disbursed by December 31, 1987. In response to a comment that the results of the PIDE study on effective protection had been disappointing both in terms of methodology and of providing practical proposals for policy reforms, the Region responded that, in order to provide adequate supervision for the studies under the proposed EDL project, staff inputs were being provided for this purpose under the Region's ESW program in addition to those being provided to supervise the EDL.

D. Conclusions

8. The Committee authorized the Region to proceed with negotiations of the proposed EDL for $70 million taking into account the guidance provided above. Should the Government take appropriate actions to deregulate both the edible oils and fertilizers subsectors prior to Board presentation, an increase in the size of the loan to $100 million would be authorized.

9-83

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LOAN COMMITTEE

April 21, 1986
LC/M/86/11

Minutes of Loan Committee Meeting to consider Tunisia Agricultural Sector Adjustment Loan (ASAL) Held on March 24, 1986 in Room E-1208

A. Present

Committee:	Others:	Region:
Mr. Stern, SVPOP	Mr. Schuh, AGRDR	Mr. Stoutjesdijk, EM2DR
Mr. Husain, OPSVP	Mr. Clements, SVPOP	Mr. Goffin, EMPDR
Mr. Wood, FPBVP	Mr. El Serafy, CPDDR	Mr. O'Sullivan, EMPA2
Mr. Scott, LEGVP	Mr. Rogers, VPERS	Mr. Erim, EM2C
Mrs. Krueger, VPERS	Mr. Huang, CPDBA	Mr. Seth, EMPA2
Mr. Wapenhans, EMNVP	Mr. Bhatia, IMF	Mr. Bachmann, EM2C
	Mr. Dairy, IMF	Mr. Lister, EMPA2
		Ms. Hubert, EM2C

B. Issues

1. The meeting was called to consider the following issues emerging from the Initiating Memorandum of March 14, 1986, submitted to the Loan Committee for approval to appraise a proposed Agricultural Sector Adjustment Loan (ASAL):

(i) the magnitude of macroeconomic adjustments needed, and the absence of a Fund program and a SAL;

(ii) the need for an agreed time-bound program to align agricultural producer prices to international levels and remove subsidies on inputs;

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(iii) the investment program and the role of Government in the agricultural sector; and

(iv) the possibility of limited competitive bidding for fertilizer procurement.

C. Discussion

2. Economic Adjustment Program. The Region distributed prior to the meeting a summary table outlining the macroeconomic scenario for the period 1981-91 and 1995, assuming that the adjustment program detailed in the Initiating Memorandum is carried out. It noted that, due to the declining price of oil, difficulties in phosphate exports, declining workers' remittances and lowered expectations for tourism growth, the projections are less optimistic than when the Synopsis Paper was prepared in mid-1985. GDP growth is now expected to be limited to 3.6% p.a. A Committee member expressed the belief that the seriousness of Tunisia's economic situation and the distortions in the economy required more vigorous action from the Government for fundamental reform - e.g. substantial exchange rate adjustment and rapid actions to liberalize the economy. It was felt that these actions could best be pursued through a SAL and IMF program. The Chairman noted that the Bank had neither the mandate nor the expertise to propose specific exchange rate adjustments and enquired about the IMF's position in this regard. The IMF representative indicated that in the Fund's judgment a 15-20% downward adjustment of the exchange rate would appear appropriate, but noted that the Government had so far not sought IMF assistance; at the most, compensatory financing might be sought. An Article IV mission is tentatively planned for July 1986. Neither of these vehicles, however, would give the IMF leverage on the exchange rate issue. The Committee agreed that an agreement with the Government on a more flexible exchange rate system was needed, and that close cooperation would be required between the Bank and the Fund in this area. As regards a SAL, the Region noted the Government's lack of agreement to this approach, which it associates with crisis situations, and the Region's belief that the same purpose could be served by tying the Bank's sector lending to an agreed macroeconomic framework. The Region also indicated that, given Tunisia's current political situation and the extent to which controls have been built into the system, a reasonable period to achieve full liberalization should be accepted by the Bank. The Committee agreed to the Region's approach, but insisted that the macroeconomic program must be a strong one, with significant actions in the short-term, backed up by the Government's commitment to the ultimate objective of a liberalized system. The Chairman indicated that this ASAL should be a first step toward a SAL.

3. Agricultural Prices and Incentives. The Region confirmed that the Government's ultimate objectives in this area were an across-the-board alignment of producer prices to border prices and elimination of input subsidies. In order not to worsen the sector's terms of trade relative to other sectors and thus abruptly disrupt the pricing and incentive system, these actions would have to be phased over a time frame appropriate for each element as indicated in the Initiating Memorandum. To encourage the efficient

local production of livestock products and cereals, the above actions should be accompanied by consumer price liberalization in those commodities (beef and fresh milk) where Government subsidy intervention is not judged to be essential, and improvement in the system of administered consumer prices where it is more sensitive (cereals), as well as by 15% tariffs on imports of these commodities. These tariffs would also compensate for the significant current under-protection of agriculture (5-10%) relative to industry (70%), the latter to be gradually reduced under the macro program. The Committee accepted this approach, but emphasized that the Government should clearly articulate its commitment to the ultimate objectives of producer pricing at international levels and input subsidy removal, while improving the sector's adverse terms of trade relative to industry. It also questioned the need for a pricing and incentives study, given the ultimate objective of freeing the system of controls and the constant changes which would be required over the next few years to meet this goal. The Region explained that the proposed work on prices and incentives was not intended to be used to continue the system of setting price and subsidy levels, but rather was designed to establish in Tunisia the capacity for monitoring the transition path and the evolution of the sector's terms of trade.

4. The Investment Program and the Role of Government. A Committee member questioned why it was proposed that 20% of total investments should be allocated to agriculture, noting that it was more important to define the criteria for including investments in the program. He felt that the Bank should also ensure the acceptability of the Government's total investment program. The Region confirmed that criteria were being developed for total agricultural investments as well as for a core program and that application of these criteria would be monitored under the ASAL. It noted that the 20% was an indicative figure, chosen because of the Government's interest in slightly increasing the share of agriculture during the VIIth Plan period, as opposed to the VIth Plan period, in particular to ensure that the sector's import substitution potential is fully exploited. As regards the overall investment program, the Region indicated that the Bank would have an important input via a Public Expenditures Review to be started in mid-1986. The Committee emphasized that the Government's commitment should be obtained to the objective of reducing its role in the provision of agricultural services, with agreement on short-term steps to withdraw from commercially-viable activities and to improve cost recovery in others to be monitored under the ASAL.

5. Procurement. The Committee indicated that limited competitive bidding for fertilizer imports would not be acceptable.

D. Conclusion

6. Subject to the above comments, the Committee approved the recommendation to appraise the Agricultural Sector Adjustment Loan.

Cleared by: Members of the Loan Committee

9-83

Mr Stern

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LOAN COMMITTEE

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LC/M/86/09

Minutes of the Loan Committee Meeting to Consider
MAURITANIA - Initiating Memorandum for a Structural Adjustment Credit
Held on March 3, 1986 in Conference Room E-1208

A. Present

Committee	Others
Messrs. Stern	Messrs. Serageldin
Husain	Asanuma
Dherse	Dubey
Thalwitz	Kopp
Michalopoulos	O'Brien
Scott	Westebbe
	Landell-Mills
	Edelman
	Varon
	Vaurs
	Artus (IMF)
	Marciniak (IMF)

B. Issues

1. **The meeting was called to discuss the proposal in Mr. Thalwitz' memorandum of February 20, 1986 to Mr. Stern for a Structural Adjustment Credit to Mauritania. The discussion broadly followed the issues raised in Mr. Dubey's memorandum of February 28 and also covered two other points raised by the members of the Committee, namely: the need to achieve maximum decontrol of prices and the role of private sector investment.**

C. Discussion

2. **Medium-term Projections. Several speakers stated that the projections presented in the Initiating Memorandum (IM) seemed uncertain and even optimistic. They wondered if Mauritania could manage without massive debt restructuring. One speaker asked if the investment postulated might not be too high. On the whole, the assumptions underlying the projections had not been made sufficiently explicit and, therefore, the results were difficult to interpret.**

3. **The Regional staff recognized that the presentation of the financing gap was misleading, because the text Table had excluded the IMF repurchases which were substantial. It was also noted that some donors (not members of the Paris Club) had indicated their tacit disposition to grant de facto rescheduling (this had actually happened in 1985), and the prospects for exceptional assistance were good. In reply to a question by the Chairman, the IMF representative indicated that the financing gap under**

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the recently-negotiated Stabilization Program for 1986 was expected to be closed fully through debt rescheduling and exceptional assistance.

4. The Regional staff explained that although aggregate private consumption was projected to decline, public consumption would decline even more. This was inevitable, given the need to reduce the external current account deficit in relation to GDP. This, nevertheless, constituted a risk for the Government and was a measure of its political will to take difficult decisions. Although the investment ratio was rather high, the Bank staff had reviewed the public investment program and was satisfied with its composition as well as with the institutional measures planned in this area--in particular, the preparation of a consolidated budget beginning next year. The staff underlined that the projections presented in the IM were preliminary and indicative; they would be closely reviewed during the preparation/appraisal process.

5. SAL Direction, Emphasis and Size. Several speakers expressed concern that the proposed SAL was too broad-gauged and complex, given institutional weaknesses. They indicated the need to be more specific about the direction of the structural adjustment process and the priorities. While appreciating the steps already taken by the Government, one speaker inquired if it was not possible to ask for additional up-front actions, e.g., in the area of utility tariffs. The Chairman inquired about the possibility of reforming economic management, which was, in fact, the crux of the matter.

6. The Regional staff noted that the coverage of the proposed SAL reflected the Government's determination (at the highest level) to address its fundamental economic problems and to achieve concrete and durable results by working closely, and at each step, with the Bank. Actions were underway in each of the areas covered by the SAL; it was important to ensure that these were coherent, pointed in the right direction and produced the desired results. We were, in any case, prepared to show flexibility especially with regard to the timing of the actions, which was less important than their content and direction. The top priorities were to improve economic management, to reduce the role of the public sector, and to stimulate production. In this context, the implementation of the proposed administrative reforms, the preparation of a consolidated budget and the reform of the banking system were areas requiring particularly close attention. The banking system reform was especially important because it was a sine qua non for mobilizing savings and channelling them into productive activities by the private sector. In reply to a question by the Chairman, the staff indicated that the reform of the banking system would not aim to "rescue" all banks and was likely to entail the consolidation of some banks. The Chairman emphasized the need to agree with the Government on the philosophy underlying the adjustment process, the principles to be observed and the road map to be followed. It was equally important to indicate that the SAL was the first operation of this kind in support of a longer-term process of adjustment which would be assisted by follow-up operations.

7. One speaker asked if the size of the proposed operation (US$30 million) was not too high. The Regional staff noted that the size was consistent with the assistance required to support a structural adjustment of this scope. The Chairman indicated that, since the program was spread over two years, the size was not unreasonable.

8. Prices and Pricing. Noting that price controls seemed to apply to a large number of commodities, the Chairman inquired about the Government's policy with regard to price liberalization and asked why we did not insist on near-total price decontrol. The Regional staff replied that all consumer good prices had in fact been decontrolled, with the exception of cereal prices (which had been adjusted to the level of border prices) and 13 commodities which were produced domestically under monopoly conditions. The Chairman noted that these goods, nevertheless, accounted for a substantial part of the consumer budget. We could accept these exceptions during a transition period provided that we arrived at a clear understanding with the Government that the governing principle would be non-interference in this area except for selected cereals and consumer goods (where monopolies prevail) and on the principles for fixing and adjusting prices. One member asked whether it would not be more efficient to eliminate the monopoly on the distribution of oil products.

9. Private Sector Investment. The Chairman inquired about the weight of the private sector in the investment projected. The Regional staff and the IMF representative indicated that it was small; in 1985 the investment/GDP ratio was about 21 percent, 5 percentage points being accounted for by the private sector and 16 by the public sector. Although the weight of the private sector would expand over time, realistically, it could not be expected to increase rapidly.

10. Other. Some speakers asked for more information on the comparative advantage of Mauritania, especially on cost of production estimates showing whether it can produce rice competitively. It was agreed that the Region would look further into this question.

D. Conclusion

11. The Committee approved the Region's proposal to prepare a SAL along the lines set out in the Initiating Memorandum.

March 25, 1986

9-83

THE WORLD BANK

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LOAN COMMITTEE

LC/M/86/07

February 26, 1986

Minutes of Loan Committee Meeting to consider
KENYA - Agricultural Sector Operation Initiating Memorandum
held on February 6, 1986, Conference Room E-1208

A. Present

Committee	Others
Messrs. E. Stern, SVPOP Chairman	Messrs. H. Wyss, EAPDR
S. Husain, OPSVP	P. Loh, EAPDR
M. Qureshi, SVPFI	R. Clements SVPOP
D. Goldberg, LEGVP	H. Köpp, SVPOP
J. Kraske, EA1DR	S. Rajapatirana, VPERS
	Ms. K. Marshall, EAPCA
	K. Amoako, EA1KU
	D. Greene, EA1DR
	Ms. P. Cox, EAPCA
	Ms. G. Swamy, EA1KU
	B. Jones, EA1KU
	V. Dubey, CDPDR
	K. Imam, PBDCP
	R. Nelson, AGREP
	M. Braithwaite, CPDDR

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Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending in these sectors and SALs)
Vice President, Economics and Research (for non-project lending)

OTHERS
Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Introduction

1. A meeting of the Loan Committee was held on February 6, 1986, to discuss the initiating memorandum and the final project brief of a proposed Agricultural Sector Operation for Kenya. A memorandum from the Country Policy Department commenting on the operation had also been circulated to the Committee.

2. The meeting began with an assessment of Kenya's policy performance by the Region. The Bank and the IMF had been impressed with Kenya's performance in the area of stabilization and management of the external and budgetary deficits. There was less satisfaction with progress on structural issues, including liberalization of grain markets and external trade (although within the framework of regulated markets, producer prices had been increased). The Region had pushed for structural reform, not only in the SAL's, but also in the context of economic and sector work and Consultative Group meetings, but with little success, and generating some impatience from the Kenyans in the process. There was little disagreement on the substance of required reforms, but it was difficult to obtain commitment as to timing. The proposed sector operation was designed, as had been agreed in the last CPP review, to address reforms in a sectoral context. It represented 18 months of active dialogue on all areas relevant to agriculture and had generated substantial momentum and Kenyan interest.

3. The issue which generated the most discussion was the ultimate objective of the restriction-relaxing steps proposed for this operation, with reference primarily to fertilizer supply (paras. 4-7 below). Other issues included budget allocations, promotion of private enterprise, and parastatals (paras. 8-10 below).

C. Discussion

4. The Chairman asked whether the Sessional Paper referred to in the initiating memorandum was likely to be another source of friction, if it proposed policies that the Bank would find difficult to support. A Committee member characterized Kenya as a heavily regulated country with a proliferation of parastatal institutions and vested interests (including civil servants) engaging in monopoly rent-seeking activities such as import restrictions. In this context, he asked whether the operation, as presently contemplated, went far enough. Did the Government accept the objective of liberalization? If not, what assurance did we have that, following the operation, the vested interests would not reassert themselves in favor of restrictions?

5. In response, the Region said that, while the staff had not seen any draft of the Sessional Paper, they had been orally briefed on its general thrust, and did not expect the Paper to raise any problems as to general objectives. With the Kenyans, the problem was invariably one of timing. The Chairman asked what schedule was envisaged for fertilizer liberalization. The Region responded that a five-year program for fertilizer liberalization was envisaged. Under this operation, the number of licensed importers and traders would be increased. Cotton marketing would also be liberalized.

6. A Committee member felt that a five-year schedule for fertilizer liberalization stretched credibility. The sector operation itself seemed to focus on streamlining present processes rather than on moving clearly toward liberalization. The Chairman said that the operation could not be characterized as supporting liberalization since an extensive system of controls would remain in place.

7. The Region explained that in many respects Kenya's fertilizer policies were satisfactory--the Government did not subsidize its price, and although a licensing system existed, political use of import licenses was restricted--only about 30,000 tons (of 200,000 tons of fertilizer imported) was available for a system of political rewards. The objective of the proposed operation was to greatly increase (by 50%) the amount of quotas so that shortages would not develop, and to thus demonstrate to the Kenyans the benefits of easier availability and therefore move them towards complete liberalization in later operations. A second objective was to increase availability of fertilizer to smallholders by allowing rural stockists a specific margin. Committee members remained concerned about the limited degree of progress and stressed that the ultimate policy objective remained a critical issue.

8. The Chairman asked what was the view of the IMF on the proposed operation. The Region responded that the IMF supported the operation, except that they were not enthusiastic about the proposed 10% increase in real terms in the MOALD budget. They felt that this was acceptable only if cuts were identified and applied in other sectors. The Chairman asked if the Bank staff had completed a detailed analysis of this question. The Region responded that a mission would visit Nairobi next week to review the Government's Forward Budget for the next three fiscal years.

9. On the proposal to prepare and implement a project for African private sector agro-processing and marketing, the Chairman said that the Region needed to be more precise on what commitments were being sought. He said that the Bank should avoid associating itself with racially discriminatory programs. While liberalization of cotton and milk marketing would be a positive development, it was unclear what the proposed actions for the private sector were. On the credit component, he and others expressed a need for greater clarity on how to increase commercial bank credit to agriculture.

10. A Committee member asked whether staff had seen the State Corporations Bill and found the provisions to be adequate. He also asked about the status of the exercise to classify parastatals into those to be rehabilitated and those to be divested; since the exercise had been going on since 1983, he presumed that classification was nearly complete. The Region replied that the staff had not seen the State Corporations Bill, that this bill might not be passed, and that little progress was expected on divestiture.

11. Two issues not directly covered in the sector operation were also raised: agricultural research and land tenure. On the former, the Region explained the present state of Bank involvement in the

preparation of a national research program and a Bank project. A Committee member suggested that the issue of land tenure be at least discussed in the report.

D. Conclusion

12. The Chairman said that the Region could go ahead with appraisal. However, this operation would be a down payment on faith that substantive reform would be forthcoming. It was essential to obtain clear policy statements on objectives. If the sector approach did not work through one operation, the Bank would simply have to confine its support to investment projects. There were many long-term issues which the Kenyans were not adequately addressing, including population. The Region assured the Chairman that it shared the Committee's concerns. In order to maintain our involvement, it was essential to take the risk and proceed. The Chairman said that the Region should ensure that the Kenyans understood the Bank's concerns, and that after appraisal the Bank should be in a better position to assess the policy context.

13. The Chairman closed the meeting with some remarks on the proposal for a budget rationalization loan. He said that the Bank would not make such a loan, that the Region should not bring an initiating memorandum for such an operation to the Loan Committee, and that the Bank staff should not discuss the possibility of such an operation with the Government.

Cleared with and cc: The Loan Committee.

cc: Messrs./Ms. E. Stern (4) (SVPOP); E.V.K. Jaycox, D. Wai (ESAVP); V. Rajagopalan (PPDDR); V. Dubey (2), M. Braithwaite (CPDDR); G. Schuh (2)(AGRDR); J. North (2)(PHNDR); L. Pouliquen (2)(TRPDR); A. Churchill (2)(WUDDR); J. Dherse (EISVP); Y. Rovani (EGYDR); A. Golan (INDDR): A. Krueger, S. Rajapatirana (VPERS); J. Baneth (2)(EPDDR); C. Obidegwu (EPDCO); E. Adu (LEGEA); A. Mills (LOAAF); E. Rotberg (TREVP); C. Jansen, K. Imam (PBDCP); H. Wyss, P. Loh, R. Güsten (EAPDR); K. Marshall, P. Cox (EAPCA); D. Greene (EA1DR); K.Y. Amoako, G. Swamy, B. Jones (EA1KU); R. Nelson (AGREP); J. Adams (2)(RMESA); EA Info. Center.

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LOAN COMMITTEE

LC/M/86/08

March 21, 1986

Minutes of Loan Committee Meeting to Consider the Initiating Memorandum for the Proposed Industrial Sector Credit for Bangladesh Held on March 4, 1986 in Room E-1208

A. Present

Loan Committee	Others	
Messrs. Stern	Messrs. Aksoy	El Serafy
Husain	Cheetham	Gould
Dherse	Chernick	Hamid
Ms. Krueger	Clements	Kopp
Messrs. Goldberg	Clift	Temple
Lerdau	Dubey	Ms. Gurgen (IMF)
Wood		

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OTHERS
Standard (see OMS 9.25 page 7)

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B. Issues

1. The meeting was called to consider: (a) a memorandum from Mr. Hopper to Mr. Stern dated February 14, 1985 setting out a revised lending strategy for Bangladesh; and (b) an Initiating Memorandum for the proposed Industrial Sector Credit submitted to the Loan Committee under Mr. Cheetham's memorandum of February 25, 1985. As a basis for its agenda the Loan Committee had before it Mr. Dubey's memorandum to the Loan Committee, dated February 28, 1986.

C. Discussion

Revised Lending Strategy

2. The Region recalled that the series of 13 Imports Program Credits (IPCs) since Bangladesh's independence had been important vehicles not only for transferring much needed fast-disbursing program type assistance to Bangladesh, but also for conducting the country dialogue on a variety of critical policy issues. The Region had recently reviewed the range of policy issues likely to constitute the main focus of the country dialogue during the next five years and had concluded that there were a number of policy and institutional issues in the industrial, energy and education sectors which might most suitably be addressed through the vehicle of sector credits. However, the Region foresaw other macro-economic and cross-sectoral policy issues, e.g. resource mobilization, public investment programming, possibly financial sector issues, and public administration policies, for which IPCs seemed a more suitable instrument. The Region thus proposed a revised lending strategy comprising a mix of sector credits and IPC operations for the purposes of conducting the policy dialogue as well as transferring fast disbursing resources.

3. The Loan Committee considered that the series of sector credits proposed by the Region constituted an acceptable approach to addressing the sectoral policy issues identified in the Region's memorandum. However, the Committee questioned whether there was justification for continuing IPCs. The Government should, as a matter of sound economic management, be taking steps to formulate a sound public investment program and to introduce measures to increase domestic resource mobilization; action to improve macro-economic management did not, therefore, constitute a convincing case for IDA financial support through IPCs. The Region noted that the revised lending strategy was based on a gradual phase-out of IPCs; this would be less disruptive to the program than an immediate termination of IPCs. The Committee recognized the need for an instrument through which to address cross-sectoral issues and that it might prove difficult to transfer a sufficient level of program type assistance to meet Bangladesh's reasonable needs, if reliance was placed solely on sector credits. One possibility might be to consider Structural Adjustment Lending (SAL) in substitution for IPCs. For this, the country needed a medium-term development strategy which would hold out the prospect of a significant reduction in deficit in the external current account over

the next few years so that Bangladesh could over time reduce its reliance on program assistance; this strategy would also need to include a satisfactory public investment program but identify policies which could lead to increased domestic resource mobilization in both the public and private sectors.

4. The Committee (a) requested the Region to prepare over the next year a medium-term development strategy along the lines indicated in paragraph 3 above; this strategy should be discussed with the Government as a basis for implementing an adjustment program; (b) endorsed the Region's proposed approach to sector credits, although requested the Region to plan alternative lending instruments to IPCs (e.g. SALs) in support of macro-policy reform and as a means of transferring fast disbursing resources to Bangladesh; (c) endorsed the Region's proposals for up to 40% of IDA lending commitments to be in the form of fast disbursing non-project operations, provided the Government in due course put in place a medium-term adjustment program designed to gradually reduce the external current account deficit; and (d) endorsed the Region's proposal that the proceeds of sector credits could be utilized for general imports.

Resource Mobilizaton

5. Loan Committee members felt that the present level of domestic savings (around 5% of GDP) was unsatisfactory and that the country needed to demonstrate improved performance over the medium term. The Region pointed out that there were obvious limits to increased mobilization in a country with a largely subsistence economy. The primary sources of potential revenue were from taxing domestic consumption or production incomes or certain assets e.g. land, and improved cost recovery. The Region had initiated sector work in FY86 and preliminary findings indicated that raising revenue from the land tax was constrained primarily because of poor land registration data, difficulties in differentiating between land of widely varying value and the weakness of the Ministry of Local Government collection administration. However, there might be a scope for increasing tax revenue from agricultural incomes. Further study would also be made of the potential for increasing revenue from excise duties, presently accounting for about 20-25% of budgetary revenues. Also, while there had been some improvement in cost recovery and reductions in subsidies in recent years, more could be achieved in the direction of economic pricing of goods and services. On private resource mobilization, the Region pointed out that interest rates were positive in real terms and that the real problem was in loan recovery.

Industrial Sector Credit

6. The Loan Committee generally endorsed the policy recommendations outlined in the Initiating Memorandum and summarized in Annex I thereof, subject to the conclusions summarized below. The Committee underlined the need to accomplish irreversible changes in the policy environment, particularly in the area of de-regulation, to ensure that policy changes will be maintained in the longer run.

Investment Sanctioning

7. Several members of the Loan Committee questioned the need for continuing the Investment Schedule and having a "discouraged" list of industries. The Region pointed out that in view of very weak financial institutions, the "discouraged" list would serve a useful purpose in supplying information to the financial institutions; however, it would not be binding on them. The Region pointed out that a rapid dismantling of investment regulations without significant reform in other areas might lead to investments that have high financial but low economic returns. The Loan Committee agreed that broadly parallel action is desirable, and that mutually reinforcing reforms should be undertaken in related areas; however, it would be desirable to try to reach an understanding with Government on a program to eventually phase out the Investment Schedule. The Loan Committee also emphasized the need to agree on a precise definition of a "free sector" and suggested that the Region try to reach agreements with GOB on a time-phased program to increase the number of free sectors.

Private Sector Response to Liberalization

8. It was suggested that, in view of the very limited response by private investors to the Export Processing Zone (EPZ), there were risks that the proposed policy reforms might not achieve their objectives. The Region accepted the existence of such a risk; however, it pointed out that there were a number of problems, e.g. lack of autonomy, poor administration, associated with the EPZ which should not be regarded as indicative of the potential for promoting exports; a better example would be the remarkable expansion of the garment manufacturing industry, which provided the model for a number of the policy reforms proposed in the Initiating Memorandum.

Tariff and Import Regime

9. Some members of the Loan Committee considered that the dual exchange rate system should be unified and asked the IMF representative whether a timetable had been agreed under the recent Stand-By Arrangement (December 1985-June 1987) for the unification of these markets. The Fund representative said a timetable had not been agreed but the GOB was moving towards unification by increasing the proportion of imports under the secondary market. The Loan Committee endorsed this policy and considered that understandings should be sought by the appraisal mission with GOB that an increasing share of total imports should be financed through the secondary market; to assist this process the proceeds of the credit should be used to finance imports through the secondary market.

10. On the issue of import restrictions it was suggested that in view of the revenue constraints facing the Government, first priority might be given to replacing QRs with tariffs; a program for the tariff reductions could be developed in a second phase. The Region pointed out that the move to a nega-

tive list was very recent and that the list itself was being revised by the Government in light of appeals by the importers. The Loan Committee concluded that priority should be given to phasing out the restricted list, which contains industry and firm specific import restrictions, and the associated regulatory administration. The Committee recognized that revenue considerations might limit the pace at which tariff reductions could be made and accepted that reforms needed to be undertaken in parallel with alternative resource mobilization efforts; initially, emphasis should be placed on revenue neutral rationalization of the tariff system.

Public Sector Industrial Enterprises

11. The Committee noted the extensive denationalization that had taken place in Bangladesh and enquired about potential for further denationalization under the proposed credit. The Region replied that extensive and very rapid denationalization had caused problems in the financial sector, particularly with regard to settlement of financial liabilities and a period of consolidation was desirable. The Committee concurred but considered that it would be desirable to have a general policy statement by Government, perhaps set out in the Development Policy Letter, regarding its future intentions with regard to denationalization of public sector assets.

Financial Sector

12. In view of the severity of the problems of the public sector financial intermediaries described in the Initiating Memorandum, some members of the Loan Committee asked what measures were being taken to improve these institutions structurally, while others suggested that it might be preferable to abandon the public sector institutions in favor of the privately owned banks. The Region explained that an Action Program aimed at strengthening the development finance institutions had been agreed between IDA, KfW, ADB and GOB and its implementation was now underway; the private banks were still relatively new and very small; they also suffered from a variety of problems of their own. Improvement in the performance of both public and private sector institutions is dependent on broader systemic reform with respect to such matters as the autonomy of the bank system, the quality of Central Bank supervision and the legal recourse of lenders to collect from borrowers. A study of the financial system was planned for FY87 and based on this work it was hoped to formulate a program of further financial reform to be supported through future lending operations. The Region also pointed out that, although no proceeds of the proposed industrial sector credit would be channelled through financial intermediaries, the further processing of the industrial credit as well as future agricultural and industrial credit projects would be contingent on significant improvements in the financial sector, including recovery rates. The Loan Committee endorsed the Region's proposals in the Initiating Memorandum making the processing of the Industrial Sector Credit conditional upon improvements in the recovery performance by the public sector financial institutions.

Appraisal

13. The Loan Committee agreed that the appraisal mission should proceed to Dhaka on the basis of the Initiating Memorandum taking into account observations made in the Loan Committee meeting.

Cleared with: Members of the Loan Committee
Messrs. Cheetham, Dubey, El Serafy, Gould

AJClift:c

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LOAN COMMITTEE

LC/M/85-6
February 24, 1986

Minutes of Loan Committee Meeting to consider
MOROCCO-Proposed Public Enterprise Rationalization Loan (PERL)
Held on January 21, 1986 in Room E-1208

A. Present

Committee

Messrs. E. Stern, Chairman (SVPOP)
J.L. Dherse (EISVP)
J. Wood (Act. FPBVP)
R. Picciotto (Act. EMNVP)
H. Scott (Act. LEGVP)
V. Rajagopalan (Act. OPSVP)
Mrs. A. Krueger (VPERS)

Others

Messrs. Hasan
Dubey
Kohli
Clements
Lysy
Nellis
El Serafi
Goffin
Shilling
Asfour
El Maaroufi
Coudol
Brizzi
Brigish
Hari Prasad
Mmes. Hadler
Donovan
Fox
Dewitt
Lewis
Mr. Sacerdoti (IMF)

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Standard (see OMS 9.25 page 7)

Issues

1. The meeting was called to consider the proposals set out in the Initiating Memorandum from Mr. Picciotto, dated January 14, 1986, concerning the proposed Public Enterprise Rationalization Loan (PERL) to Morocco. The discussion largely focussed on the issues raised in the Country Policy Department's memorandum dated January 17, 1986.

Discussions

2. In reviewing the policy reforms recommended for Moroccan Public Enterprises (PE), the Committee expressed a concern that while public finance considerations were appropriately addressed in the program, insufficient emphasis appeared to have been placed on means to ensure the translation of policy changes into actions which would have a direct and measurable impact on enterprise efficiency. The Committee noted that in selecting the enterprises proposed to be restructured under PERL, emphasis had been placed on public utilities rather than on manufacturing enterprises operating in a competitive environment. It was stressed that such a selection should not divert attention from the objectives of limiting the role of the State in the economy through the privatization of Government-owned enterprises and promoting the creation of a more market-oriented economy.

3. The Region agreed that promotion of efficiency was a major objective of PERL, and stated that it would be addressed at a number of levels. Modern management information systems and improved standards for accounting and auditing, supplemented by training, would be introduced across the board (in the medium-term). Within the PEs to be restructured under PERL (to be followed by others), "contrat plans" would, among other things, set objectives for increasing a firm's efficiency over time, and management's performance in meeting agreed targets would be monitored; rationalizing PE investments and pricing policy and generally creating a freer environment would also stimulate improvements in productivity and efficiency. The Region explained that the rationale for selecting the enterprises to be restructured under the reform program was their importance in the economy and the impact that improvements in their operations would have on Moroccan public finance. It was necessary to begin with these large enterprises. At the same time studies of other key sectors where divestiture is conceivable (such as sugar and mining) was necessary to provide the analysis to support the Government's intention to pursue privatization and liquidation of PEs, where appropriate. The Region felt that by strengthening the market environment within which these enterprises operate, establishing performance targets for them, and introducing the other proposed general reforms in the public enterprise sector, incentives would be created for enhanced private sector participation in appropriate PEs. It was also noted that, for the time being, the extent to which privatization can be pursued is constrained by the lack of depth of the Moroccan capital market and limited investment demand in the private sector. One of the members of the Committee felt that many potential private Moroccan investors might be attracted to invest in their own country, and that stronger action on the part of the Bank could lead to a more efficient performance through earlier divestiture of some of the 600 Moroccan PE's. However, the importance of creating an environment favorable to the private sector was acknowledged.

4. The Committee remarked that the policy framework within which the Government was pursuing its medium-term PE reform program was not clear. It was insufficient for the Government merely to state its intention to revise its future role in the sector. To give effect to this objective it was suggested, as an example, that enterprises which do not meet specific performance targets established by the reform program within a reasonable period of time should be totally denied access to government resources. It was also stressed that the reform program should be consistent with the fiscal stabilization program currently underway, specifically vis-a-vis trade and foreign exchange issues. It was generally recognized that in Morocco, though trade is being liberalized, the availability of foreign exchange is very constrained. Hence, Bank support of particular PEs should not be construed as priviledged access for them to scarce foreign exchange. The Region responded that the proposed letter on development policies would clearly state how the nature of the Government's interventions in the sector was expected to evolve in the medium-term.

5. With respect to the arrears of Moroccan PEs, it was noted that their accumulation had, until recently, largely escaped control under the IMF programs. To ensure that PE arrears do not accumulate in future and that efforts under the proposed PERL to settle current arrears are not negated, it was agreed that the Government needs to undertake additional measures to control current expenditures, and that discussions with the IMF should continue with a view to finding a formula to monitor movements in arrears. The Region emphasized that the proposed PERL sought to prevent the emergence of future arrears by ensuring that budgetary allocations for the use of goods and services provided by PEs to Government departments are consonant with the latter's requirements for consumption, and by limiting public sector consumption through the issuance of guidelines to govern it. These actions would establish a more systematic framework within which Government obligations are to be met, thus avoiding the build-up of arrears. It was stressed, however, that PERL reforms are not merely meant to rationalize budget allocations to fund Government consumption of PE outputs. The program aims at structural changes in the way that PEs are financed so as to decrease Government financial obligations to the PE sector.

6. The Committee reviewed the impact of the proposed reform package on State/PE relations, specifically with regard to the roles of CIPEP and the DEPP. The Region explained that the revised roles for these Government institutions are being designed to promote enterprise autonomy. In that context, CIPEP would represent the State as shareholder in PEs and would have policy formulation and advisory functions, with control functions reduced significantly through the replacement of à priori financial control by à posteriori monitoring.

7. The representative of the IMF indicated the Fund's support of the proposed PERL. He noted that the reform program is consistent with the Fund's stabilization program in Morocco, but stated that the settlement of public sector arrears should be accomplished within the debt ceilings defined under its program.

Conclusion

8. The Committee approved the recommendation to appraise the proposed PERL, but noted that the appraisal mission should make sure that the following issues receive additional attention. Priorities should be established for investment programs of PEs and levels should be consonant with resource availabilities. An explicit strategy and action program for decreasing Government shares of investment and production in the sector should be formulated. The analysis of the impact of PE reforms on the Moroccan economy should demonstrate their positive effects on commercially-oriented manufacturing PEs. An analysis of employment practices and policies should be undertaken to determine their impact on the efficiency of PE operations. Finally, disbursement of Bank funds should be conditioned on explicit progress in implementing the reforms.

Cleared with: Messrs. Stern, Krueger, Dherse, Wood, Rajagopalan, Picciotto, Hasan, Goffin, Shilling, Coudol.

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LOAN COMMITTEE

LC/M/86-05
February 6, 1986

Minutes of Loan Committee to Consider
JAMAICA - Industrial and Financial Sector Adjustment Loan
and Public Enterprises Sector Adjustment Loan
held on January 21, 1986 in Conference Room E-1208

A. Present

Committee:	Other:
Messrs. E. Stern (SVPOP) Chairman	Messrs. Knox (LCN)
H. Scott (LEG)	Voyadzis (LC2VC)
V. Dubey (CPD)	Wessels (LCPDR)
J-L. Dherse (EISVP)	Flood (LCPI1)
V. Rajagopalan (PPD)	Harrold (LC2VC)
J. Wood (FPBVP)	Michalopoulos (VPERS)
Mrs. A. Krueger (VPERS)	Clements (SVPOP)
	El Serafy (CPDDR)
	Roger (VPERS)
	Cucullu (LEGLC)
	Kohli (INDDR)
	Carneiro (LEGLC)
	Lysy (PBDCP)
	Hardy (IMF)
	Thomsen (IMF)
	Mss. Donovan (SVPOP)
	Fox (CPDDR)

B. Issues

1. - The meeting was called to discuss the January 15, 1986 Initiating Memorandum prepared by the Latin America and the Caribbean Region for two proposed Sector Adjustment Loans to Jamaica. The principal issues focussed on were:

(a) Should the operations proceed in the absence of a medium-term framework?

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(b) Were the proposed reforms in the industrial and financial sector sufficient?

(c) Could more public enterprise rationalization be included?

(d) What ought to be the overall role of the public sector in the medium term?

(e) Did the proposed Capital Markets Development Project make sense?

C. Discussion

2. (a) Medium-Term Framework

The Region confirmed that the absence of a medium-term framework raised difficulties for these operations. The Region did not propose to submit the operations to the Executive Directors until after such a framework had been developed by the forthcoming Fund/Bank/AID tripartite mission to Jamaica. Indeed, if no such framework can be developed, the Region would not recommend proceeding with these operations. Moreover, the Region explicitly recognized that the analysis to be carried out under the tripartite mission could result in changes to the scope and/or content of these two operations. These changes would be fully reflected at the next Loan Committee stage.

(b) Sufficiency of Industrial and Financial Sector Reforms

Questions were raised regarding the relative significance of the reforms proposed in these initiating memoranda. It was suggested that the size of the loan in a marginally creditworthy country represented a big risk and that major reforms should therefore be expected. Whilst the Region recognized that there were many issues of importance to be addressed in Jamaica, the particular reforms proposed to be implemented under the two operations were considered sufficiently important in themselves to warrant further processing of the proposed loans. Should the tripartite mission suggest a different emphasis, the Region would adjust the proposed operations accordingly.

(c) Public Enterprise Rationalization

It was agreed that at appraisal the Region should persuade Government to close down enterprises that were clearly not viable, such as the Jamaica Merchant Marine; in any case a timetable for appropriate action on loss-making commercial enterprises reviewed by the mission will be agreed upon with the Government before Board presentation. Further, a statement of the Government's divestment policy would be agreed upon at appraisal.

(d) Role of the Public Sector

It was considered that these operations suffered from lack of a critical assessment as to the role and function of the public sector in the economy, with respect both to industrial policy, including the controls and incentives affecting private economic activity, and the enterprises. The Region confirmed that this reflected a lack of clarity in Government's thinking with regard to this issue at the present time. Clarification of this would be undertaken in the context of the tripartite mission; the recommendations that would emerge would be included in the overall objectives of the two operations.

(e) Capital Markets Development Project

The Region was advised against proceeding with this proposal, not only with respect to the concept of allocating counterpart funds, but also because of serious doubts about the wisdom of such a scheme.

D. Conclusion

3. The Loan Committee agreed that the appraisal of the two proposed Sector Adjustment Loans could proceed on the basis of the Initiating Memorandum, subject to the comments made at the meeting. The Loan Committee agreed with the Region's recommendation to bring the green cover packages to the Loan Committee only after Senior Management had discussed the results of the forthcoming tripartite mission.

4. Subsequent to the Loan Committee meeting, the Chairman suggested that cross conditionality be incorporated in the two operations. The loan documents are being amended accordingly.

Cleared with: Messrs. Stern, Scott, Dherse, Knox, Dubey, Wood, Rajagopalan, Mrs. Krueger

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LOAN COMMITTEE

LC/M/86/04
February 10, 1986

Minutes of Loan Committee Meeting to Consider
ZIMBABWE - Proposed Export Promotion Project
Held on January 9, 1986 in Conference Room E1208

A. Present

Committee

Messrs/Mmes. E. Stern (chairman)
A. Krueger (ERSVP)
J. Dherse (EISVP)
E.V.K. Jaycox (ESAVP)
H. van der Tak (OPSVP)
S. Asanuma (PBDDR)
H. Scott (LEGVP)

Others

N. Roger (ERS)
H. Imam (PBD)
P. Ofosu-Amaah (LEG)
Y. Huang (CPD)
L. Fox (CPD)
J. Artus (IMF)
V. Callender (IMF)
R. Clements (SVPOP)

Region

R. Gulhati (ESAVP)
J. Kraske (EA1DR)
H. Messenger (EA1SA)
L. Christoffersen (EAPDR)
F. Aguirre-Sacasa (EAPID)
P. Watson (EA1SA)
M. Walton (EA1SA)

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B. Issues

1. The meeting was called to consider the following issues recorded in the Country Policy Department's memorandum to the Loan Committee dated January 7, 1986 concerning the proposed Export Promotion Project:

(i) whether the Government could articulate a plan, with a timetable, for a medium-term process of economic liberalization, as part of the policy framework for the loan;

(ii) whether the proposed export incentive measure, of a non-transferable bonus of foreign exchange, was an appropriate policy within a longer-term process;

(iii) whether the proposed policy conditionality, concerning the management of the budget and incentive measures, formed an adequate basis for a $125 million loan.

C. Discussion

2. The three issues were discussed together. The Region said that in the staff's assessment Zimbabwe's economic performance had been quite good, in particular with respect to the effective implementation of a package of measures that stabilized the external accounts in 1982-85. However, there was still a significant policy agenda, in particular with respect to the reorientation of the manufacturing sector toward export markets and the process of liberalization of an extensive system of controls. The proposed operation followed the successful Manufacturing Export Promotion Project, but was viewed as part of a longer-term process of policy formulation and dialogue with the Government. The project, in addition to extending the export revolving fund to the agriculture and mining sectors, provided specific agreements to discuss foreign exchange and budgetary issues, and funded analysis on studies of key issues which would form the basis for future Government/Bank dialogue. The policy dialogue had been weak in the past, but had improved markedly in the past year; the project was important to sustaining this.

3. The Committee questioned whether the project was associated with enough movement on policy with respect to either incentives or the budget deficit. It expressed concern over the level of projected government consumption in relation to savings and investment in the economy and over the adequacy and efficacy of the proposed export promotion measures. The Committee also questioned whether efficient growth and adjustment were feasible with the current system of controls, and considered that the proposed export incentives could introduce additional distortions. It also considered a budget deficit of eight percent of GDP (the provisional target for the second year of the loan) to be inconsistent with macroeconomic stability. The IMF representative said that the IMF did not object to the

loan but would advocate more movement on the exchange rate and budget deficit, as well as a clearer commitment on liberalization. With respect to the budget deficit, the Region clarified that the proposal was to agree with the Government to manage expenditures to ensure that the borrowing requirement was consistent with macroeconomic stability and adequate financial resources for the private sector. The figures quoted were the results of an initial analysis of the financial program, in which the projected bank credit for the private sector was based upon expected private production and investment activity. Only a small proportion of the total deficit would be financed by the banking system. The financial program and the affordable deficit would be reviewed annually with the Government.

4. The Chairman also had concerns over the justification for the agricultural component of the loan, since much of agricultural production was for the domestic market and there was again little policy change associated with the Loan. The Region said that current analysis indicated that in the absence of additional foreign exchange allocations, agricultural exports would stagnate or decline, and that the increased allocations that would be guaranteed under the project would support a steady expansion. It was not possible to distinguish between domestic and export-related uses in the agricultural sector and so the fund would be of a general purpose character and replenished from aggregate agricultural export receipts. It had also been concluded by the Region that the current incentive environment for agricultural exporting was reasonable.

D. Conclusion

5. In summary, the Chairman said that clarification of the project's justification and design in the context of country strategy would be needed before it could be considered further. This need not involve agreement now on complete removal of all of the constraints discussed, but it was important to show where the Government was heading with reform in the medium term and how the project would facilitate the process. He requested the Region to review the case for the project and to discuss the macroeconomic framework with CPD and ERS, before resubmitting it to the Loan Committee.

Cleared with Loan Committee

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LOAN COMMITTEE

January 21, 1986

LC/N/86/02

Minutes of Loan Committee Meeting to consider
MADAGASCAR - Agriculture Sector Operation
Held on December 23, 1985 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (SVPOP), Chairman
M. Qureshi
H. van der Tak
H. Scott
C. Michalopoulos
H. Wyss

Others:

Messrs. Wiehen, Elmendorf, Gulhati, Devaux, Meerman, Clements, Dubey, Rajapatirana, Imam, Peloscheck, Rigo, Artus (IMF), Kimaro (IMF)

Mmes. Marshall, Garcia-Zamor

B. Issues

1. The meeting was called to consider a proposed Agricutural Sector Adjustment Credit for $60 million. The discussion focussed on the issues outlined in the Country Policy Department's memorandum of December 18, 1985.

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C. Discussion

Madagascar's Medium-term Prospects

2. In opening the discussion, several members of the Loan Committee enquired about Madagascar's medium-term economic prospects. The Region pointed out that the outlook for the next few years was severely constrained by the lack of foreign exchange and the heavy debt service burden. To achieve a rate of growth slightly above the rate of population increase would require a major effort by the Government to accelerate the adjustment process, and by the donor community. The donors and creditors would need to continue to provide substantial amounts of debt rescheduling and to increase disbursements by higher commitments, by shifting from project to program aid and by making a major effort to accelerate disbursements under ongoing projects, through project redesign if necessary. A macroeconomic scenario had just been completed by the September/October economic mission. For reasons of time it had not been included in the Loan Committee package, but it would be integrated with the other analyses in the final documents.

Government Objectives and Policies

3. The Chairman stated that the President's Report required further clarification of the measures already taken under the agricultural reform program. The Region indicated that this would be done in the final documents and that a draft agriculture development policy letter had now been received and would be attached to the President's Report following review during negotiations.

Rice Policy and Financing

4. Several members of the Loan Committee raised questions on the proposal for a rice buffer stock to be financed in part by IDA. The Region explained that the term "buffer stock" was a misnomer. The proposal was for the Government to define with the Bank a program of rice imports and to release these imports on the market in a counter cyclical fashion during the seasonal shortage period to reduce speculative behaviour. The Government will constitute a stock of rice which will be released and replenished according to automatic ground rules to be agreed upon by Government and the Bank. The role of the Bank will be to encourage the donor community to finance rice imports on concessional terms and to provide "last resort" finance that Government will be able to draw upon to replenish the stock. The Chairman indicated that the Bank should not provide financing for rice imports on a regular basis, and that the Bank should act only as the financier of last resort. He did not consider it appropriate to specify amounts of IDA financing available for potential rice imports, since this would depend on needs and circumstances and discourage financing from other sources. He also instructed the Region to include rice as a commodity for possible credit financing under the category of agricultural inputs.

Financing and Allocation

5. Several members of the Loan Committee questioned the procedures described for foreign exchange allocation and expressed concern that they may slow down disbursements. The Region explained that the proposed procedure was Open General License (OGL). Once an importer has been issued a license to import an item placed on OGL, he may be granted foreign exchange on a first-come first-served basis without limitation up to the amount of foreign exchange available under the credit. The Region indicated that the procedure had been introduced in Madagascar on the advice of the IMF to provide flexibility and felt it was appropriate, given the current administrative foreign exchange allocation system. The Chairman asked that the OGL categories be sufficiently wide as to ensure flexibility in the use of the foreign exchange provided under the credit. The Region indicated that the foreign exchange allocation system will be reviewed during negotiations with the objective of restoring the role of market forces despite the present foreign exchange shortage.

Exchange Rate

6. The adequacy of the exchange rate was questioned. The IMF representative indicated that Government had agreed to accelerate the depreciation of the exchange rate under the next Standby agreement. The Region indicated that the Malagasy authorities were ready to discuss the need for a major currency realignment.

Public Investment Program

7. The Chairman expressed concern about the Public Investment Program in agriculture and requested clarification on how the Region intended to deal with the "doubtful" projects. The Region explained that, as with in the Industrial Assistance Credit, Government will be requested to delay any expenditures or signing of contracts until studies have demonstrated the viability of the "doubtful" projects. The Chairman stated that the credit should only be presented to the Board when the Bank was satisfied with the investment program in agriculture.

Conditions of Effectiveness

8. Several members of the Loan Committee felt that too many conditions were set for Credit effectiveness, and therefore substantial delays could be expected before the Credit became effective. It was decided to reduce the number of conditions of effectiveness and convert

them, when appropriate, into specific covenants or conditions of Board presentation. Thus the following will be conditions for Board presentation:

(1) a satisfactory agricultural PIP for 1986-1988;
(2) adoption of a plan to eliminate progressively the 10% commission for parastatals exporting crops;
(3) agreement on a calendar to reorganize the stabilization funds;
(4) adoption of legislation to reduce the list of price control crops and agree on a pricing system for the crops whose prices would remain controlled;
(5) adoption of incentive level paddy prices for 1986 in the two reserved areas;
(6) agreement on a system to manage rice imports for 1986.

9. The Loan Committee agreed on a US$ 60.0 million credit, of which US$45.0 million would be allocated for agricultural inputs including the possibility of rice financing, US$5.0 million for incentive goods and US$10.0 million for transport equipment and spare parts.

D. Conclusion

10. The Region was authorized to negotiate the proposed credit on the terms and conditions approved by the Committee as reflected in the above discussion.

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LOAN COMMITTEE

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LC/M/86-01
January 6, 1986

Minutes of Loan Committee Meeting to Consider
ARGENTINA - Agricultural Sector Loan
Held on December 6, 1985 in Conference Room E-1208

A. Present

Committee:	Others:	
Messrs. E. Stern (Chairman)	Messrs. De Azcarate, CPDDR	Abbott, LEGLC
Husain, OPSVP	van der Meer, LCPDR	Sokol, LC2PB
Gue (Acting RVP)	Pfeffermann, LCNVP	Lysy, PBDCP
Michalopoulos (Acting VPERS)	van Gigch, LCPDR	Clements, SVPOP
Wood (Acting SVPFI)	Otten, LCPAC	Lewis, AGREP
Scott (Acting LEGVP)	Collell, LEGLC	Fitchett, AGREP

B. Issues

A meeting of the Loan Committee was called to discuss the proposed Agricultural Sector loan of $350 million to Argentina as described in the documents submitted to the Committee under cover of a memorandum dated November 22, 1985 from the Acting Regional Vice President. The discussion focussed on the issues outlined in the Country Policy Department's memorandum of December 5.

C. Discussion

1. Introduction of land tax: The Committee raised questions about the timing of the measures which the Argentines proposed to undertake in order to bring about one of the major objectives of the policy package supported by the proposed loan: the reduction and eventual elimination of the export taxes on agricultural products. The Chairman stated that the introduction of a federal

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land tax was an essential component of the desired reforms. He therefore concluded that the schedule for preparation of the land tax (to be approved by the Bank before Board Presentation) ought to provide satisfactory arrangements for approval and implementation of the tax prior to the disbursement of the second tranche.

2. Fiscal Measures. The Committee also raised a question as to whether Government expenditures might be reduced so as to offset any reduction in revenues from the elimination of export taxes. It was agreed that, apart from new revenues, expenditure reductions could compensate for the revenue reduction from the export tax losses. In this connection, the release of the second tranche would be conditioned on the Borrower putting into effect fiscal measures sufficient in total to compensate for any revenue losses resulting from the export tax reduction.

3. Import Licensing. The Committee asked about the proposals for modifying the discriminatory effects against agriculture of the import licensing system which the Government introduced in 1983. The Region had proposed that fully assembled tractors and agricultural machinery, currently the only agricultural inputs prohibited, be redesignated from the "prohibited" to the "prior approval" classification for imported goods. After discussion, the Chairman concluded that the change, a proposed condition for release of the loan's first tranche, should instead provide that tractors and agricultural machinery be classified under the "automatic entry" provisions.

D. Conclusion

4. Subject to the clarifications noted in paras 1-3, the Committee approved the recommendation to proceed with the negotiation of the proposed loan on the terms and conditions proposed by the Region.

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LOAN COMMITTEE

LC/M/86-03
January 8, 1986

Minutes of the Loan Committee Meeting to Consider Proposed Credits in Support of an Industrial Sector Adjustment Program in Zaire, held on November 7, 1985

A. Present

Committee:

Messrs. E. Stern (Chairman)
S. S. Husain (OPSVP)
M. A. Qureshi (SVPFI)
D. Goldberg (LEGVP)
H. Wyss (Acting RVP, EAN)

Others:

Messrs. E. Kopp (SVPOP)
R. L. Clements (SVPOP)
V. Dubey (CPDDR)
K. H. Imam (PBDCP)
M. E. Brathwaite (CPDDR)
K. T. Yurukoglu (EA2SC)
M. Sarris (EAPID)
J. L. Sarbib (EA2SC)
Ms. D. J. Pratt (EA2SC)
B. Szaszkiewicz (EA2SC)
K. Marshall (EAPCA)
P. Donovan (SVPOP)

B. Issues

1. The meeting was called to consider the Initiating Memorandum for the proposed IDA and Special African Facility credits for an industrial sector adjustment operation. The discussion mainly focussed on the issues raised in the Country Policy Department's memorandum of November 6, 1985.

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C. Discussion

SAL vs. Sectoral Approach

2. Given the substantial macroeconomic reform program already underway, and the additional policy changes being proposed, the Chairman inquired why an industrial sector adjustment operation is recommended rather than a full-fledged SAL. The Region explained that, while a SAL is indeed contemplated for FY87, a main consideration in proceeding with a sector operation now was the status of preparation of policy reforms for the industrial sector. The industrial sector adjustment package is at an advanced stage of preparation, and provides an appropriate vehicle for fast-disbursing funds in support of Government's comprehensive adjustment program. The SAL which is currently being defined is likely to focus, *inter alia*, on constraints in agriculture and on public sector management issues, which will take some time to prepare.

3. Several speakers stressed the need for the SAL to address the institutional aspects of public sector management and systematic public investment/expenditure program (PIP/PEP) control issues. Staff indicated that a major preparatory work program is underway, with a mission scheduled for March 1986 to review progress in PIP/PEP preparation leading to the SAL. Furthermore, this issue is already being addressed through intensified economic and sector work and a technical assistance credit for public sector/economic management improvement, in preparation of the proposed SAL lending support. The Committee suggested that the Region complete preparation of the broader SAL without delay, but cautioned that in the light of the Bank's experience with Zaire over a long period, the underlying weaknesses in the public sector structure will need to be addressed with particular thoroughness. The Chairman indicated that the draft President's Report for the proposed industrial sector should point out the satisfactory response of the Government to the macropolicy reform program as well as the fact that many of the elements required for a structural adjustment program are already in place.

Export Duties

4. In reply to the Chairman's inquiry as to why the removal of export duties contemplated under the industrial sector credit was not extended to agriculture as well, particularly to timber and coffee, the Region explained that timber exports were not restrained and that the coffee exports were subject to cartel and international quota restrictions. It was further stated that the agricultural sector mission would review these aspects, which would be addressed in the context of the SAL.

Social Impact

5. The Region confirmed that the impact of the industrial adjustment program on the Zairian poor would be addressed in the draft President's Report, in compliance with standard Bank policy.

D. Conclusion

6. With the above clarifications, the Committee approved the recommendations to appraise the proposed Industrial Sector Adjustment Credits on the terms and conditions proposed by the Region.

Cleared with and cc: Loan Committee members, J. Pratt, T. Yurukoglu, J.-L. Sarbib