THE WORLD BANK

CONFIDENTIAL

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 (E1SVP)
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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COMMITTEE
Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President & General Counsel
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. 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