THE WORLD BANK

CONFIDENTIAL

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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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 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.