

# 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	Meo
Collell	Koenig
Cortes	Newfarmer
Coutinho	Abd El Aty
El Serafy	Laslett
Picciotto	Peres (IMF)
Steckhan	
McMullen	

## 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.

## DISTRIBUTION

### 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

### 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.