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Mr Stern

THE WORLD BANK

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LOAN COMMITTEE

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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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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 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