

LOAN COMMITTEE

R. Clements

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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:

Messrs. E. Stern (Chairman)
I. Shihata (LEGVP)
Mrs. A. Krueger (VPERS)
J.-L. Dherse (EISVP)
W. Thalwitz (WANVP)

Others:

V. Dubey (CPDDR)
S. Asanuma (PBDDR)
B. Alisbah (WALDR)
S. O'Brien (WANVP)
S. Eccles (WAPDR)
R. Clements (SVPOP)
R. Harbison (EDTEP)
D. Reese (WALDB)
P. Isenman (WALDR)
D. Berk (WALDB)
S. Lateef (WALDB)
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.

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

C. Discussion

STRUCTURAL ADJUSTMENT

2. The discussion 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.

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