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LOAN COMMITTEE

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LC/M/86-03
January 8, 1986

Minutes of the Loan Committee Meeting to Consider
Proposed Credits in Support of an Industrial
Sector Adjustment Program in Zaire, held on
November 7, 1985

A. PresentCommittee:

Messrs. E. Stern (Chairman)
S. S. Husain (OPSVP)
M. A. Qureshi (SVPFI)
D. Goldberg (LEGVP)
H. Wyss (Acting RVP, EAN)

Others:

Messrs. E. Kopp (SVPOP)
R. L. Clements (SVPOP)
V. Dubey (CPDDR)
K. H. Imam (PBDCP)
M. E. Brathwaite (CPDDR)
K. T. Yurukoglu (EA2SC)
M. Sarris (EAPID)
J. L. Sarbib (EA2SC)
Ms. D. J. Pratt (EA2SC)
B. Szaszkiwicz (EA2SC)
K. Marshall (EAPCA)
P. Donovan (SVPOP)

B. Issues

1. The meeting was called to consider the Initiating Memorandum for the proposed IDA and Special African Facility credits for an industrial sector adjustment operation. The discussion mainly focussed on the issues raised in the Country Policy Department's memorandum of November 6, 1985.

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

SAL vs. Sectoral Approach

2. Given the substantial macroeconomic reform program already underway, and the additional policy changes being proposed, the Chairman inquired why an industrial sector adjustment operation is recommended rather than a full-fledged SAL. The Region explained that, while a SAL is indeed contemplated for FY87, a main consideration in proceeding with a sector operation now was the status of preparation of policy reforms for the industrial sector. The industrial sector adjustment package is at an advanced stage of preparation, and provides an appropriate vehicle for fast-disbursing funds in support of Government's comprehensive adjustment program. The SAL which is currently being defined is likely to focus, inter alia, on constraints in agriculture and on public sector management issues, which will take some time to prepare.

3. Several speakers stressed the need for the SAL to address the institutional aspects of public sector management and systematic public investment/expenditure program (PIP/PEP) control issues. Staff indicated that a major preparatory work program is underway, with a mission scheduled for March 1986 to review progress in PIP/PEP preparation leading to the SAL. Furthermore, this issue is already being addressed through intensified economic and sector work and a technical assistance credit for public sector/economic management improvement, in preparation of the proposed SAL lending support. The Committee suggested that the Region complete preparation of the broader SAL without delay, but cautioned that in the light of the Bank's experience with Zaire over a long period, the underlying weaknesses in the public sector structure will need to be addressed with particular thoroughness. The Chairman indicated that the draft President's Report for the proposed industrial sector should point out the satisfactory response of the Government to the macropolicy reform program as well as the fact that many of the elements required for a structural adjustment program are already in place.

Export Duties

4. In reply to the Chairman's inquiry as to why the removal of export duties contemplated under the industrial sector credit was not extended to agriculture as well, particularly to timber and coffee, the Region explained that timber exports were not restrained and that the coffee exports were subject to cartel and international quota restrictions. It was further stated that the agricultural sector mission would review these aspects, which would be addressed in the context of the SAL.

Social Impact

5. The Region confirmed that the impact of the industrial adjustment program on the Zairian poor would be addressed in the draft President's Report, in compliance with standard Bank policy.

D. Conclusion

6. With the above clarifications, the Committee approved the recommendations to appraise the proposed Industrial Sector Adjustment Credits on the terms and conditions proposed by the Region.

Cleared with and cc: Loan Committee members, J. Pratt, T. Yurukoglu,
J.-L. Sarbib