

# LOAN COMMITTEE

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Minutes of the Loan Committee Meeting to consider  
CENTRAL AFRICAN REPUBLIC - Proposed Structural Adjustment Credit  
held on June 20, 1986, in Conference Room E-1208

## A. Present

### Committee:

Chairman: Mr. Stern  
Finance: Mr. Asanuma  
Legal: Mr. Scott  
ERS: Mrs. Krueger  
OPS: Mr. Husain  
Regional Vice President: Mr. Thalwitz

### Others:

Messrs. Serageldin  
O'Brien  
Bouhaouala  
Palein  
Huang  
Westebbe  
Singh  
Vakil  
Cronquist  
Nicholas  
Clements  
El Serafy  
Alba  
Mesdames van Beek  
Donovan

## 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

B. Issues

1. The meeting was called to discuss the proposal in Mr. Thalwitz's memorandum of June 12, 1986, for a Structural Adjustment Credit to the Central African Republic. The agenda for the meeting is attached.

C. Discussion

Government Administrative Capacity

2. The meeting discussed the capacity of the CAR administration to implement the program in light of the large number of studies and the heavy up-front conditionality. With respect to the number of studies, the Region stated that many were a continuation of the on-going work program of the experts already in the field financed under the Technical Assistance Project, and that others had been on-going for some time. Results of these studies are expected soon. With respect to the heavy up-front conditionality, the Region explained that implementation of many of the reforms had already commenced and that final actions could be expected soon, but that a careful review would be made of the feasibility of the target dates set forth in the Initiating Memorandum. The Chairman stressed that the expected completion dates for the program should be reviewed with care to ensure that compliance is feasible.

Trade Liberalization

3. The Meeting reviewed the question of whether the proposed liberalization program was compatible with improving the Government's budgetary position. The IMF representative stated the program was compatible with the IMF objectives and indicated that reducing tax evasion and fraud was more important for improving revenues than increasing tax rates. An IMF mission on tax reform and administration is scheduled for September 1986. The meeting was in agreement that the revenue-raising measures in the program appeared to be sufficient.

4. In discussing the appropriateness of the trade liberalization measures, Regional staff explained that both the "jumelage", a form of quantitative restriction on international trade, and import licencing systems would be eliminated. The Chairman stated that, after the completion of a study aiming to modify the tariff system prevailing under UDEAC, further liberalization would be required in the future to reduce the prohibitive levels of some of the prevailing tariffs.

External Debt Management

5. The meeting discussed the magnitude of the CAR's external debt burden, the need to limit new debt to concessional terms, and the issue of public guarantee for debt contracted by public enterprises. The Chairman indicated that, in light of the heavy debt burden, it was important for the CAR to avoid contracting new external debt of under twelve years' maturity. The Region noted that, under the IMF standby, the CAR is allowed to contract such debt if on concessional terms, and that the Government might resist a tougher conditionality than that already agreed with the IMF. The Region would discuss this issue once

more with the Government and refer back to the Loan Committee if no agreement is reached. With respect to guarantees, the Regional staff explained that control procedures in the debt management agency were being strengthened and that no new guarantees would be granted except for investment projects with appropriate financial and economic returns. The Chairman, while approving this policy, emphasized the need to set specific targets for government guarantees for public enterprise external loans with a view to phasing them out over a reasonable period.

#### Agricultural Reform

6. The Chairman indicated that price signals should be the main force behind reductions in cotton production in the marginal zones. The Region agreed, noting that non-economic public ginneries would be closed and subsidies on inputs would be phased out. The conditionality already in the Cotton RDP Project concerning the gradual elimination of subsidies on imported inputs would be reconfirmed in the SAL agreement. The Committee also agreed that the input distribution system now in SOCADA's hands should be opened up to private traders, who should be given access to inputs on the same terms as SOCADA.

#### Country Lending Strategy

7. The meeting discussed the issue of follow-up operations necessary to consolidate the reform process. To maintain the pace of macro-economic reforms, the Chairman stressed the need for further SALs; these could incorporate the sectoral reform programs envisaged as separate operations in the current lending program.

#### D. Conclusion

8. The Committee approved the Regional proposal to prepare a SAL along the lines set out in the Initiating Memorandum. In light of the advanced state of the operation and in order to accelerate the processing, the Committee also approved the suggestion by the Region to attempt to negotiate the SAL during the coming mission in late June 1986. It was noted that the outcome of negotiations would require the Loan Committee's approval.