

LOAN COMMITTEE

LC/M/86-38
November 20, 1986

DECLASSIFIED

MAR 04 2022

WBG ARCHIVES

Minutes of the Loan Committee Meeting to consider
GUINEA-BISSAU - Proposed Structural Adjustment Credit
held on November 14, 1986, in Conference Room E-1208

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Hittmair
Legal: Mr. Scott
ERS: Mr. Michalopolos
OPS: Mr. Husain
Region: Mr. Thalwitz

Others

Messrs. Serageldin
O'Brien
Westebbe
Gorjestani
Clawson
Gil
Eccles
Birnbaum
El Maaroufi
Katz
Jansen
Rigo
Mmes. Haug
Girardot-Berg
Guerard
Donovan
Messrs. Brou (IMF)
Neuhaus (IMF)
Enders (IMF)

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 proposals in Mr. Thalwitz' memorandum of November 10, 1986, for a Structural Adjustment Credit to Guinea-Bissau. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 13, 1986.

C. Discussion

Macroeconomic Program and Monitoring

2. With regard to the Government's commitment to the reform program, the Region stated that in recent months, the authorities have adopted adjustment measures that go beyond what the Bank staff had proposed in the context of other operations. Although the supplement to the Reconstruction Import Credit called only for reducing the scope of intermediation margins as a form of price controls, the authorities abolished the margins in August. The supplement also called for raising producer prices in line with continuing weekly devaluations; however, in August, the Government decreed that merchants can buy crops at any price above certain minima and keep 50% of their export receipts for import purposes. These actions are indicative of the Government's commitment to reform. Furthermore, the President has travelled extensively throughout the countryside explaining the need for the adjustment program to the people. The ongoing Party Congress was to discuss and approve the principal elements of the program.

3. In discussing the Government's implementation capacity and IDA's profile in financing high-level advisors, the Chairman stated that Bank staff should not be seconded to Guinea-Bissau to assist in the implementation of the adjustment program, in view of the potential conflict of interest. The required experts should be outsiders and could be financed under the TA project or by other donors.

4. The Chairman expressed concern that the proposed SAF would not provide the regular monitoring capability of a Stand-by Agreement. He wondered why a Stand-By agreement could not be put in place. The IMF staff stated that the statistical base was weak and the country currently does not appear to have the capacity to implement a Stand-by. The Chairman requested that the issue of adequacy of monitoring arrangements under the SAF be addressed by the Region and their IMF counterparts. He also stressed that the Bank should not monitor implementation of monetary policy, since this is the responsibility of the IMF.

5. With respect to growth prospects, the Chairman wondered whether the projections were realistic, since they appeared to imply major improvements in efficiency. The Region stated that the current level of production is considerably below the country's potential. In agriculture, the cropped area and yields are far lower than the levels attained in the 1950's. Furthermore, mangrove areas suitable for growing rice can be brought under cultivation with little investment. Also, at an equilibrium exchange rate, rice production in Guinea-Bissau for domestic consumption is

fully competitive with imports. Finally, in the past, the ICOR has been between 40 and 50 due to considerable investments in uneconomical projects. The ICOR is expected to decline substantially, since the Government and the Bank have agreed on an investment program focussing on high priority investments in the productive sectors and rehabilitation of infrastructure.

6. With regard to producer price policy, the meeting agreed that the Bank should not recommend elimination of support prices. It would be appropriate for the Government to provide a safety net through a system of floor prices which are set below border parity prices.

Exchange/Trade and Fiscal Policies

7. With respect to the proposed reform of the exchange rate system, the IMF staff indicated that a recent mission had more or less persuaded the authorities to abandon the idea of a second window. Instead, the Government is now giving serious consideration to the IMF recommendation of a 200% devaluation to bring the official exchange rate close to the parallel market rate.

8. With regard to civil service salaries, the meeting agreed that, particularly if the second window mechanism is abandoned in favor of a substantial upfront devaluation, the Government's intention to provide some increase in nominal wages and effect a decline in real terms is appropriate. The objective should be to contain the wage bill rather than wages.

D. Conclusion

9. Subject to the modifications indicated above, the Committee approved the Regional proposal to appraise a SAC along the lines set out in the Initiating Memorandum.