

# LOAN COMMITTEE

July 7, 1986  
LC/M/86/20

DECLASSIFIED

Minutes of the Loan Committee Meeting to consider  
MOROCCO - Proposed Agricultural Sector Adjustment Loan  
held on June 25, 1986, in Conference Room E-1208

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WBG ARCHIVES

## A. Present

### Committee:

Chairman: Mr. Stern  
Finance: Mr. Qureshi  
OPS: Mr. Husain  
Legal: Mr. Scott  
ERS: Mrs. Krueger  
Region: Mr. Stoutjesdijk

### Others:

Messrs. Asfour	Messrs. Clements
O'Sullivan	El Serafy
Seth	Fitchett
Brigish	Hari Prasad
Mathieu	Mendoza
Mesdames Lewis	Francois (IMF)
Hadler	Franks (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 Initiating Memorandum on a Second Agricultural Sector Adjustment Loan to Morocco, submitted under cover of Mr. Wapenhans' memorandum of June 18, 1986. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of June 24, 1986.

C. Discussion

Macroeconomic Situation

2. The Region reported to the meeting that the public finance situation of Morocco was deteriorating and was a cause of considerable concern to the Bank and the Fund. The Government, having failed to restrain public consumption or increase public revenues adequately, was resorting to open market operations, the buildup of payment arrears, and credit from the Central Bank to cover the budget deficit. A Bank mission which had just returned from Morocco after supervision of ITPA II had recommended that, although the specific conditions for release of the second tranche of that loan had been substantially met, the Bank should not agree to tranche release unless the deterioration in the fiscal situation was corrected; otherwise, the reforms already undertaken could not be sustained. Similarly, although the Region was proposing to appraise the Second Agricultural Sector Adjustment Loan and process the Public Enterprise Rationalization Loan (PERL), these operations would not be negotiated until the short-term situation was improved and a medium-term framework was agreed upon.

3. In these circumstances, the Region was preparing a letter to the Prime Minister indicating the seriousness of the Bank's concerns and the implications in operational terms. The Government had been invited to send a delegation to Washington to discuss the current financial situation with the Bank and the Fund; indications were that such a visit might take place in mid-July. The Region also reported that the IMF, with which the Bank was cooperating closely, had recently declared its stand-by arrangement for 1986 inoperative, but was planning a mission for September to prepare a program for 1987. The sizeable repayments due by Morocco to the Fund in the next 4-5 years were noted.

4. Committee members expressed concern that the sending of an appraisal mission for the proposed Agricultural Sector Loan in these circumstances might give mixed signals to the Government and be interpreted as a willingness on the part of the Bank to proceed with substantial sector policy-based lending regardless of the public finance situation. It might also give the Government the impression that the finance situation could be easily resolved.

Agricultural Investment Program

5. The Committee agreed that the size and composition of the medium-term investment budget for the agricultural sector should be explicitly

agreed with the Bank. The Committee also stressed that such proposals must be compatible with the overall availability of investment resources and be an integral part of the Government's total expenditure programs.

#### Agricultural Price Liberalization

6. In discussing the proposed agricultural incentive system, the Chairman pointed to a lack of clarity in pricing objectives (eg. for sugar) and in the description of the mechanisms proposed, particularly for those commodities where market prices and administered prices were expected to coexist. He believed that the scope for reducing government market intervention needed to be further reviewed. The Region felt that the proposed reduction in government intervention in agricultural pricing from the high current levels was considerable, but noted that intervention in some form was unavoidable until consumption subsidies had been phased out, as was envisaged over the next five years.

7. On the specific proposals for cereal marketing, the Region clarified that what was referred to in the Initiating Memorandum as a "target procurement price" was in effect a floor support price. It outlined the market mechanisms by which this floor price was expected to be established. Noting that the trade system was to be liberalized, the Committee agreed that, to avoid direct market intervention by the Government, it would be preferable to establish floor prices for cereals by the appropriate adjustment of import tariffs. Similar arrangements might also be adopted for crop prices for oilseeds. The market mechanism and associated government storage policies would be agreed to and spelled out in the loan documents.

#### Food Security

8. The implementation of targetted food programs for low income groups was a critical part of the Government's plan to phase out food subsidies. The importance of these programs was emphasized. It was agreed that the details of the proposed food security programs should be formulated prior to negotiations.

#### D. Conclusion

9. The Committee decided that the appraisal mission for the proposed loan be postponed until the Bank has had the chance to discuss the macroeconomic situation with the Minister of Finance during July and that the reason for the postponement of the mission should be made clear to the Moroccan authorities. Should the Minister of Finance not come to Washington in July, the Bank could reexamine the timing of the appraisal mission in the light of the latest information available on the economy and the evolution of government policy. The Committee also agreed that the Region should look again at the proposed agricultural pricing regime in the light of the discussion at the meeting.