

LOAN COMMITTEE

LC/M/86-29

September 8, 1986

Minutes of the Loan Committee Meeting to consider
 NEPAL - Proposed Structural Adjustment Credit
 held on September 3, 1986 in Conference Room E-1208

DECLASSIFIED

MAR 04 2022

WBG ARCHIVES

A. PresentCommittee:

Chairman: Messrs. Stern
 Finance: Wood
 Legal: Scott
 ERS: Michalopoulos
 OPS: Kopp
 Region: Cheetham

Others:

Messrs. Clements
 El-Serafy
 Katz
 Krishna
 Singh
 McMullen
 Ms. Ripley

Lerdau
 Holsen
 Senner
 Tsantis
 Gibson
 Cruikshank
 Schreiber

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. Hopper's memorandum of August 27, 1986, for a Structural Adjustment Credit to Nepal. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of September 2, 1986.

C. Discussion

Nepal's Readiness for a SAL

2. The first issue concerned Nepal's readiness for a SAL. The Region summarized discussions held with HMG since the January Aid Group Meeting, emphasizing the high level commitment to stabilization and structural adjustment encountered by preparation missions. Nepal was keeping substantially to its agreement with the IMF on a Stand-by and had introduced other policy and institutional reforms. The Region made it clear, however, that it had no illusions regarding the problems and the risks associated with a prospective SAL operation. Past performance did not provide much basis for confidence; this remained a high risk proposition.

3. On macroeconomic policy the Region explained that its approach is not to build in specific conditionality but to use the Stand-by, the SAF discussions and reviews during SAL supervision to ensure appropriate policy action. The main component of this SAL would be to improve performance on the development budget, particularly in the area of project implementation. In agriculture and forestry, several problems are being addressed; a main objective would be to shift significant economic rents being realized by intermediaries to the Budget. Additionally, the SAL would seek to strengthen two public enterprises (PEs) operating in the agriculture sector as an initial effort to help the Government institute reforms for the parastatals to be continued in subsequent SALs. In the areas of industry and trade, the actions proposed for this SAL are aimed at laying the foundation for subsequent reform.

4. In subsequent discussion the Committee sought clarification on the Region's proposals in a number of areas. The need for greater specificity both as to the details and timing of the Government's proposed program was emphasized.

Macroeconomic Policy

5. The meeting discussed the need for specific macroeconomic conditions. The Region explained that it was probable that Nepal would not want to enter into subsequent Stand-bys in order to reserve these resources for a time of need. The IMF representative explained that the paper on the mid-term review of the current Stand-by was scheduled for their board in mid-September. The Fund was not ruling out further Stand-bys. It was agreed that it would be highly desirable that Nepal enter into subsequent Stand-by arrangements to ensure the maintenance of a sound macroeconomic framework for a SAL program. The Region should inform the authorities accordingly. It should also explicitly advise the Government that further SALs would be dependent on the existence of an IMF Standby.

Development Expenditure

6. The meeting discussed the issue of improving the rate of project implementation and the quality of projects in the development budget. The criteria for selecting the core program were discussed. The Region stated that, in the main sectors, projects would be ranked in terms of the criteria indicated, and that priority in funding and managerial attention would go to the higher priority projects. Project implementation performance would be improved, and delays in disbursements avoided, through improved project monitoring procedures, changes in project accounting and auditing arrangements and delegation of greater authority to project managers. It was hoped to raise the disbursements-to-pipeline ratio to 25% (excluding SAL and SAF financing) compared to the 19% level of the recent past. The Committee felt that the conditions in this area needed to be rethought. Action was required to implement the January 1986 gazette notification on delegation of authority. The array of measures included long-term development/training objectives not readily monitorable in the short-term and short-term measures of uncertain practicality. Satisfactory progress in meeting the reformulated conditionality should be required before second tranche release.

Industry and Trade

7. The meeting discussed the proposed actions for industrial and trade policy reforms. The Region explained that Nepal's policies are seriously constrained by India's policies and prevailing price structure because of its long porous border. The Government has taken some action already and is currently reviewing an Industrial Sector Study financed by ADB with a view to preparing legislation to introduce measures regarding industrial and trade policy. It was the intention to discuss trade policy with the authorities with a view to addressing these questions in a major way in a subsequent SAL. However, there was scope for some policy changes in this SAL. The Committee agreed that more specific treatment was needed in defining what had already been done, what would be required prior to Board presentation and actions for second tranche release.

Agriculture and Forestry

8. It was questioned how greater private sector participation would be achieved in agriculture. The Region explained that public sector intervention is not great; private sector participation is already significant and is not encumbered by an extensive regulatory apparatus. The proposed actions are aimed at those areas where government activity needs to be liberalized or made more efficient. The Region noted that strengthening the operations and finances of the two PEs in the sector to which SAL actions are directed would in itself constitute an important achievement. The Committee agreed that fertilizer distribution should be open to the private sector. Regarding seeds, the Region explained that the Government could not move more quickly on the Seed Board and National Seed Act since legislative action could not be taken before the next parliamentary session. The Chairman said that an action plan

and initial measures for the rationalization of seed prices should be made a condition of second tranche release. On the question of foodgrains, the Committee felt that more specific treatment is required of what could be done up-front; this should be addressed during appraisal. Agreement should be reached on the principles for determining foodgrain floor prices.

Public Enterprises

9. The meeting enquired why broader treatment of PEs was not being proposed. The Region explained that the Government has already adopted a strategy for closing, divesting and/or strengthening PEs with a plan to sell some outright, others in part and to keep a third group in the public sector. It is intended to focus on the PE sector more broadly in a subsequent SAL. The meeting agreed that the Government's policy in the sector should be spelt out in the SAL documentation.

D. Conclusion

10. Appraisal of the SAL, along the lines indicated in the Initiating Memorandum, was not approved pending receipt by the Committee of more specifics on the policy actions to be sought and timing involved.