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THE WORLD BANK

CONFIDENTIAL

LOAN COMMITTEE

July 29, 1986
LC/M/86/25

Minutes of the Loan Committee Meeting to consider NIGERIA - Proposed Trade Policy and Export Development Loan, held on July 23, 1986 in Conference Room E-1208

A. Present

Committee:

Chairman:	Mr. Stern
Finance:	Mr. Qureshi
Legal:	Mr. Goldberg
ERS:	Mr. Michalopoulos
OPS:	Mr. Husain
Region:	Mr. Thalwitz

Others:

Messrs.	Choksi	Messrs.	Awunyo
	Koch-Weser		Isenman
	Eccles		Aiyer
	Humphrey		Allen
	Katz		Bhargava
	Rigo		Swayze
Mesdames	Guerard		Goreux (IMF)
	Donovan		Hill (IMF)
	O'Connor		

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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. Thalwtiz's memorandum of July 17, 1986, for a Trade Policy and Export Development Loan to Nigeria. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of July 22, 1986.

C. Discussion

Financing Plan and Bank Strategy

2. Three aspects of the financing gap were discussed: clarification on how it would be filled, contingent financing, and assurances being sought and their timing. The Region explained that the gap would be financed with Bank money, rescheduling by the Paris and London Clubs and new money from the banks. With regard to a possible IMF drawing, the Chairman said that Nigeria's political position against drawing from the IMF was clear but the IMF standby was an important reserve in the event that oil prices remained depressed. At this time it was agreed to pursue a financing plan that assumes no IMF money. At the meeting, the IMF confirmed their support of this strategy. At a later date, once the new foreign exchange market has taken hold, the opposition to the IMF may cool down to make a drawing politically possible; and if oil prices continue to weaken or sit at reduced levels, the Government may have to borrow from the IMF.

3. In the near term, the Region pointed out that contingency funding would be available after trade arrears were fully dealt with, through the renewal and development of trade lines. In addition, the financing package was viable even in the event of a further fall in oil prices, partly because imports for 1986 were turning out to be significantly below the level used in the financial workout in the President's Report and thus provided a lower base for growth in subsequent years. Also 1986 domestic oil production levels appear to be somewhat higher than had been assumed.

4. In discussing the Government's request to increase the size of the proposed Bank loan (to $600m), the Chairman stated that there might be a possibility of some increase (over the currently proposed $400m) as a future bargaining chip. The decision would be, in part, contingent on the Government's full response to the various conditions under discussion. The importance of keeping the option open was noted: adequate foreign exchange funding was essential to the success of the second-tier market and we should look at the rest of the funding envelope after a more complete picture emerges of what others will be able to do.

5. The Chairman reconfirmed that conditions of Board presentation would be an indication that the London and Paris Clubs are giving favourable consideration to the Government's request for debt rescheduling and new money, and that "satisfactory assurances that the Government's external financing needs for 1986 and 1987 will be met" would be a condition for loan effectiveness. There would be no need to specify any further conditions on external funding at the time of the release of the loan's second tranche.

Second-tier Foreign Exchange Market

6. The Region confirmed that all foreign exchange earnings, except (1) oil used for debt service and meeting international institutional obligations, and (2) foreign exchange retentions of non-oil exports, will be converted at the second-tier market rate. The IMF confirmed that it is largely in agreement with the Government on the timing of the convergence of the two-markets. The Loan Committee expressed support for the Region's concern that capital movement should only be gradually liberalized. If capital transactions were all initially placed on the second-tier market, capital flight could endanger market operations. The Chairman said that this loan is not being provided to finance capital speculation, and the timing of the liberalization of capital movements must be designed to insure such speculation is minimized. The Region would continue to pursue this point with the IMF.

Trade Liberalization

7. The Region outlined in more detail the proposed position on import bans and tariff rates. The Chairman stressed the importance of getting agreement at negotiations on the objectives and principles, and on a schedule for eliminating any outstanding bans and for adopting tariff recommendations. The Government should meet these objectives by the time the two markets merge.

Public Expenditure

8. Although the Bank would negotiate setting a ceiling on overall capital expenditures for 1987 and on expenditures on selected projects, the Region explained we are not now able to reach a decision on investments in the steel sector, and negotiations on this, as well as on any other outstanding major project investment issues will have to be undertaken after the sub-sector studies are completed. The Chairman acknowledged that these issues would probably have to be dealt with under a follow-up second trade policy loan.

Export Promotion

9. The Region clarified that the problem was access to export credit, not the cost of the credit, and agreed with the Chairman that export credits would not be subsidized. It is expected that many of the export promotion measures formerly recommended by the Government may not be required once the second-tier market is underway. The Region is focussing under this loan on eliminating export licenses and taxes, simplifying procedures and documentation, a duty drawback scheme, and strengthening the institution responsible for promoting exports.

Procurement

10. In addition to financing private sector imports using normal commercial practices, it was agreed that the proposed loan would provide financing for the public sector using the Bank's standard procurement procedures, including ICB for large contracts.

D. Conclusions

11. The Committee approved negotiations of the proposed loan as it is presented in the President's Report, taking into account the discussion recorded above.