

LOAN COMMITTEE**DECLASSIFIED**

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June 26, 1986

Minutes of the Loan Committee Meeting to consider
ZIMBABWE - Proposed Export Promotion Project
held on June 20, 1986 in Conference Room E-1208

A. PresentCommittee:

Chairman: Mr. Stern
 Finance: Mr. Asanuma
 Legal: Mr. Scott
 ERS: Mrs. Krueger
 OPS: Mr. van der Tak
 Regional Vice President: Mr. Jaycox

Others

Messrs. Kraske
 Gulhati
 Messenger
 Huang
 Clements
 Mesdames Donovan
 Fox

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 Loan Committee discussed the memorandum prepared by Mr. Jaycox dated June 13, 1986, on the proposed Zimbabwe Export Promotion Project. Through the memorandum, the Region sought guidance as to what would be an acceptable policy package for this project.

C. Discussion

Trade Liberalization

2. The Region indicated that the Government now appeared firmly committed to a program of trade liberalization. In confirming this commitment, the Government might be willing to agree on the broad timing of major reform steps. A more detailed action program would be expected to emerge from the liberalization study to be carried out under the project; agreement on this action program could be a condition of release of the second tranche of the loan. As a condition for proceeding with the project, it might also be possible to obtain agreement with the Government to adopt an open general licensing system for a specific percentage of imports.

3. The Committee agreed that a written commitment should be obtained from the Government to reduce protection substantially by removing quantitative restrictions and licensing, allowing free access to foreign exchange for imports and by adopting a simple and harmonious tariff regime. An indicative time-frame for the various elements of the trade reform should also be obtained. Agreement on a detailed action plan for trade liberalization would be required before release of the second tranche of the loan.

4. The Committee also thought that it was important to have some significant up-front action on the part of the Government to demonstrate its commitment to liberalization. It was agreed that the adoption of an OGL system for at least 10% of imports (by value) would be acceptable in this context. The Committee stressed that this initial shift to OGL should NOT be industry-specific; it should apply across the board and include competing goods.

Macro-Economic Framework

5. The Region had proposed to seek a reduction in the budget deficit of 1% per annum or more. The Committee felt that a 1% per annum reduction might be insufficient and suggested that the Region should seek a larger reduction. Noting that the IMF had assessed that a reduction in the deficit of around 2% per annum was needed, the Chairman said that discussions should be held at a senior level with the IMF to ascertain that the approach proposed by the Bank would represent acceptable progress to the Fund and would not be seen as undercutting the Fund's position if we decided to accept a lesser amount as an interim measure. A memorandum should be prepared as a basis for discussion with the Fund management. The Committee noted that an active exchange rate policy as well as sound budget management

would be essential in support of the trade liberalization program.

D. Conclusion

5. The Committee authorized the Region to proceed with the preparation of the project along the lines agreed at the meeting. The Chairman emphasized that, in the upcoming discussions with the Zimbabwe authorities, Regional staff should make it clear that details of the proposed policy package remain subject to the Committee's concurrence.