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CR 1831-ZR
A-30 ZR

Report No. P-4596-ZR

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED DEVELOPMENT CREDIT

IN AN AMOUNT OF SDR 42.2 MILLION

AND A

PROPOSED AFRICAN FACILITY CREDIT

IN AN AMOUNT OF SDR 72.2 MILLION

TO THE

REPUBLIC OF ZAIRE

FOR A

STRUCTURAL ADJUSTMENT PROGRAM

May 29, 1987

CURRENCY EQUIVALENTS

Currency Unit = Zaire (Z)

On September 12, 1983, Zaire devalued by about 80 percent vis-à-vis the SDR and introduced a transitional dual exchange rate regime which lasted until February 24, 1984; thereafter the rate has floated on a weekly basis.

	Average 1986	May 29, 1987
Zaire 1.00 =	US$0.017	US$0.0085
U.S.$1.00 =	Z 59.625	Z 116.5

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1- December 31

ACRONYMS

AF	Special Facility for Sub-Saharan Africa
ANEZA	Association Nationale des Entreprises Zaïroises (Private Association of Enterprises)
AZB	Association Zaïroise des Banques (Zairian Association of Banks)
BCA	Banque de Credit Agricole (Agricultural Credit Bank)
BOP	Balance of Payments
CADEZA	Caisse d'Epargne du Zaïre (Savings Bank of Zaire)
CCA	Contribution sur le Chiffre d'Affaires (Turnover tax on interest earned)
CCP	Centre Comptes Chèques Postaux
CG	Consultative Group
CIF	Cost, insurance and freight
COOPEC	Cooperatives d'Epargne et Credit (Credit and Savings Cooperatives)
FAO	Food and Agricultural Organization
GDP	Gross Domestic Product
GECAMINES	Générale des Carrières et des Mines du Zaire (Mining Company)
GET	Groupe d'Etudes sur le Transport
GNP	Gross National Product
ILO	International Labor Organization
INSS	Institut National de la Sécurité Sociale (Social Security Agency)
ISAL	Industrial Sector Adjustment Credit
ODA	Official Development Assistance
OFIDA	Office des Douanes et des Accises (Customs Administration)
ONATRA	Office National des Transports (Transport Authority)
OR	Office des Routes (Highway Authority)
OZAC	Office Zaïrois de Contrôle
OZACAF	Office Zaïrois du Café (National Coffee Association)
PFP	Policy Framework Paper
PIP	Public Investment Program
RDM	Rural Development Ministry
REGIDESO	Régie de Distribution d'Eau (Water Authority)
SAF	Structural Adjustment Facility (IMF)
SAL	Structural Adjustment Credit
SAP	Structural Adjustment Program
SDR	Special Drawing Rights
SJF	Special Joint Financing
SME	Small- and Medium-Scale Enterprises
SNCZ	Sociéte Nationale des Chemins de Fer du Zaïre (Railway Authority)
SNRDA	Service National des Routes de Desserte Agricole (Rural Roads Department)
SNEL	Société Nationale de l'Electricité (Power Authority)
SOFIDE	Société Financière de Développement (Development Bank)
SONAS	Société Nationale d'Assurance (National Insurance Association)
SPIZ	Service Présidentiel d'Information du Zaïre
UNDP	United Nations Development Program
XGNFS	Exports of Goods and Non-Factor Services

ZAIRE

STRUCTURAL ADJUSTMENT CREDITS

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ZAIRE

STRUCTURAL ADJUSTMENT CREDITS

Credit and Program Summary

Borrower:	Republic of Zaire		
Amount:	IDA Credit:	SDR 42.2 million	(US$55.0 million equivalent)
	AF Credit (IBRD Contribution):	SDR 72.2 million	(US$94.3 million equivalent)
	Japanese SJF grant:	Yen 1.1 billion	(US$7.85 million equivalent)
	Japanese SJF loan:	Yen 1.1 billion	(US$7.85 million equivalent)
Terms:	IDA and AF credits on standard IDA terms.		
	Japanese SJF:	grant non-reimbursable contribution.	
	Japanese SJF loan:	maturity 30 years, grace period 10 years, interest rate 3 percent.	

Description: The proposed Credits would support the Government's comprehensive Structural Adjustment Program designed to address the major structural constraints in the economy, lay the basis for sustained growth, and improve the balance of payments position over the medium term. The Government's Letter of Development Policy and supporting sectoral policy statements (Annex III and attachments) describe the program, which includes: (1) measures to strengthen macroeconomic management, including fiscal reform, financial sector policies, public investment/public expenditure programming and execution, public administration (civil service) and public enterprise reform; (2) new orientations for agriculture and transport sector policies; and (3) measures to strengthen the incentive framework for the private sector. The program also includes actions to further enhance the trade and tax reforms and export promotion measures taken under the IDA-assisted Industrial Sector Adjustment Program. The proposed Credits would be made available for general balance of payments and budgetary support. Foreign exchange would be used to finance general imports, with the exception of luxury items and military goods. A related Technical Assistance Credit for Economic Management would provide institutional support and strengthening arrangements to improve the programming and implementation capabilities of the Ministries of Planning, Finance and Portfolio.

<u>Estimated Disbursements</u>: The proceeds of the proposed Credits would be disbursed in two tranches. The first tranche of US$ 83 million equivalent would be made available upon credit effectiveness. Disbursement of the second tranche of US$ 82 million would be released subject to a review of the Structural Adjustment Program to be held within eight months of credit effectiveness. The entire Credit is expected to be disbursed within 15 months after credit effectiveness.

<u>Appraisal Report</u>: Not applicable.

<u>Map</u>: IBRD No. 3560R9

INTERNATIONAL DEVELOPMENT ASSOCIATION
REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON PROPOSED DEVELOPMENT AND AFRICAN FACILITY CREDITS TO THE REPUBLIC OF ZAIRE FOR A STRUCTURAL ADJUSTMENT PROGRAM

1. I submit the following report and recommendation on a proposed Development Credit of SDR 42.2 million (US$55 million equivalent) and a proposed African Facility Credit of SDR 7[illegible] million (US$94.3 million equivalent, all from IBRD Contribution) from the Special Facility for Sub-Saharan Africa (the African Facility), established by Resolution No. IDA-85-1 of May 21, 1985, to the Republic of Zaire. The Credits would be on standard IDA terms. In addition, I recommend that IDA would administer a proposed Special Joint Financing non-reimbursable contribution of Yen 1.1 billion (US$7.85 million equivalent) from Japan. The proposed financing aims at supporting the Government's Structural Adjustment Program, designed to restore financial equilibrium and stimulate economic growth. A companion Technical Assistance Project for Economic Management is being submitted to you separately (see Memorandum of the President No. P-4542-ZR, May 29, 1987).

2. Part I of this report reviews the characteristics, performance and constraints of the economy. Part II outlines the Government's Structural Adjustment Program, while Part III describes in detail the actions to be supported under the proposed credits. Parts IV and V assess the expected effects of the Government's Structural Adjustment Program, and describe IDA's role in the adjustment process, the proposed operation, and other Bank Group operations in Zaire.

PART I - THE ECONOMY

3. An economic report entitled Zaire: Economic Change and External Assistance was distributed to Executive Directors on March 29, 1985. Its assessment of the country's economic prospects has been updated by a series of recent Bank missions and is reflected in the following paragraphs. Annex I provides basic country data.

A. Background

4. Zaire is the third largest country in Africa in terms of its area and the fifth largest in terms of its population, but its GNP per capita (estimated at US$170 in 1985) ranks among the lowest in the continent. With a population of about 30 million, Zaire has a low population density estimated at 12 persons per square kilometer. About a third of the population lives in urban areas. Although agriculture (commercialized and subsistence) accounts for only 30 percent of GDP, it provides employment and income for more than three-quarters of the population. Mining and mineral processing account for about one third of GDP, and two-thirds of overall export earnings. Mining has traditionally been a major source of public sector revenues.

5. The years following independence (1960) were marked by violent political strife and severe disruption of the economy. After the restoration of political order in 1967, the country enjoyed a period of relative stability and economic growth which lasted until 1974. During this period, GDP grew at a rate of about seven percent per year in real terms. Between 1975 and 1983, however, the Zairian economy was characterized by a series of crises and short-lived recoveries, severe underutilization and deterioration of productive capacity and infrastructure, the emergence of significant economic and financial imbalances, high inflation, and a decline in per capita income. A number of factors contributed to these difficulties, including: the zairianization and nationalization measures of 1973-74 which, though subsequently rescinded, destroyed the distribution network and left behind a legacy of lack of confidence of the private sector; the heavy external borrowing of the early 1970s, much of it at unfavorable terms and for projects of low or even negative returns; continuing deteriorations in the terms of trade; and deficiencies in economic management. By 1979, GDP had contracted by about 10 percent from the pre-crisis (1972-74) level, while inflation soared to more than 100 percent, with chronic shortages of essential consumer goods, fuel and intermediate goods.

B. Past Trends and Recent Economic Developments

6. Following a brief period of economic recovery in 1980-81, GDP again contracted in 1982, largely due to the decline in world copper prices. The overall balance of payments deficit reached a record high (12 percent of GDP), leading to accumulation of external payments arrears totalling US$940 million. On the domestic front, the budget deficit continued to increase, reaching 11 percent of GDP. Both external and domestic confidence were at a low ebb: a grossly overvalued exchange rate, pervasive price controls, and high inflation were the manifestations of widespread distortions in the economy.

7. A major turning point for the Zairian economy came in 1983 when the Government began introducing, within the context of an IMF stand-by program, a series of far-reaching stabilization and reform measures. These included: (i) an immediate devaluation of the zaire by 78 percent in terms of the SDR; (ii) the introduction of a transitional dual exchange rate regime, leading to a unification of the two rates in February 1984 and the subsequent maintenance of a market-determined exchange rate; (iii) a substantial liberalization and simplification of the exchange and trade system, including a revision of tariffs; (iv) the decontrol of most prices, including agricultural producer prices and interest rates; (v) tight expenditure controls, including limitations on wage increases and reductions in public sector employment; (vi) a series of actions to reduce the burden of parastatals on the budget, including the sale of some assets; and (vii) major increases in the price of petroleum products to make them more accurately reflect world market prices.

8. In September 1984, the Government requested the Bank Group to provide fast-disbursing resources to assist its program of policy reform. A dialogue was initiated for the preparation of IDA and AF credits in support of the Government's Industrial Sector Adjustment Program. Agreement was reached in May 1986, and following a series of discussions

with the Bank and Fund in December 1986 and January 1987 (see para. 22) the credits became effective on January 12, 1987. Under this program, the Government has begun to take measures to eliminate long-standing distortions in the trade regime, with a view to creating a more competitive, export-oriented manufacturing sector. Specific policy measures being implemented include a comprehensive tariff reform, the adoption of measures to stimulate exports (including the abolition of export levies on all manufacturing exports), complete liberalization of industrial goods prices, and revenue-enhancing changes in the tax regime for industrial enterprises. The second tranche of the credit was released in April 1987.

9. The reform and stabilization measures undertaken by the Government since 1983 have improved considerably the overall incentive framework, by reorienting the economy towards more efficient productive activities. In addition to the price liberalization and tariff reform measures, foremost among these improvements has been the progress in liberalizing the trade and foreign exchange regimes: the introduction of a floating exchange rate system, along with the liberalization of imports, has led to a significant decline in both the volume of transactions and the premium on the parallel foreign exchange market. With the exception of the difficulties which emerged in late 1986 (see para. 18), the market determination of the exchange rate has been maintained without interruption since 1984. Following the 60 percent real depreciation of the zaire in late 1983, the real exchange rate fell a further 20 percent over the following three years, providing a considerable boost to export-oriented activities.

10. Overall, financial adjustment and liberalization measures implemented since late 1983 have been successful. The maintenance of a competitive exchange rate helped induce adjustment on the supply side, and expenditure-switching on the demand side. In the non-copper export sector, significant export volumes were restored to official channels. Merchandise exports expanded at annual rate of more than 8 percent, while import volumes were compressed (declining on average by nearly 2 percent per year). As a result, the current account deficit in the balance of payments (after rescheduling) declined from 13.8 percent of GDP in 1982 to 4.1 percent in 1985. Substantial progress was also achieved in reducing fiscal imbalances and inflationary pressures: net financing of the Government from the domestic banking system decreased from 6.3 percent of GDP in 1982 to 0.6 percent in 1985, while inflation--which as of end-1983 was more than 100 percent--declined to 24 percent in 1985 (Annex I).

11. These positive signs, however, were not accompanied by similar progress in a number of key areas. Moreover, the Zairian economy showed clear signs of the persisting weaknesses in the face of a rapidly deteriorating international environment. Overall economic growth remained weak, as real GDP growth in each of the years 1983-86 remained below the population growth rate, estimated at about 3 percent.

12. Despite the continuing decline of export prices for Zaire's major mineral exports--which accounted for most of the nearly one third of the deterioration in Zaire's external terms of trade between 1984 and 1986--the mining sector remained the main source of growth, followed by agriculture

and services. While there appears to have been a significant supply response in the agricultural sector to the liberalization measures, output continues to be adversely affected by persisting shortages of necessary inputs and spare parts, as well as by transportation bottlenecks and insufficient availability of crop credit. Continued stabilization of internal demand, along with the obsolescence of installed equipment, limited the contribution to growth of local manufacturing industry, which continues to be characterized by substantial excess capacity in most of its sectors.

13. In terms of savings and investment, the results since 1983 have also been rather mixed. The first complete year of major policy reforms, 1984, was marked by a large increase in total investment -- rising from 11 percent of GDP in 1983 to 14 percent in 1984-- and by a doubling of domestic savings (to nearly 17 percent of GDP). This, however, could not continue in the following years as private investment slowed down because of the tight credit policies and persistent lack of investors' confidence.

14. The difficulties of the Zairian economy were exacerbated in 1986 by the continuing deterioration in the international environment. The major factor responsible for the worsening of the economic and financial situation in 1986 was the sharp decline in export prices. For the year as a whole, export prices declined by 14.4 percent in dollar terms. Despite an increase of 19 percent in volume, export earnings reached only US$1,846 million, about the same level as in 1985. The volume increase in exports was due to a major effort made to reduce the transit time for copper and cobalt exports on the Voie National, destocking of copper and cobalt and to the suspension of quotas under the International Coffee Agreement (ICA) for 1986. Earnings from coffee exports increased by 185 percent owing to higher world prices and to the significant volume which reached an all-time high of 146,000 tons. Cobalt prices experienced the sharpest drop, declining by about 59 percent in 1986.

15. There was a significant change in the composition of capital flows in 1986. All of the increase was due to disbursements on medium- and long-term loans which increased from US$157 million in 1985 to US$283 million in 1986. About two thirds of this increase came from multilateral sources. Although grant disbursements remained unchanged in nominal terms, they declined in real terms. Overall net transfers, were positive (US$54 million) in 1986 for the first time since 1983.

16. The increase in net transfers was, however, not sufficient to offset the decline in export earnings. Foreign exchange reserves were practically depleted to finance the balance of payments. While imports of goods and non-factor services increased by about 10 percent in nominal terms in 1986, this corresponded to a volume decline of about two percent. Imports of intermediate goods and spare parts in particular suffered from import compression, as many industrial firms had difficulties in obtaining bank credit to finance imports. Overall, the current account deficit widened from US$279 million in 1985 to US$470 million in 1986.

17. In May 1986, Zaire obtained debt reschedulings totalling US$542 million including those from the London and Kinshasa Clubs. Zaire continued to meet its debt service obligations under these agreements

through November 1986. In December 1986, Zaire suspended monthly payments to its bilateral creditors. For the year as whole, actual debt service payments (including the IMF) amounted to US$505 million corresponding to about 25 percent of exports of goods and services. In April 1987, Zaire submitted a request for rescheduling to the Paris Club, and a meeting of the Paris Club was held on May 18, 1987. The Government is undertaking negotiations with the London and Kinshasa Clubs.

18. Until October 1986, the rate of the zaire vis-à-vis the U.S. dollar was maintained as a result of the Bank of Zaire's large intervention sales in the interbank market. Although the real effective exchange rate appreciated, the margin between the official and the parallel rate was kept within ten percent. The shortage of foreign exchange, and the attempt of the Bank of Zaire to slow down the rate of depreciation, however, brought sales on the inter-bank market in the latter part of 1986 to a minimum, leading to an increasing divergence between the official exchange rate and the rate negotiated by commercial banks with their customers. In October, the official rate began to diverge significantly from the parallel rate, which was about 20 percent above the official rate by the end of the year. On January 9, 1987, the official rate was adjusted to Z 82 per U.S. dollar. This was followed by regular weekly depreciations. On May 29, 1987, the official rate of the zaire, at 116.5 per U.S. dollar, was very close to the interbank rate.

19. The balance of payments developments discussed in the foregoing paragraphs had a significant impact on budgetary developments. Budgetary revenues as a percent of GDP declined to 13.6 percent from the high level of 18.6 percent in 1985. This rapid deterioration was due to weak increase in export taxes and a nominal decline in taxes on goods and services stemming from the delays in adjusting pump prices of petroleum products, and to difficulties in implementing new rates of the domestic turnover tax. The poorer revenue performance was also in part due to absence of exceptional revenue measures such as the sale of assets that were made in 1985.

20. The strain on the budget was compounded by the delays in taking corrective measures and difficulties in maintaining fiscal discipline, particularly in the second half of the year. The wage bill, which reflected the salary increases for civil servants in June 1986, was contained to 23 percent of total expenditures. Interest payments on domestic and external debt accounted for about 39 percent of expenditures. Total debt service payments including amortization and arrears repayments accounted for two-thirds of budgetary revenues in 1986. Since there were significant overruns in expenditures on goods and services, investment expenditures from the budget were sharply compressed once again. Compared with the budgetary allocation of Z 3.2 billion, the actual level of investment expenditure was only Z 1 billion, representing a significant reduction (about one third) in real terms compared with 1985.

21. The resulting 1986 budget deficit was about Z 5.5 billion, corresponding to 1.7 percent of GDP (compared with a surplus of 1.1 percent of GDP in 1985). Domestic bank financing reached Z 10.1 billion, after taking into account the amortization payments on external debt. To accommodate the rapid expansion in government spending, net domestic assets

increased by about 60 percent during the year. Credit to the private sector, which increased by about a third during the first half of the year, was crowded out by the massive public sector borrowing in the second half of the year. Broad money growth accelerated to an annual rate exceeding 100 percent in the last quarter of the year and began to put pressures on prices in early 1987. Compared with an annual inflation rate of 46 percent in 1986, consumer prices rose by 19 percent during the first two months of 1987. Interest rates, determined by the banks, remained high during the year reflecting the rate of inflation and the shortage of credit to the private sector. As a result, Zaire was unable to meet the IMF performance criteria on Government borrowing from the domestic banking system and to make its scheduled third and fourth purchases under the previous stand-by arrangement with the IMF.

22. Growing public dissatisfaction with the continued slow pace of economic growth, and the perceived reluctance of external donors to support more actively the reform process, have created strong political pressures to reverse the trend towards greater economic liberalization. At a Central Committee meeting held in October 1986, decisions were announced which appeared to indicate a reversal of some of the Government's major reform measures, including its commitment to a market-determined exchange rate, and to price and interest rate liberalization. Following lengthy discussions with the Bank and Fund in December 1986 and January 1987, the Government reaffirmed its commitment to the process of structural adjustment and reform which it has been implementing since 1983. This was subsequently confirmed both in President Mobutu's letter to the Bank of January 9, 1987 and by the Central Committee following its meeting of February 7-9, 1987.

C. Development Constraints

23. Economic development in Zaire has been, and continues to be, severely constrained by a system, evolved over the years, which has fostered rent-seeking rather than productive activities. This is compounded by the continuing lack of investor confidence (both domestic and foreign), and by the tendency of some Zairians to accumulate holdings of foreign exchange outside Zaire. The Government's commitment to a comprehensive structural adjustment program will, however, contribute to transforming Zaire's unfavorable image.

24. Human resource constraints are also particularly severe, as general and technical education at all levels fails to provide the quality of skills required by both enterprises and the public sector. The situation has been exacerbated by the continuing decline in the real wages for public sector employees which as of 1986 were only 20 percent of their level the level of 1975. This has contributed to frequent absenteeism, steady deterioration in the provision of public services and the inevitable growth of an underground economy and corruption.

25. In the agricultural sector, production growth remains slow--despite the liberalization and privatization measures adopted since 1983--largely due to persistent infrastructural and institutional constraints, including inadequate credit and lack of foreign exchange. Lack of

maintenance of the transportation network have kept transportation costs high, limiting both the inflow of inputs and the outflow of products. A further constraint has been the decline in the quality of the agricultural research and extension systems, the former at one time having been among the most highly regarded in African countries. Competition from subsidized and clandestine imports of agricultural commodities (sugar, meat, maize) has also been a contributing factor. In the manufacturing sector, capacity utilization remains low, partly due to the shortage of foreign exchange and domestic credit, but also to weak domestic demand and lack of competitiveness of some plants. A further important constraint is a financial system which remains overly oriented towards commercial lending and virtually ignores the financing needs of medium- and small-scale enterprises.

26. Over the medium-term, a major constraint to growth in Zaire will be the growing burden of external debt, which (excluding IMF) stood at US$5.6 billion, or about 110 percent of GDP, at the end of 1986. The average interest rate on the debt has increased significantly in recent years as a result of a series of reschedulings.[1] The economy is thus required to service a large external debt without having the productive capacity which could generate sufficient resources for this purpose. This situation has been compounded by the deterioration in Zaire's terms of trade, reflecting the continued slow growth of world demand for Zaire's primary exports (chiefly copper and cobalt).

27. The continuing crisis in the external sector also poses major financial problems for the domestic economy, in particular the Government's budget. This has contributed to the continuing decline in the country's physical infrastructure (particularly in the transport sector) and productive base. On the revenue side, several factors, in addition to the contraction of economic activity, limit domestic resource mobilization: revenues remain heavily dependent (more than 40 percent) on taxes on minerals and petroleum; the tax base is narrow and covers almost exclusively (and hence penalizes) enterprises in the modern sector; tax administration remains weak in the face of widespread tax evasion and fraud; and taxes and fees collected by parafiscal agencies remain outside of the budgetary process of the Central Government and are often uncoordinated or ill-conceived.

D. Nature of the Adjustment Problem

28. The Zairian economy is now facing two critical issues: first, to combine the continued stabilization of the economy with the prompt resumption of growth necessary to redress the erosion in the living standards of the population during the last decade; and second, to bring about a longer-term structural adjustment of the economy which will be required to diversify and develop (and in some cases restore) a wider resource base. Zaire's long-term prospects are favorable, provided that

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1/ The average interest rate on previous Paris club reschedulings has been 9.2 percent, raising the overall average interest rate to 7.1 percent; this compares with an average interest rate of 4.6 percent for bilateral debt not yet rescheduled.

its vast and diverse resources can be utilized efficiently. The major adjustment policy issues facing Zaire, beyond short-term stabilization, are to: (i) restore private sector confidence; (ii) create an incentive system to stimulate exports and efficient-import substitution industries; (iii) enable agricultural production to respond to liberalization policies; (iv) restructure public expenditures to rehabilitate the country's infrastructure and better provide basic public services; and (v) reform and rationalize public enterprises. These constitute the broad objectives of the Government's Structural Adjustment Program.

29. The continued application of the stabilization-cum-liberalization program carried out since 1983 has been threatened by the inadequate availability of external resources. About half of the outstanding external debt is scheduled to be amortized over the next five years; total scheduled debt service payments will amount to nearly US$1 billion annually. While over the preceding decade the Zairian economy has adjusted to a situation of high debt service payments, and unfavorable commodity prices, primarily through compressing imports and cutting investment, this has been at the expense of a decline in per capita real GDP as well as in the country's productive base. Restoration of satisfactory growth levels in Zaire will depend both on the Government's ability to implement the Structural Adjustment Program and on the country's ability to finance the level of imports which are required to sustain its target for real GDP growth of a minimum of 3.5 percent per year. This latter element will depend, both on diversifying exports over the medium-term and, more immediately, on substantially larger inflows of concessional resources (including debt reschedulings on liberal terms).

30. Export diversification is crucial, since prospects for increasing traditional export revenues (from copper, cobalt, coffee and oil) are not encouraging. The world copper market, which over the past decade has experienced slow growth and low prices, is expected to remain depressed in the next decade, while copper production is expected to continue at its current level of 470,000 tons. For cobalt, Zaire's second leading export, world market prospects also remain weak. Even if earnings from non-traditional exports (diamonds, gold, crude oil and manufactures) increase more rapidly, their impact on the balance of payments will remain modest in the short-term. Zaire's terms of trade are not expected to recover to their 1985 level before the mid-1990s. For all of these reasons, increased flows of external resources will be critical for the success of Zaire's Structural Adjustment Program.

31. Consistency and credibility of Government policies will also be vital for the success of the Structural Adjustment Program. This is particularly necessary in the case of Zaire, in view of the deep-seated skepticism--both within Zaire and abroad--about the Government's commitment to structural change, which has resulted both from the overall poor level of economic management over the past twenty years and from specific events, notably the zairianization/nationalization measures of the mid-1970s. Zaire's persistence in carrying out its program of liberalization since 1983, despite the continued difficult external financial situation, has begun the process of restoring investor confidence.

32. The Government has demonstrated its commitment to the adjustment process, particularly by resisting strong pressures in late 1986 to introduce quantitative restrictions and to reverse market-oriented economic policies in the face a severe foreign exchange crisis. The full restoration of investor confidence, and along with it the necessary inflow of resources to Zaire to allow it to achieve its full economic potential, is a longer-term process, however--and one whose realization depends on the Government continuing to send clear signals concerning its commitment to promote an environment in which the private sector can flourish.

PART II - THE GOVERNMENT'S STRUCTURAL ADJUSTMENT PROGRAM

A. The Adjustment Strategy

33. The process of restructuring the economy, and reorienting society at large, from predominantly rent-seeking to more productive activities has only just begun to make significant progress. Overcoming the numerous, and interrelated, constraints facing Zaire's development will be a long-term process requiring action on a number of different fronts. In order to achieve the dual objectives of stabilization and structural adjustment, the Government has drawn up a medium-term Structural Adjustment Program (SAP) containing a consistent set of policies and targets through 1989.

34. The first phase of the Structural Adjustment Program focusses on immediate steps to generate short-term response, in order to strengthen support for the Program, as well as to establish a strategic framework for longer-term adjustment. In particular, the initial focus of the SAP is be on:

(i) maintaining the key orientations of macro-economic management (exchange rate, interest rates, price liberalization, and trade regime);

(ii) improving the efficiency of credit markets and strengthening the supervision function of the Central Bank;

(iii) improving the performance of key sectors and strengthening control of public expenditures, as well as changing their composition in favor of high priority capital expenditures.

35. The thrust of Zaire's structural adjustment policy is the promotion of private sector activities, and the authorities are committed to pursuing policies to further improve the environment in which private enterprises operate. This includes revising the investment code, providing an increasing share of domestic credit to the private sector, and facilitating private capital inflows through the provision of adequate guarantees and through the establishment of a debt/equity swap mechanism. Vigorous pursuit of these measures will also contribute substantially to redressing the pervasive problem of lack of confidence, both domestic and external, in the Zairian economy.

36. The tariff reform being implemented as part of the industrial sector adjustment program has already begun to eliminate the major

disparities still existing in rates of effective protection, particularly in low domestic value added industries. By 1990, a more uniform tariff structure will be in place, with average nominal rates in the range of 20-40 percent. Agricultural products will also be protected within the overall tariff structure. In addition, a corrective mechanism will be designed for products such as meat and sugar, imports of which are subsidized by exporting countries, on the basis of the results of an ongoing study to avoid damage to domestic production. Quantitative restrictions which were recently imposed on textile and meat imports will be eliminated. The series of export promotion measures initiated under the Industrial Sector Adjustment Program--including measures to simplify export procedures, abolish export taxes and reduce bureaucratic constraints--will also be extended to agricultural exports.

37. The Government will continue its policy of price and interest rate liberalization and will seek to ensure full implementation of liberalization in different parts of the country, especially for agricultural products. In order to ensure efficient allocation of foreign exchange, and to promote the development of nontraditional exports and efficient import substitution, the Government will continue to maintain a free exchange rate system with a market-determined exchange rate. The Government will also improve the functioning of the interbank market and seek transparency in the rates offered to customers.

38. With regard to the public sector, the Government's strategy is to rehabilitate the country's basic infrastructure, improve public sector management, promote decentralization, and improve social services while promoting the development of human resources. The Government's adjustment program includes a major reform of the public enterprise sector (paras. 48-65). The Government will seek to increase domestic resource mobilization in both the public and private sectors, the latter to be accomplished primarily through maintaining a stable economic environment.

39. On the assumption that an adequate level of external financing is made available to support its program, the macroeconomic framework for the period 1987-91 is consistent with a gradual acceleration in the growth of output.[2] Key macroeconomic indicators are shown in Table 1. Real GDP is projected to increase by 3.0 percent in 1987 (compared to 2.4 percent in 1986), 3.5 percent in 1988-89 and 4.0 percent in 1990-91. In the agricultural sector, output growth (projected at 3.5 percent) is expected to come from import substitution in edible oils, meat, cotton, and grains, and from export crops such as coffee and rubber, reflecting continued application of price liberalization as well as alleviating distribution (and supply) bottlenecks through the implementation of the emergency action program for rehabilitation of rural roads. In the industrial sector, resumption of growth will be facilitated by the restructuring of the incentive structure undertaken under the Industrial Sector Adjustment Program, as well as through the increased availability of foreign exchange to finance inputs of spare parts and raw materials.

2/ For a more detailed discussion of the outlook for economic growth, and a comparison with the prospects in the absence of a Structural Adjustment Program, see the discussion on effects of the adjustment program, Part IV, Section B.

Table 1

ZAIRE : Key Macroeconomic Indicators

	Actual				Prel.		Projected				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1995
GDP Growth Rate	-2.6	0.8	2.7	2.5	2.4	3.0	3.5	3.5	4.0	4.0	4.0
GDY Growth Rate	-6.3	0.1	5.2	1.1	-8.3	0.8	4.2	4.0	4.5	4.6	4.4
GDY per capita Growth Rate	-8.8	-2.5	2.4	-1.6	-8.8	-1.9	1.4	1.3	1.8	1.9	1.7
Consumption per capita Growth Rate	-9.6	1.4	-4.1	-2.3	-3.9	-1.1	0.6	0.7	0.6	1.2	0.9
Debt Service (US$) (1)	584	363	433	530	505	1173	1246	1352	1291	1323	1554
Debt Service/XGS (1)	34.7	20.2	21.3	26.7	24.8	60.8	60.4	60.6	53.8	50.7	43.6
Debt Service/GDP (1)	13.5	7.5	8.7	11.0	8.4	24.5	26.0	27.0	24.1	22.9	20.0
Gross Investment / GDP	14.4	10.9	13.9	18.5	12.2	18.1	18.5	18.4	18.9	18.9	18.3
Domestic Savings / GDP	11.6	9.2	16.7	17.4	12.6	12.8	12.9	13.7	15.2	16.3	19.1
National Savings / GDP (2)	8.4	8.5	10.2	9.3	7.3	2.1	2.3	2.9	4.7	6.1	10.8
Marginal Nat. Savings Rate (%)	4.2	9.4	11.7	10.0	5.4	-9.5	2.3	4.7	10.2	13.6	16.0
Public Investment/GDP	5.5	5.5	6.5	7.5	6.4	10.4	10.4	10.4	10.0	9.1	7.5
Public Savings/GDP	2.7	4.4	4.2	7.9	5.5	7.6	8.8	9.6	9.7	9.0	8.4
Private Investment/GDP	8.9	5.4	7.4	6.0	5.8	7.7	8.1	8.0	8.9	9.8	10.8
Private Savings/GDP	8.9	4.8	12.5	9.5	7.1	4.7	4.1	4.1	5.5	7.3	10.8
Ratio of Private/Public Inv.	1.6	1.0	1.1	0.8	0.9	0.7	0.8	0.8	0.9	1.1	1.4
Government Revenues/GDP	12.0	11.1	15.5	18.6	13.6	16.4	17.0	18.0	18.1	18.2	18.5
Government Expenditure/GDP	23.0	16.3	22.8	24.7	25.4	32.7	30.8	30.5	29.4	29.2	29.5
Deficit(-)/GDP (3)	-11.0	-5.2	-7.3	-6.1	-11.8	-16.3	-13.8	-12.5	-11.3	-11.0	-11.0
Export (GNFS) Growth Rate	12.9	11.7	7.2	2.6	19.1	-5.2	1.8	3.2	3.0	3.4	4.2
Exports/GDP	38.3	37.0	40.3	40.7	33.2	39.5	42.3	43.6	44.1	44.2	45.2
Import (GNFS) Growth Rate	-10.4	-1.2	-0.6	-4.2	-1.9	2.3	2.8	2.6	2.4	3.1	3.0
Imports/GDP	44.0	39.4	37.5	36.8	32.8	45.3	47.9	48.5	47.8	46.8	44.4
Current Account Balance(2)	-598	-233	-239	-199	-297	-765	-773	-770	-755	-729	-571
Current Account/GDP (2)	-13.8	-4.8	-4.8	-4.1	-4.9	-15.9	-16.2	-15.5	-14.2	-12.7	-7.4

(1) From 1987 onwards, figures represent debt service obligations, from 1981 to 1986 they represent actual debt service payments net of reschedulings.
(2) Between 1980 and 1986, the data are after debt reschedulings. From 1987 onwards on the basis of scheduled interest payments.
(3) Deficit of Central Government on a commitment basis, before reschedulings of interest payments on external debt.

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40. A key element in the Structural Adjustment Program will be a reversal in the decline in the country's productive base, reflecting both full implementation of the core public investment program and increased private investment; the overall investment ratio is forecast to rise from about 12 percent in 1986 to 18.9 percent in 1990. Domestic savings is forecast to increase from 12.6 percent in 1986 to 15.2 percent in 1990, due primarily to increased savings of the public sector. This in turn will reflect more effective resource mobilization resulting from the fiscal reform measures being implemented under the SAP, increased efficiency of the public enterprises, and continued prudent expenditure policies. In this connection the Government has agreed to a set of budgetary targets within the framework of the new stand-by arrangement with the IMF, approved by the Fund's Executive Board on May 15, 1987.

41. Even with the relatively modest targets for output growth, the external current account deficit (excluding official transfers) is projected to increase from US$470 million in 1986 to US$763 million in 1987, and remain at about this level through 1990 on account of the expected shortfall in export earnings and scheduled interest payments on external debt (Table 2). Taking into account scheduled amortization payments, and allowing for a minimal build-up in international reserves, the average annual external financing requirement over this period would be approximately US$1.8 billion. Approximately half of this requirement would be met by grants and loans already committed, on the basis of projected disbursements pipelines of bilateral and multilateral agencies. Other sources of financing would be the IMF's Structural Adjustment Facility and scheduled purchases under the stand-by arrangement from the IMF. The remaining financing gap would average about US$850 million per year over the period 1987-90. New commitments of external resources will thus be essential to allow Zaire to implement its public investment program and to allow the private sector to fulfill its intended role as the principal source of future economic growth. At the meeting of Paris Club held on May 18, 1987, Zaire obtained rescheduling of its official debt totalling US$885 million, covering May 1987-April 1988 period. Extensive debt reschedulings on exceptional terms will continue to be required to alleviate the burden on both the balance of payments and government budget.

42. The pace at which Zaire would reach "the light at the end of the tunnel" will, however, depend on the terms and conditions of financing its external financing gaps in the years to come. Sensitivity analyses indicate that if the financing gaps were to be filled on concessional terms,[3] cumulative financing gap through 1992 would be about US$500 million lower than currently projected. Further sensitivity analysis shows that renegotiation of all previously scheduled debt at extended terms and concessional interest rates would make the financing gap disappear by the early 1990s.

3/ With extended maturities and concessional interest rates. Longer grace periods and maturities would help avoid ballooning of principal payments in the mid-1990s and maintain the actual debt service ratio within manageable limits.

Table 2

ZAIRE : Balance of Payments

(US$ millions at Current Prices)

	Actual						Projections						
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1995
A. Exports of Goods & NFS	1772	1658	1786	2033	1978	2002	1893	2027	2189	2357	2561	2784	3507
1. Merchandise	1678	1601	1686	1918	1852	1846	1715	1831	1979	2137	2323	2525	3181
2. Non Factor Services	94	57	100	115	126	156	178	196	210	220	238	258	325
B. Imports of Goods & NFS	2149	1905	1903	1870	1772	1975	2169	2296	2424	2554	2711	2877	3440
1. Merchandise	1691	1545	1444	1399	1413	1550	1714	1827	1940	2054	2178	2288	2749
2. Non Factor Services	458	360	459	470	359	425	456	469	484	500	533	589	691
C. Resource Balance	-377	-247	-117	163	206	27	-276	-269	-235	-197	-150	-93	67
D. Net Factor Income	-471	-496	-409	-571	-569	-575	-618	-642	-681	-702	-719	-768	-813
1. Factor Receipts	57	26	15	27	27	33	35	37	41	45	51	48	56
2. Factor Payments	528	522	424	598	596	608	653	679	722	747	770	816	869
o/w Interest	329	341	336	425	390	457	510	563	536	549	560	594	664
E. Net Current Transfers	196	101	124	31	84	78	130	138	146	143	140	155	176
(Private)	-4	-9	3	-91	-55	-62	-68	-66	-64	-73	-88	-75	-75
(Public)	200	110	121	122	139	140	198	204	210	216	228	230	251
F. Current Account Balance	-652	-642	-401	-377	-279	-470	-765	-773	-770	-756	-729	-707	-571
G. Long Term Capital Inflow	386	408	319	166	137	380	89	-2	-102	30	-58	-108	-253
1. Direct Investment	6	6	5	6	6	5	5	15	25	32	38	44	63
2. Official Capital Grant	48	50	52	52	60	60	54	53	50	59	55	62	68
3. Net MLT Loans	-169	-179	-197	-295	-295	-199	49	-28	-152	-60	-151	-214	-384
a. Disbursements 1/	251	190	145	135	157	283	552	489	467	468	465	478	565
b. Repayments	420	369	342	430	453	482	503	517	619	528	616	692	949
4. Other LT Inflows 2/	501	531	459	402	367	514	-19	-43	-25	0	0	0	0
H. Other LT Cap. Flows	45	104	-20	79	107	69	10	54	67	91	105	109	100
I. Change in Net Reserves	220	129	104	134	36	22	-53	-138	-171	-199	-143	-91	-25
1. Net Credit from the IMF	107	94	112	107	66	-15	29	-106	-146	-174	-118	-66	0
2. Other Reserve Changes (- indicates increase)	113	35	-9	27	-30	37	-82	-32	-25	-25	-25	-25	-25
Overall Balance							-719	-866	-976	-833	-826	-796	-748

1/ Excludes part of private capital flows included in Other LT Capital Flows (line H).
2/ Includes changes in arrears and, for the period 1980-86, debt reschedulings.

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B. The Government's Short-Term Financial Program

43. The Government's short-term financial program under the stand-by arrangement concluded with the IMF aims at reestablishing domestic and external equilibria. Monetary and credit policies in 1987 will aim at reducing inflation which would also stabilize the rapid depreciation of the currency, while stimulating economic activity by providing the private sector with a significantly larger share of credit. While the overall Government budget deficit (after rescheduling) is forecast to increase slightly in 1987, budgetary financing through the domestic banking system will be reduced by half. Consistent with the target for an increased level of international reserves (see below), broad money growth is projected to be held to 35 percent, significantly below the projected increase in nominal GDP. One of the critical elements of macroeconomic management in 1987 will be reducing the very high level of inflation observed in the first quarter of the year. While the average inflation rate for 1987 is expected to be 44 percent, inflation is expected to decelerate substantially in the second half of the year--to an annual rate of less than 25 percent-- with fiscal and monetary restraint during the remainder of the year.

44. The implementation of the structural adjustment policies foreseen under the proposed SAL will be critically affected by the tight external financial constraint imposed by the projected drop in export revenues and by the heavy schedule of external debt payments in 1987-88. The end of the large destocking process -- particularly in coffee and cobalt -- which accounted for a large part of the 19 percent export volume growth in 1986 is likely to be accompanied by a further decline in the terms of trade, leading to a further reduction in export revenues in 1987 of about US$130 million compared to 1986.

45. In 1987, the balance of payments is expected to show a significant deterioration, and little improvement is expected in 1988 because of continuing weak export price prospects. The projected current account deficit of US$961 million (excluding official transfers) accounts for about half of Zaire's external financing requirements in 1987. The remaining part of the external financing requirement comes from repurchases from the IMF and scheduled amortization payments on external debt. Of the about US$1.7 billion total financing requirement in 1987, US$967 million is expected to come from grants, M&LT loans and the IMF. The disbursement levels of M&LT loans for 1987 and 1988 are based on disbursements on already committed loans (US$431 million and US$281 million) and disbursements from expected new commitments (US$131 million and US$262 million, respectively):

	1985	1986	1987	1988
Total External Financing Requirement	1059	1194	1724	1794
Grants	199	200	252	257
M&LT Loans	265	351	562	543
Bilateral	56	108	171	155
Multilateral	102	183	381	334
Private a/	107	60	10	54
Direct Foreign Inv.	6	5	5	15
IMF b/	172	95	186	120
Sub-total	642	651	1005	935
Financing Gap	417	543	719	860
Debt Rescheduling	417	543	..	..

a/ includes errors and omissions and capital not elsewhere included for 1985 and 1986.
b/ includes purchases under the new stand-by arrangement only through May 1988 plus disbursements from the SAF

46. For the next two to three years, a larger share of new commitments will have to be in the form of quick-disbursing balance of payments assistance to finance private sector requirements for capital and intermediate goods imports. This is in line with Zaire's development strategy in which the private sector is expected to be the principal engine of growth. In 1987, disbursements on IDA/AF industrial sector credits and on the proposed SAL are estimated to be US$135 million. If disbursements from known commitments of parallel financing from bilateral sources are added, known quick-disbursing import financing flows would be around US$150 million. For 1988, the need for quick-disbursing flows will be even greater. To the extent that the remaining financing gap is not covered by debt reschedulings, the difference will have to come in the form of quick-disbursing aid both for 1987 and 1988. For this reason, active donor support of the Government's Structural Adjustment Program will be of paramount importance in assuring its successful implementation. In this connection, a meeting of the Consultative Group for Zaire was held in Paris on May 21-22, 1987 and favorably reviewed the structural adjustment and the public investment programs. At the Consultative Group, aid indications from Zaire's principal donors showed that Zaire would be able to mobilize most of the external resources to finance its program in 1987 and 1988.

PART III - THE STRUCTURAL ADJUSTMENT PROGRAM 1987-88

47. The Structural Adjustment Program, which the proposed SAL would support, covers the period mid-1987 to end-1988. The program is outlined in the Government's Letter of Development Policy and attached sectoral policy statements (Annex III) and covers seven main areas: (i) public enterprise reform; (ii) public expenditure programming and policies; (iii) fiscal reform; (iv) financial sector policies; (v) agriculture sector policies; (vi) transport sector policies; and (vii) civil service reform. In addition, an important element in the successful implementation of the Structural Adjustment Program is the continued reform of trade and industrial policies being carried out as part of the Industrial Sector

Adjustment Program. The Structural Adjustment Program will be implemented by the various government departments and agencies involved in the reform process, under the coordination of the Ministry of Planning. A proposed Technical Assistance Project, being submitted separately to the Executive Directors, is designed specifically to assist in the implementation of programs initiated under the SAL. Support necessary before the effectiveness of the Technical Assistance Credit is being financed under a Project Preparation Facility advance for this Credit.

A. Public Enterprise Reform

48. The parastatal sector in Zaire comprises 53 wholly-owned public enterprises, of which 30 are engaged in commercial or productive activities. In addition, there are about 80 mixed enterprises with a state participation varying from less than 10 to over 90 percent of the nominal capital. The wholly-owned public enterprises dominate key economic sectors including mining, energy and transport, as well as traditional areas such as public utilities and communications. They account for nearly 40 percent of GDP, more than 80 percent of export revenues, and 85 percent of total public investment. For the mixed enterprises, the State is usually a passive partner, entrusting management to the private shareholder. The difficulties of mixed enterprises do not, therefore, stem from state participation per se, except for the fact that some are undercapitalized due to the Government's inability to contribute its full financial share.

49. Despite the great economic importance of the parastatal sector, wholly-owned public enterprises have for a considerable time performed poorly, both in terms of their financial contribution to the State and as agents for promoting growth and development. Indeed, heavy losses, stemming from the misallocation and mismanagement of resources by public enterprises were major factors leading to the severe economic and financial crisis of the early 1980s from which the country is still struggling to recover. While there has been some improvement in recent years, public enterprises continue to represent a significant net drain on government resources. With the exception of Gecamines, public enterprises pay virtually no tax and make only a small contribution to the Treasury in the form of dividends: the State received, on average, a return of 0.9 percent on its registered equity capital in wholly-owned enterprises between 1983 and 1985. A number of enterprises have failed to cover even their operating expenses for some years, and their payrolls have been met by fiscal transfers. These transfers, however, have been insignificant within the Government's budget. Some of these enterprises are virtually moribund. Most of those that do operate are in need of varying degrees of financial, managerial and structural rehabilitation. Moreover, the sector receives implicit subsidies from the State through the assumption by the Central Government of a high proportion of public enterprise debt service payments. In recent years, this has amounted to about 3 percent of GDP and 15 percent of government revenues.

50. While the poor performance of public enterprises has been influenced by the general economic environment, including falling international prices for key export products, it stems mainly from the weaknesses of the overall policy framework governing the parastatal sector and the consequent poor quality of enterprise management. Responsibility

for enterprise supervision is divided between two and sometimes three ministries; this makes it difficult to establish and monitor a coherent set of performance evaluation criteria. The legal definition of wholly-owned public enterprises, which embraces a wide variety of entities, both reinforces this difficulty and also reflects the lack of a clear policy concerning the delineation of those activities in which the State should be directly involved. There is no effectively functioning division of responsibilities between the enterprises, the sectoral ministries and the core ministries concerning sectoral strategies and objectives. Consequently, the planning and coordination of enterprise investment is weak, sometimes leading to the construction and operation of projects which are financially and/or economically nonviable. The procedures and principles for the recruitment, remuneration and dismissal of senior enterprise management provide little, if any, incentive to increase efficiency. Financial and managerial information, both within the enterprises and flowing between the enterprises and the Government is inadequate and outdated. Few enterprises have satisfactory internal accounting procedures or budgeting systems, while corporate planning is in its infancy even in the major enterprises.

Reform Measures Taken to Date

51. The Government has, since the mid-1970's, undertaken a number of partial initiatives aimed at improving parastatal sector performance. These have included the restructuring of the Gecamines group; removal of Petrozaire's import monopoly for petroleum products; the privatization of about 30 state farms and a publicly-owned retail chain; the execution of management contracts between some public enterprises and private companies under which the latter assume full management responsibilities; the introduction of an automatic rate adjustment mechanism and regionally-differentiated tariffs for the power sector; the liquidation of 17 loss-making enterprises including agricultural marketing boards, transport companies, and some commercial and service agencies; important revisions to the tariffs of public utilities and some transport enterprises; and the establishment of planning units in some enterprises and sector agencies. The limited impact, thus far, of most of these measures reflects the continued inadequacy of the overall policy framework and the need to carry the process of privatization and liquidation considerably further.

The Government's Reform Program

52. Given the economic importance of the parastatal sector and the magnitude of its problems, parastatal reform is clearly a key element in the Government's overall structural adjustment program. The fundamental objective of the reform effort is to improve the allocation of resources by placing greater emphasis on private initiative as the driving force of economic growth, and by creating a framework which encourages greater efficiency and profitability for those activities which remain in the State's domain. The strategy for the achievement of this broad objective has three basic elements. First, the Government intends to privatize, wholly or partially, a substantial proportion of activities currently carried out by wholly-owned public enterprises. In addition, the Government will progressively diminish its share in those mixed enterprises which it does not consider strategically vital to its interests by

permitting the private partner to increase its proportion of ownership through new capital contributions. Second, the Government intends to rapidly liquidate those enterprises which are unlikely to ever become economically or financially viable. Third, for those enterprises remaining wholly in the public sector, the Government will take a series of measures to increase their efficiency, including the establishment of a substantially modified institutional and legal framework for the supervision of enterprises and the evaluation of their performance.

53. One of the principal requirements for the success of the reform effort will be the establishment of an adequate flow of managerial and financial information to enable the Government to assess more accurately the economic impact of enterprise activities and of alternative courses of action. UNDP-financed, Bank-executed studies to systematically address the question of public enterprise finances, including the identification of all resource flows and cross debts, as well as to recommend appropriate changes to the overall public enterprise management environment are being prepared by a group of consultants. These studies are expected to be completed by October 1987. Although some policy actions have already been taken, and others will precede the completion of the consultants' work, the studies are expected to provide a further, detailed, classification of enterprises to be either divested or closed down, and general recommendations concerning the rehabilitation and restructuring of the remainder. Following the conclusion of the studies, the Government will continue to maintain and update the information systems put in place.

(i) <u>The Privatization Process</u>

54. Regarding wholly-owned public enterprises, the Government has affirmed in its Letter of Development Policy that it will initiate, before February 1988, the process of privatizing appropriately classified enterprises or activities. The execution of the privatization policy will be a lengthy process, as many enterprises likely to be privatized may require some financial and managerial restructuring before their assets can be sold. Moreover, the Government recognizes the importance of preceding privatization with appropriate modifications to the markets in which public enterprises operate. All special privileges which these enterprises currently enjoy, including tax exemptions, legal monopolies and special tariff protection, will be removed. The enterprises will thus be subject only to the Investment Code and other liberalized market regulations which govern the activities of mixed and private companies. By the same token, these enterprises will no longer be subject to any special obligations concerning matters such as pricing or employment policy or the construction and operation of financially nonviable projects.

55. By September 1987, the Government will prepare a list of those mixed enterprises in which it wishes, for strategic reasons, to retain its current proportional shareholding. For the remaining mixed enterprises, the private partner will be at liberty to progressively increase to 100 percent the proportion of its ownership through new capital injections. These measures will not only be beneficial for the individual companies concerned, many of which are suffering from serious undercapitalization, but will provide an important boost for private investor confidence generally. At the same time, the Government will rationalize the situation

of a number of nominally private but de facto public enterprises, especially commercial farms, which are still suffering the consequences of the nationalization/zairianization program of the early 1970's. These entities, or their assets will now be rapidly sold to the private sector; the process is expected to be well underway by the end of 1987 and completed by mid-1988.

56. To facilitate the privatization process of both wholly-owned and mixed enterprises, while at the same time easing the external debt burden, the Government will, by November 1987, establish a mechanism for the promotion of external debt/equity swaps. Holders of Zairian external debt obligations will have the opportunity to exchange these for equity in privatized state assets. When a market in such instruments is established, this is expected to encourage the return of some of the capital held abroad by Zairian nationals.

(ii) Liquidation of Loss-Making Enterprises

57. At an Executive Council meeting in late April 1987, the Government decided to liquidate the following three public enterprises: Institut Zairois de Management (Zairian Management Institute), Centre du Commerce International (International Trade Centre) and Office National de Logement (National Housing Agency). For all three enterprises the Government will, by September 1987, take the necessary legal steps to enable the liquidation process to be completed. These will include provisions for the sale of assets, the compensation of dismissed employees, and the settlement of outstanding debts. The enterprises concerned are those which the Government considers clear cases for closure without the need for further study. By October 1987, a further list for liquidation will emerge from the studies to be undertaken, and the liquidation process for such enterprises will be begun no later than February 1988.

(iii) Enterprises Remaining in the State Portfolio

58. For those enterprises which are to remain wholly owned within the public sector, the Government will pursue policies aimed at increasing economic efficiency through a wide range of legal and institutional measures. Principal among these are:

(a) Establishment of a new institutional framework

59. After the above mentioned studies have been completed, the Government will, by September 1987, decide upon the structure and location of a new supervisory body to carry out the necessary coordinating, advisory, monitoring and evaluation functions that are not being adequately performed under current arrangements. The structure will be small and simple with the necessary professional skills and political backing to effectively perform its task. It will replace the current Ministry of Portfolio and will be responsible for coordinating public enterprise matters with both core and sectoral ministries. The new framework will be put in place by February 1988.

(b) Rationalization of legal framework

60. Parallel with this institutional reform, the Government intends to modify the existing law governing public enterprises. This modification will, *inter alia*, separate commercial and industrial enterprises from those entities of a largely administrative nature which, while retaining some autonomy, will be governed by a separate Law of Public Establishments. The draft laws have been prepared and discussed with the Bank; they are expected to be enacted and applied by January 1988.

(c) Enterprise management incentives

61. One of the fundamental objectives of the Government's reform effort is to increase the autonomy and accountability of enterprise management. This implies not only a supervisory and monitoring framework designed to this end, but also the establishment of a new system of procedures and regulations for the appointment, dismissal and remuneration of management. While the appointment of company presidents and boards of directors will remain the prerogative of the highest political authorities, the new supervisory agency will provide advice on the qualifications of alternative candidates. The agency will also establish criteria for evaluating enterprise and hence management performance. The new procedures will be defined during the course of the studies and put in place by February 1988. Once they are fully operational, remuneration of public enterprise management will be increased to compete with levels prevailing in the private sector.

(d) External factors affecting enterprise performance

62. The Government will, through the mechanism of the supervisory agency, clearly define non-commercial obligations of each enterprise that may affect its financial performance, and devise an adequate system of compensation. The principal characteristics of this system will be discussed with the Bank and decided by February 1988. To the extent possible, such obligations will be eliminated by that date as will all special exemptions and privileges accorded to public enterprises which compete with private and mixed enterprises.

(e) A posteriori financial control

63. Even a well devised system of supervision and management would be inoperable in Zaire in the absence of a substantial improvement in the quality and quantity of financial information available to both the Government and enterprise management. Proper accounting procedures will be gradually introduced in each enterprise; considerable progress has already been made in recent years in several major enterprises which are Bank or IDA borrowers. To reinforce the process, the Government will amend existing laws and regulations to oblige all public enterprises to submit their accounts to an annual audit by an appropriately qualified agency outside the public sector. This reform will be included in the draft laws to be prepared by June 1987, and enacted and applied by February 1988.

(f) Financial rationalization

64. The Government should, by the end of October 1987, have substantial information available on financial flows and cross debts identified in the studies to be completed by that time. Using this information, the Government proposes to eliminate all cross debts by February 1988, at which time a timetable for the elimination of remaining outstanding debts will be prepared and discussed with the Bank. The studies should classify those enterprises which are fundamentally viable but unable to operate effectively due to a number of internal constraints. An outline plan and action program for the financial, managerial and structural rehabilitation of these enterprises will be prepared for discussion with the Bank by February 1988.

Technical Assistance

65. Compliance with this wide ranging and demanding program will require technical assistance over and above the UNDP-financed/Bank executed studies of the public enterprise sector. The requirements until February 1988 would be met from the Technical Assistance Project (para. 47) which is being processed in parallel to assist in the implementation of the Structural Adjustment Program. These include support for: (a) the establishment and operation of information systems, initially in the Ministry of Portfolio, and subsequently to be used by the new supervisory agency; (b) preparation of an outline plan for the rehabilitation of selected public enterprises; (c) preparation of the technical aspects of the liquidation and privatisation processes; (d) preparation of a plan and detailed timetable for the elimination of outstanding debts after the elimination of cross debts; and (e) the establishment of the necessary legal and technical mechanisms for a debt/equity swap program.

B. Public Expenditure Programming and Policies

66. A key component in the improvement of public sector management will be the progressive establishment of a system of public expenditure programming. Such a system will provide the Government with a comprehensive view of the resources at its disposal and help eliminate the current inadequacies in budgetary allocations and management.

67. The first phase of such a system is the implementation of a three-year rolling public investment program (PIP), to be revised each year to reflect project implementation and availability of external resources. The investment program comprises a core and a stand-by project program. The core program is designed to reflect the likely evolution of financial resources. The stand-by program includes projects which could be implemented if additional resources become available. The PIP referred in this report corresponds to the core program. A PIP for the 1986-89 period was prepared jointly with the Bank in early 1986 and presented to donors at the meeting of Consultative Group in April 1986. The Government has updated the PIP to cover the 1987-90 period, to assure its compatibility with the availability of resources, both domestic and external. In view of

the continuing tight external financing prospects, the Government has decided to reduce (by about one third) the size of the core PIP for 1987 and to rephase existing projects over the 1988-90 period to reflect a slower implementation schedule.

68. The major focus of the PIP is on projects, with adequate economic justification, to rehabilitate infrastructure in the agriculture, transport, mining, electricity, water supply, telecommunications, education and health sectors. Most of these projects are ongoing, and a small number (mainly in the mining and transport sectors) account for the bulk of the core program. Investment expenditures for the PIP for projects outside the sectors listed above, which are justified on other than economic grounds, will not exceed a ceiling to be determined during the annual review of the PIP; for 1987, this ceiling has been set at Z 1.5 billion (US$15 million, at the April 1987 exchange rate).

69. In 1986, actual spending under the PIP, as well as disbursements on external loans, was 67 percent of the anticipated level. This shortfall arose from several factors, including: (i) depressed copper and cobalt prices which contributed to the reduction of Gecamines' capacity to implement its investment program; (ii) shortfalls in budgetary receipts, which led to a substantial reduction in spending under the investment budget (about Z 1 billion, compared to initially budgeted expenditures of Z 3.2 billion), which finances the major part of domestic expenditures for projects in agriculture and the social sectors. At the same time, more than one third of spending under the investment budget was for projects which were not in the PIP; and (iii) public enterprises in the transport and power sectors generated smaller than anticipated internal funds, due partly to delayed increases in tariffs. For the Office des Routes, domestic resources fell short of expectations because of difficulties in collecting road tax, as petroleum prices were not adjusted sufficiently to reflect the depreciation of the zaire.

Composition of the Public Investment Program

70. Table 3 provides information on the revised PIP for the 1987-90 period, by sector and source of financing. The overall size of the 1987-90 PIP is Z 134 billion (in 1986 prices), or about US$2.3 billion. The PIP includes Gecamines' 1986-90 rehabilitation program, for which the entire amount of external financing required (US$260 million) has already been committed, and major rehabilitation programs in the transport, water supply, electricity, education, agriculture and health sectors. More than half of the PIP is accounted for by Gecamines and investment projects in the transport sector.

Table 3. Public Investment Program 1987-90
(in billions of 1986 zaires)

Sector	Total Cost (Z)	Percentage Share (%)	Financing			
			Domestic	Foreign		
				Total	of which Committed	of which Uncommitted
Agriculture	13.5	10.0	3.9	9.6	6.3	3.3
Mining	34.9	26.0	18.8	16.1	15.6	0.5
Energy	18.1	13.5	5.3	12.8	9.4	3.4
Transport	38.7	28.8	10.5	28.3	19.4	8.9
Water	11.6	8.6	5.5	6.1	4.3	1.8
Telecom.	2.3	1.7	1.2	1.1	0.2	0.9
Education	3.6	2.7	2.0	1.6	0.2	1.4
Health	4.3	3.2	2.1	2.1	1.8	0.3
Urban	3.2	2.4	1.5	1.7	0.2	1.5
Other	4.2	3.1	1.8	2.4	2.4	-
Total	134.4	100.0	52.6	81.8	59.7	22.1
(US$ billions)	2.3	100.0	0.9	1.4	1.0	0.4

71. In the process of updating the PIP for 1987, some new projects have been added, notably an emergency rural road rehabilitation project to be financed through the Investment Budget. The Government has also initiated actions with regard to a number of other projects for which the Bank has requested clarification: (i) in the energy sector, a decision will be taken on whether to convert part of the Inga-Shaba power line from direct to alternating current, replacing several projects for generation and transmission and thus reducing the overall size of the present power sector investment program; (ii) in the mining sector, the Government has approached one of Brazil's largest construction companies to rehabilitate the Kilo Moto gold mines. However, while the rehabilitation of the Kilo Moto gold mines is potentially a sound project, it will require in-depth engineering studies before a realistic calendar and accurate assessment of costs can be determined.

72. Approximately 70 percent of the external financing required to finance the 1987-90 public investment program has already been secured. The remaining financing gap for the 1987-89 period is US$200 million, and an additional US$200 million in 1990. About half of the financing gap is in the transport sector, reflecting the large rehabilitation needs of the Office des Routes, SNCZ and ONATRA.

Institutional Mechanisms

73. As part of its Structural Adjustment Program, the Government has decided to adopt a series of measures which will facilitate a better implementation of the public investment program. In particular, the Government will take the necessary actions to coordinate the preparation of the PIP with that of the budget, so that the investment budget matches the annual tranche of the Government's contribution to the PIP. Following its joint review with the Bank, the PIP will be circulated each year by the Prime Minister to all Government departments in order to facilitate its full and timely implementation. The Government will ensure the timely release of its part of domestic financing, and for this purpose a special account will be set up at the Bank of Zaire, to be managed by the Ministry of Plan. The authorities are also committed to making appropriate tariff adjustments for public enterprises to allow them to contribute their expected share to the domestic financing of the PIP.

74. To reduce the financial costs, the Gov rnment will minimize recourse to non-concessional loans for financing of the PIP. For this purpose, during the annual review of the PIP an annual ceiling on non-concessional loans will be determined. For 1987, non-concessional commitments will not exceed US$15 million (excluding export-oriented projects in the mining sector). The Government will also strengthen the external financing coordination unit in the Ministry of Planning, in order to monitor aid disbursements and to identify problems to be resolved in consultation with donors in the context of the "Follow-up Commission" (Commission de Suivi), a monitoring mechanism consisting of local donor representatives of the members of the Consultative Group.

75. The Government will reexamine institutional arrangements and procedures within the central ministries and key technical departments and agencies, in order to move gradually towards a unitary budget structure combining recurrent and capital expenditures in the form of a three-year rolling public expenditure program. For this purpose, and to improve the allocation of real resources (especially in favor of social sectors which have been largely neglected in recent years), starting in 1988 the Government will begin to develop public expenditure programs for selected sectors (agriculture, health and education). As described in the section on fiscal reform, the Government also intends to promote greater budget transparency through the elimination of a large number of the extrabudgetary charges and funds which have proliferated in recent years.

76. In order to continue exerting fiscal discipline and improve the transparency of public sector accounts, the Cour des Comptes (an autonomous agency with responsibility similar to those of the General Accounting Office in the U.S.) will be strengthened. In this regard, initial recruitment and training program for the Cour des Comptes staff and strengthening of the Inspectorate Department of the Ministry of Finance will be given a high priority.

C. Fiscal Reform

77. In-depth reform of tax policy and administration is a central element in the Government's overall development strategy. It is essential to improve the economic framework within which firms operate, as part of a concerted effort to eliminate hindrances to profitable activity and to generate investment and growth. While the tax effort (volume of taxes collected in relation to the size of the economy) is modest (under 14 percent of GDP in 1986), private businesses are taxed disproportionately. Although exemptions are widespread and a weak administration affords ample opportunities for evasion and fraud, it is often the more efficient and dynamic producers that bear the brunt of the tax burden. There is in addition the very pervasive problem of parafiscal charges -- a wide range of *de facto* parallel taxes raised by various authorities outside the central budget -- which add to the final tax burden on firms and to the lack of coordination and predictability of overall tax policy.

78. The solution, however, does not lie simply in a reduction of tax rates. It is imperative for the Government to find additional revenues, both to help close the fiscal gap (expected to exceed 16 percent of GDP in 1987)[4] while at the same time relieving some of the pressure that would otherwise be placed on public expenditures.

79. The Government has drawn up a program to strengthen its tax policy and administration, focussing on three major objectives:

(i) To broaden the tax base, by ensuring that taxes are levied on a much higher proportion of private enterprises and higher income individuals. This will require redefining and clarifying certain aspects of the system of corporate and personal income taxation and improving its administration;

(ii) To eliminate unnecessary tax distortions, particularly any taxes or features of taxes that penalize producers generally (cascading input taxes; fiscal hindrances to financial intermediation), or exporters in particular; and,

(iii) To harmonize tax law and policy, eliminating or reducing inconsistencies and enhancing overall coordination. This requires mutually reinforcing actions on a number of fronts, including the collection of the fragmented body of tax legislation and regulations into a single and widely available tax code; the process of elimination of the fiscal fragmentation represented by numerous parafiscal charges; and the strengthening of the Ministry of Finance's informational base and policy-making capabilities.

80. The Government's program of action for fiscal reform draws on several PPF-financed studies which have been recently completed. It reinforces and is complementary to related reform efforts currently

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4/ Before rescheduling of interest payments on external debt.

underway, in particular the program of reduction in the levels and variability of protection adopted under the Government's Industrial Sector Adjustment Program and an ambitious program of operational support to the administration of the country's Tariffs and Excises Department (OFIDA) which is being provided by the European Economic Community. The measures in question can be described under four broad areas: (a) parafiscal charges and fiscal coordination; (b) taxes on production, consumption and trade; (c) the taxation of company incomes; and (d) tax administration.

Government measures

a. Parafiscal Charges and Fiscal Coordination

81. Resolving the problem of the excessive number of parafiscal charges requires, in the first instance, the elimination or rationalization of those charges whose effects are most harmful, whether because of their undesirable effects on producers and exporters, or because of the absence of any justification for earmarking or separate administration of the revenues in question. The Government has decided to take the following immediate measures:

(i) To consolidate into the central budget and remove the earmarking of the following Special Funds: Fonds de Convention de Developpement's 10 percent share in turnover taxes (estimated at Z 1.3 billion for 1987; used for concessional rural loans), the Fonds Special du Tresor No. 1 (Z 350 million; for Cabinet discretionary use) and the less significant taxes raised (but used mostly for the administration of) the Fonds de Securite à l'Energie and the Fonds de Promotion du Tourisme;

(ii) To eliminate the two percent tax on all agricultural exports raised for the Fonds Agricole (over Z 200 million; used for concessional agricultural loans) as well as nearly 20 minor but undesirable taxes raised by various Government Departments other than the Ministry of Finance; and

(iii) To unify the currently-duplicated interventions on coffee markets of the two quality control boards (OZAC and OZACAF) and to reduce and rationalize their charges to exporters.

82. At the same time, the problem of parafiscal charges goes substantially beyond short-run corrective actions. It is estimated that Zaire presently has more than 400 fiscal instruments outside the revenue and/or budgeting control of the Ministry of Finance. Detailed information on many of these is not even known, so that their abolition or reform is not a simple matter. In particular, for a number of such taxes which are currently required to meet the needs of local or other authorities, their immediate replacement would be difficult since alternative revenue sources are not readily available. To address these problems, the Government has decided to:

(i) Create an Inter-Ministerial Committee, headed by the Minister of Finance, that will receive semi-annual progress and technical reports and will make recommendations for the progressive rationalization of all parafiscal charges over a 30-month period. These semi-annual reports will form the basis of the Government's dialogue with the Bank concerning the further implementation of the parafiscal reform;

(ii) Strengthen and expand the technical and analytic resources of the Ministry of Finance's Fiscal Studies Department, which will receive and continue to develop the information-gathering and policy work that has been conducted for the Government under PPF financing. This unit will produce the semi-annual reports and will serve as technical secretariat for the Inter-Ministerial Committee referred to in the previous paragraph; and

(iii) Launch a study of local finance, to identify and assess current revenue sources and administrative practices and possibilities and make recommendations for the allocation of bases to different authorities.

b. Taxes on Production, Consumption and Trade

83. The second major area of tax policy where important changes will be introduced by the Government is indirect taxation, of both domestic activities and trade. A program of reduction in the level and dispersion of tariff rates across different sectors was introduced in 1986 within the framework of the Industrial Sector Adjustment Program. This tariff reform program and details for further progress have been decided upon by the Government in the context of the ISAL supervision and SAL appraisal discussions (as summarized in Attachment 3 to the Letter of Development Policy). The Government will now extend its attention in the same systematic manner to the improvement of indirect taxes at the domestic level, seeking to harmonize and extend their coverage, improve their elasticity and performance under inflation, and reduce unwarranted disincentives to producers and exporters.

84. Specific measures which the Government has decided to adopt in this area include:

(i) the transformation of the main excises from specific into ad valorem taxes, at the same time increasing their implicit rates which have been significantly eroded by inflation in recent years;

(ii) the elimination in 1988-89 of the turnover tax (CCA) currently raised on interests payments on credit, given that the latter is an input, not a final service, and that, in times of high inflation, the tax falls largely on the principal owed and not only on the real interest paid;[5] and;

(iii) the introduction of a system of forfeitary turnover taxation for small and medium enterprises (SMEs), in order to both expand revenues and spread tax burdens more evenly.

5/ The CCA on interest payments on agricultural credit will be eliminated in June 1987.

85. In addition, over the medium term, the Government intends to modernize its turnover tax (CCA), which falls mostly on final consumption but contains an element of double (cascading) taxation of inputs. While the Government intends to retain (and perhaps increase gradually) this tax, in order to raise revenues from firms who are able to evade taxes on final sales, the undesirable element of double taxation will be eliminated through the introduction of a crediting system for tax paid on inputs. Preparatory work for the administration of this change will be undertaken in the second half of 1987 under the proposed Bank-provided Technical Assistance Project for Economic Management (para. 47), and a program of action for implementation will be detailed in February 1988.

c. The Taxation of Company Incomes

86. In view of the its limited ability to implement tax changes across the board, the Government has decided that major reform of direct taxation would need to be carried out in several stages. Only one important change was felt to be both urgent and capable of implementation without major preparatory work, namely, the introduction of corrections, on a regular and predictable basis, for the effects of inflation on the taxable income of firms as computed for tax purposes. The details of the inflation adjustments -- in particular the treatment that will be given to the inflation component of interest payments and the corresponding nominal exchange losses -- are yet to be determined, and will be developed in further dialogue with the Bank and finalized by February 1988.

87. The Government has also decided not to introduce into its next revaluation law two provisions made in previous similar laws which were found undesirable. First, the revaluation funds resulting from the revaluation of assets will not be taxed, as these do not reflect a real capital gain. Second, and more importantly, there will be no requirement for firms to reinvest the revaluation funds, as this would introduce a rigidity in the system which is particularly undesirable during a period of structural change. Another decision in the area of company tax, for implementation later in 1987, was to introduce forfeitary taxation of SME incomes, alongside that on turnovers referred to in para. 84 above.

d. Tax Administration

88. The need to improve tax administration in Zaire can hardly be over-emphasized, and has been the subject of detailed recommendations by the joint IMF/Bank fiscal missions (in both a 1982 report and a 1986 update) and operational assistance from the EEC (Customs administration) and, on a more modest scale, from the French Government (mostly training of tax inspectors). Additional efforts, with support and technical assistance from the World Bank, will focus primarily on the improvement of the Tax Department's collection procedures: identification, verification and complaints. The Tax Department will also be reorganized through the creation, in the second half of 1987, of a unit specifically charged with the administration of forfeitary taxation of SMEs. Technical assistance is also envisaged in the context of the proposed Technical Assistance Project

for the modernization of excise taxes (in particular to turn them into ad valorem bases) and for the introduction of the crediting system for the turnover tax, referred to earlier.

89. The improvement of tax administration will also require a revision and strengthening of the overall administrative framework. In particular, Zaire suffers from an enormous fragmentation of tax laws, regulations and decrees, in such a way that it is often impossible for either tax inspectors or taxpayers to know what the latest version of the relevant law or act may be, and hence to ascertain their respective rights and obligations and be able to plan accordingly. The Government has consequently decided to collect, revise and harmonize all tax legislation and regulations, and transform them into a single, coherent and widely available tax code. In the same vein, the Government will improve its analytic strength on tax policy and administration through the reinforcement of both the Tax and the Fiscal Studies departments of the Secretariat of Finance.

D. Financial Sector Policies

90. The financial sector in Zaire consists of the Central Bank, nine commercial banks, and two development banks: Société Financière de Développement (SOFIDE), a mixed institution with 40 percent Government participation, which provides risk capital and term loans for investment projects, and Banque de Crédit Agricole (BCA), owned by the Government. Seven of the commercial banks have more than 70 percent equity participation by a foreign bank. The Government has a minority share in two of them. Of the remaining two commercial banks, one was declared bankrupt and placed under temporary state control pending reprivatization and the other is owned by the Government. The non-bank financial sector includes two subsidiaries of commercial banks specialized in the financing of construction and real estate development, an insurance company (SONAS), a savings institution (CADEZA), a postal savings network (CCP), and a social security fund (INSS). There is also an array of saving cooperatives (COOPEC) which collect small savings and grant loans to their members. These cooperatives are not yet accredited by the Central Bank.

91. The continued oligopolistic nature of the banking system -- the four major commercial banks account for nearly 90 percent of deposits and loans -- along with the strict limits on credits imposed in recent years, have led to a situation in which the allocation of credit is far from optimal in meeting the requirements of an economy undergoing structural transformation. In particular, the existence of large margins of unsatisfied demand for credit has provided commercial banks with the opportunity to provide credit primarily to low risk and high return operations. Credit has been generally extended only to clients who can provide collateral -- often in the form of overseas guarantees -- thus severely limiting the possibility for extending credit to non-privileged customers. Reflecting these factors, credit outstanding to agriculture, manufacturing and transport declined substantially in real terms between 1982 and 1987, while trade-related credit outstanding more than tripled (in real terms). Inadequate term lending also remains a serious problem, as medium-term loans are devoted almost exclusively to banks' larger preferred clients. In addition, all medium-term credits require the advanced approval of the central bank on a case-by-case basis.

92. In September 1983, all lending rates were liberalized with the exception of the interest rate for non-coffee agricultural credit which was fixed by the Central Bank at a level below the rates prevailing in other sectors (it is now at 32 percent). In order to ensure that commercial banks lend at this preferential rate, the Central Bank has had to direct credit to agriculture through the mechanism of project approval outside the credit ceiling. In practice, loans to agriculture have been used to finance a variety of activities.

93. Market-determined interest rates on short-term bank advances currently range from 32 to 37 percent and on medium-term credits up to 40 percent. In addition, borrowers pay an 18 percent tax and commissions which raise the cost of term borrowing to about 50 percent. Interest rates on term deposits, which since 1984 are in competition with treasury bills, range between 35 and 37 percent. Inflation in recent years has averaged about 35 percent.

94. The Central Bank has until now played a relatively minor role in the supervision over the operations of financial institutions. Its primary responsibilities have been to monitor liquidity and reserve requirements, credit ceilings, the banks' foreign exchange position and to gather information through a modest reporting system. The basic legislation and regulations for adequate supervision exist but have generally not been translated into clear instructions for banks. There are, for example, no maximum debt/equity ratios, no clear definitions of a bad debt, nor any guidelines regarding the constitutions of provisions for bad loans.

95. Reform measures supported by the Government's Structural Adjustment Program will focus on improving the efficiency of credit markets and strengthening the supervision function of the Central Bank. The Government has taken the following recent measures. To complete the liberalization of the interest rate structure, the interest rate for agricultural credit is no longer fixed. At the same time, the distinction between allocated and non-allocated credit within the credit ceilings has been discontinued while prior Central Bank authorization for medium-term loans and agricultural credit is no longer necessary. To promote increased competition between banks the credit ceiling would be reduced in subsequent periods for any bank which fails to meet its lending targets. These arrangements will be reviewed periodically by the consultative commission set up to assess the adequacy of credit supply to agriculture.

96. As part of the tax reform component of the proposed operation, the Government has agreed to phase out the CCA tax on interest over a period of two years, reducing the effective cost of term loans to around 37 percent, which is reasonable under present macroeconomic conditions in Zaire.[6] Furthermore, in order to improve the transparency of the cost of commercial bank borrowing, banks will required to make public the composition of the cost of credit including all fees, commissions and other charges.

6/ The CCA tax for agricultural loans has been eliminated in 1987, while for other categories of credits it will be reduced by 50 percent in 1988 and completely eliminated in 1989.

97. In the area of supervision, the Central Bank has introduced a new and more comprehensive reporting system for banks with a view to obtaining better information as a basis for strengthening its supervision function. To the same end, the accounting systems used by the banks will be improved and standardized and changes will be introduced in the treatment of non-performing assets. Furthermore, specific financial ratios to be followed by commercial banks will be established.

98. The savings cooperatives in Zaire constitute a group of intermediaries which could potentially play an important role in savings mobilization, particularly amongst small rural savers, and credit extension to micro-enterprises and artisans. Under the proposed operation and a parallel IDA Credit which supports small-scale enterprises, measures will be taken to prepare a special law regulating savings cooperatives and to carry out a special management audit of the major cooperative networks with a view to identifying weaknesses in the system and formulating an assistance program for their reinforcement. By the end of June 1988, when these actions are completed, a program will be agreed between IDA and the Government aimed at strengthening the cooperatives' financial structure and bringing them into the formal financial system.

E. Civil Service Reform

99. Public administration in Zaire has been characterized by weak personnel management and inadequate remuneration which together have contributed to low levels of efficiency and inadequate provision of public services. Weak management has resulted in overstaffing, double counting, lack of detailed job descriptions and unclear qualification criteria. An unfavorable incentive structure, particularly low salaries, has led to frequent absenteeism and has contributed to the growth of the underground economy. During the 1970s, the Government payroll experienced a rapid expansion, mainly explained by the decentralization of the civil service administration among the various regions. The problems of overemployment and double-counting were exacerbated during this period and contributed to an inflated and uncontrollable public administration. In addition, the serious economic and financial crisis, dating from 1975 and characterized by limited budgetary resources and high inflation, has translated into a continuous decline in the real purchasing power of income of civil servants; the 1986 average represented about one-fifth of the 1975 level. Compared to the 1982 level, the first year of austerity measures under the Government's stabilization program, the real wage of the civil service in 1986 had fallen by 25 percent, despite a series of wage increases.[7] This compares unfavorably with the real wage in the private sector, which since

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7/ The erosion in the purchasing power of civil servants' income is demonstrated by the following estimates, based on criteria established by the trade union (UNTZA): the minimum monthly budget for a family of six at the end of 1986 was equivalent to Z12,500, while the average monthly base salary for the bottom five grades of the civil service was Z 2140 -- a ratio of 6:1.

1982 has recaptured part of the purchasing power lost since 1975. In April 1987, the Government granted a salary increase of 70 percent to the lower seven grades and a 15-50 percent increase to the higher-level grades, which, compared to the expected 40 percent inflation rate, would represent the first real increase in income for civil servants since 1975.

100. Since 1981, the Government has attempted to address the proliferation of civil service employment by various means:[8] (i) systematic retirement of eligible employees during 1981-83; (ii) establishment of a ceiling of 100,000 employees for the civil service in 1981; (iii) placing a freeze on recruitment and promotions since 1983; and (iv) starting in 1985, the undertaking of a complete census of the civil service throughout the country and computerizing the results (this exercise, being carried out with UNDP assistance, is expected to be completed around the end of 1987). These efforts have succeeded in stabilizing (and perhaps slightly reducing) civil service employment mainly by eliminating a number of fictitious and/or redundant employees. As of the end of 1986, the size of the civil service slightly exceeded 117,000, out of a total public administration of nearly 500,000, as compared to 114,000 in 1981 out of a total of 446,000.[9] Preliminary results of the ongoing civil service census indicate that roughly 15 percent of the civil service could be further reduced by eliminating fictitious and redundant employees, assuming, of course, that strict administrative and budgetary controls are in place.

101. To continue its reform efforts, the Government, under the Structural Adjustment Program, will formulate a strategy for the rationalization of civil service employment and remuneration policies, and for the improvement of personnel management. The Government's action program for the reform of the civil service revolves around three aspects: the size of the civil service, the incentive system and planning and management of personnel. The objectives are to: (i) employ an adequate and qualified staff to carry out the various public functions; (ii) provide a remuneration package sufficient to recruit, maintain and motivate the personnel required for the different public services, taking account of the budgetary constraints; and (iii) assure that personnel and other resources are used efficiently in carrying out the programs, services and projects of each department.

102. Although the reform of the civil service is a lengthy process, the Government intends to undertake a number of short-term actions, including:

(i) a reduction in the number of civil servants by continuing the elimination of fictitious employees by September 1987 and the retirement of eligible staff by January 1988. This action implies the completion of the

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8/ In this report civil service refers to public servants employed in the central and regional administrations and excludes primary and secondary teaching personnel, military and security personnel, political party staff and pensioners.

9/ Data comparisons of public employment should only be considered as indicative, since large variations exist between sources, particularly for the period up to 1982.

census and physical control missions begun in 1985, as well as the computerization of the results, by June 1987;

(ii) improvement in the existing salary structure, without adding significantly to the burden of the real public wage bill, by February 1988. This measure will be implemented in conjunction with (i). A revised salary structure, which will address the anomalies in the existing one by reducing the salary differentials between the higher-level grades and the intermediate grades (e.g., at present the base salary ratio between a Secretary General and the lowest grade is 13:1), is being prepared. The salary reform will also introduce pay steps in each grade of the salary structure to allow lateral movements. Under the new salary structure, a personnel evaluation system, based on performance and merit, will be designed and adopted by June 1988. In order to avoid the ad hoc salary increases of past years, an appropriate salary adjustment mechanism which will reflect both cost-of-living and good performance will be designed by June 1988, in keeping with budgetary realities, and will be applied to the 1989 budget; and

(iii) rationalization of non-monetary benefits and their distribution by February 1988. These benefits which amount to at least half the base salary represent a significant part of the remuneration package. However, a number of these benefits, including automobiles for personal use and provision of free gasoline, which are granted to managerial level staff (cadres de commandement), further distort the income gap between the higher-level cadres and lower-level staff -- with the supplementary benefits, the remuneration ratio between a Secretary General and the lowest grade approaches 90:1. Under the Structural Adjustment Program, the allocation criteria will be clarified and the possibility of gradually suppressing some of these benefits and replacing them with monetary allocations will be considered. Moreover, at present, non-monetary benefits, especially the vehicle and gasoline allowances, are distributed under several budgetary items. In order to improve the transparency of the transport benefit and thus reduce its abuse, a specific budgetary item will be introduced for vehicle and gasoline allocations.

103. For the medium- to long-term, the Government's program aims at improving the planning and management of human resources of the public administration. To this end, a manpower planning system will be established in the Department of Public Administration by January 1988; the management function of the Department in the regions will be strengthened, beginning in June 1988; and the priorities and objectives of each department in the public administration will be defined (to begin this procedure, the Government intends to start in four pilot departments, Public Administration, Planning, and two technical departments, possibly Agriculture and Rural Development, by February 1988). These measures would help define more precisely the qualified manpower needs and improve programming procedures, budgetary decisions and administrative control; an action program will be defined by June 1988 and be implemented by February 1989. The proper implementation of these measures will require the strengthening of the Manpower Planning Unit, the Inspectorate Unit and the Organization and Methods Service within the Department of Public Administration; an action program will be prepared by September 1987. Ongoing technical assistance from the UNDP and the proposed Technical

Assistance Project for Economic Management are expected to contribute in these areas. Lastly, in order to meet the identified manpower needs, the Government will elaborate an appropriate training program for the civil service, starting in February 1988.

F. Agriculture

104. Agriculture provides direct employment to about three quarters of the labor force and accounts for one-third of GDP. While it was a major source of export revenues in the early 1960s, agricultural exports now represent only one-tenth of total export earnings. Agriculture has a great potential as a source of production, export diversification and gainful employment. Despite its vast potential, the performance of agriculture has been very disappointing in the last two decades.

105. The sector suffered from inadequate resources which led to a rapid deterioration of the physical infrastructure and public sector institutions involved in the sector. The measures of zairianization in the 1973, followed by nationalization in 1974 and the retrocession in late 1976 resulted in a major disruption of confidence and of the distribution network. Since then the sector has been characterized by a process of disinvestment. The state of agricultural research has deteriorated due to weak management, lack of funds, and unbalanced staffing in the National Institute for Agronomic Research (INERA) which used to be one of the leading research institutes in the tropics. The agricultural extension service is thinly scattered and largely ineffective due to lack of funds and mobility, and inadequate staffing. Currently, a large part of agricultural extension is provided by private companies (in cotton, maize, sugarcane) and by rural development projects. These services occasionally duplicate and overlap each other with limited coordination efforts to date.

106. The sector also suffers from a rural roads network in disrepair, which along with an inadequate distribution system for petroleum products, hampers the use of inputs and marketing of agricultural products. Trade liberalization in 1983 resulted in removal of protection for some agricultural products which had to face severe competition from subsidized imports and dumping. Other problems in the sector arise from an ill-adapted agricultural credit system, and a tax system with taxes and parafiscal charges hampering productive activities. The low level of private sector participation in agricultural input distribution has also contributed to shortage of fertilizers, insecticides, agricultural implements and veterinary products in the interior of the country.

107. Agricultural development policy since 1983 has followed the general policy of economic liberalization by freeing farmgate and retail prices for agricultural commodities and by delegating to the private sector the primary role for production, marketing and distribution in the sector. Development objectives, set in the recent 5-Year Development Plan, are: (i) to achieve foodcrop self-sufficiency by 1990; (ii) to encourage the increased production of primary commodities used by local industries, e.g. cotton for the textile industry; (iii) to encourage increased production of agricultural export commodities; and (iv) to channel development efforts through an approach as yet to be fully defined, concentrating on "foyers de développement" (zones of development).

108. In terms of broad policy orientations, Zaire has been far ahead of many African countries since 1983 by removing price and marketing impediments. Most of the constraints that have been hampering the recovery of the sector are supply-side related. In order to stimulate greater investment and expand production, there is an urgent need to improve support services to agriculture and to pursue further improvements in the overall system of incentives. In particular, the Government recognizes that there is a need to find solutions to the problems facing agricultural research, agricultural extension, the financing of agricultural development projects, the rehabilitation of rural access roads and storage facilities and the distribution of agricultural inputs. There is concern with the way that the trade liberalization policies introduced in 1983 have opened up Zaire's markets to imports of surplus and subsidized agricultural produce and the potential threat which this poses to local agricultural enterprises and agro-industries.

109. In order to redress some of these shortcomings, the Government, in its Policy Statement on Agriculture (Annex III, Attachment 6) has outlined the measures which it intends to implement during the program period. The Policy Statement emphasizes that the role of the Government remains the rehabilitation and improvement of basic infrastructure, the promotion of agricultural research, the establishment of agricultural extension mechanisms for improved production and the creation of a favorable environment for agricultural investment, while the private sector's main role focuses on production.

110. The program of action in agriculture includes measures on a number of fronts:

(a) agricultural credit - As discussed in the section on financial sector policies (para. 95), more general reforms to the credit structure will eliminate the distinction between allocated ("reparti) and unallocated ("nonreparti") credits, accompanied by the elimination of preferential interest rates for agriculture. At the same time, to encourage lending for agriculture, commercial banks will be given minimum targets for agricultural credit within their overall lending ceilings. In addition, to improve the awareness of agricultural credit needs by the banking sector, a Consultative Committee on Agricultural Credit will be set up, with representation by all major parties interested (AZB, Bank Of Zaire, BCA, ANEZA, Department of Agriculture etc.). Subsequent efforts will focus on strengthening the role and operation, and expanding the resources, of the Agricultural Bank (BCA);

(b) fiscal and tariff measures - within the overall context of unifying import tariffs across the economy (para. 36), there is a need to redress the imbalance created by the low level of tariff protection for agricultural commodities introduced in 1983. The tariffs for certain products will be raised from their present low level to 10 percent initially, and subsequently to a minimum of 20 percent. Simultaneously, an adjustment mechanism will be designed to protect selected products against the effects of dumping or subsidization. This mechanism will take into account the conclusions of the ongoing study on the competitiveness of selected agricultural products, and on the appropriate nature for such an adjustment mechanism;

(c) agricultural research - the Government has made the implementation of the recommendations of the National Commission on agricultural research as defined in its action plan of 1984 a major objective of its structural adjustment program. These recommendations aim to streamline the administration and operation capabilities of the national agricultural research institute (INERA);

(d) improved rural access roads - a National Service responsible for rural access roads has been established recently under the Department for Rural Development and a priority program for rural access roads improvement has been drawn up in conjunction with the staff of the Office des Routes. Implementation of this program will be a major component of the structural adjustment program, with a double objective of rehabilitating rural roads and stimulating local economic activity through the mobilization of local labor forces and local enterprises (see paras. 119-120);

(e) improved efficiency and coordination of the Departments of Agriculture and Rural Development - high priority will be given to strengthening and better coordinating the Departments of Agriculture and Rural Development and improving the quality of staff;

(f) simplification of export procedures - as part of a general policy to remove unnecessary impediments to exporters, a study is currently being undertaken to identify those measures specifically needed to simplify procedures facing agricultural exporters;

(g) production-related measures - the Government has begun to draw up a plantation rehabilitation project, based on the recommendations of a study currently under way on perennial crops. The Government will also study means of applying the debt/equity swap procedure (see discussion under reform of public enterprises) to encourage private sector participation in plantation rehabilitation. A study is to be initiated also on ways of improving storage infrastructure up-country;

(h) extension services - proposals are presently being made in the context of an FAO study for the reorganization of agriculture extension at the field level, with the objective of improving efficient use of field staff. The future strategy for development of rural areas will be based on a concentration of efforts in areas of proven potential where a minimum of infrastructure is already in place. The Government will be defining this approach in more detail through the identification of these so-called "foyers de développement"; and

(i) agricultural inputs - in the search for measures to encourage a more active participation of the private sector in the distribution of agricultural inputs, a study has been commissioned by the Department of Agriculture. Recommendations made by the study team will be pursued under the Structural Adjustment Program.

111. Many of the critical constraints faced by the agricultural sector are common to other sectors of the economy. For example, the problem of counterpart funding of development projects is not limited to agriculture alone. Consequently this question has been dealt with in the overall arrangements for funding the priority Public Investment Program. Other common measures tackled under other components of the SAP, which have a direct bearing on the agriculture sector, include; (a) measures for the improvement of the civil service, including the Department of Agriculture being the pilot Ministry in implementing the civil service reform; (b) the elimination of the Fonds Agricole tax on agricultural exports, effective June 1987; and (c) the unification of the intervention of OZAC and OZACAF in the coffee sector, with a concomitant reduction in the charges paid by coffee exporters.

112. The extent to which the measures for structural adjustment are effective will be reflected by the relative response of the investing community in Zaire to increase their activities in the agriculture sector. During a major agriculture sector mission in May/June 1987, an attempt has been made to identify criteria by which this response may be judged.

G. Transport Sector

113. By virtue of the country's size and scattered population and natural resources, and with its limited access to the sea, transport costs are high, and represent an important element of the final costs of both imported goods and domestic production. The backbone of Zaire transport network is a rail/river system of about 10,000 km. of major routes, complemented by about 145,000 km. of mostly unpaved roads. Although the basic transport network is adequate given the country's level of development and although some improvement have taken place since the mid-1970's, the sector's performance remains unsatisfactory and transport still constitutes a serious constraint to the country's economic development and integration. This is due to the poor condition of infrastructure and equipment, and the low efficiency in running the transport services, particularly in the parastatal sector, which dominates the transport market. Three public agencies (SNCZ, ONATRA and Office des Routes) play a critical role as they are respectively responsible for operating rail and river transport (at least 60 percent) and for building and maintaining the main highway network. Efficiency can be significantly improved by streamlining and rehabilitating these agencies, by ensuring their proper funding and by encouraging the private sector to play a more comprehensive and dynamic role. Finally, improving the rural road network will be a key factor in boosting agricultural production.

114. Four main issues which are critical to the short and medium-term adjustment process will be addressed by the Government in the context of its Structural Adjustment Program:

(i) Improving the financial situation and the operational efficiency of SNCZ, ONATRA through implementation of short-term recovery measures including substantial tariff increases and a revision of their tariff structure; ensuring the funding of Office des Routes at a level sufficient to enable it to carry out its agreed program;

(ii) Improving the strategic planning and implementing selective reorganization of ONATRA and SNCZ, emphasizing decentralization, streamlining and divesting (privatization) of some activities;

(iii) Improving transport planning, programming and budgeting particularly in the context of the PIP review; and

(iv) Launching a rural roads improvement program with an appropriately decentralized institutional framework;

Although the first issue is being monitored under existing IDA projects, it is further addressed as a part of the SAL because of the critical financial deterioration of the three enterprises since 1985 and of the need to immediately alleviate this situation. The remaining three issues, which are longer-term ones, will be followed up and fully implemented under new sector or subsector projects which are now being prepared.

Financial Rehabilitation of ONATRA and SNCZ, and Funding of OR

115. The financial situation of both ONATRA and SNCZ has deteriorated sharply since 1985. Although this is mainly due to delays in granting tariff increases in a highly inflationary environment, both enterprises also suffer from deep-seated structural problems such as a decreasing, or at best, stagnating traffic, high administrative and social overhead costs, and a lack of managerial and technical capabilities (see below, para. 117). In May 1987 the Government announced major tariff increases for both ONATRA and SNCZ; for most categories these represented the first increase since May 1985. In order to avoid further erosion of revenues, the Government intends to design and put in place a tariff adjustment mechanism which will allow for periodic adjustments to match real cost increases. In parallel, ONATRA and SNCZ have undertaken tariff studies to overhaul their obsolete tariff structures which are based on ad valorem tarification and on subsidization of social services. Relating tariff to costs and taking into account commercial practices will result in a more efficient traffic allocation between modes and will ensure that revenues fully cover actual costs of the agencies.

116. In the road sector, the local resources for maintenance and rehabilitation operations are provided by a tax on gasoline and diesel oil. Under the Sixth Highway Project the Government agreed in 1985 that the proceeds of the road tax would be allocated to Office des Routes during the project execution period (1985-88). The recent (April 1987) increase in the petroleum price, and along with it the tax on gasoline and diesel oil -- which had remained unchanged since April 1985 -- was an important step in assuring that sufficient resources would be made available to the Office des Routes to allow it to carry out its work program.

Strategic Planning and Selective Reorganization of ONATRA and SNCZ

117. ONATRA and SNCZ are playing a vital role in Zaire's transport system, and particularly in the Voie Nationale which links up the ocean port of Matadi with Kinshasa and with the mineral rich Shaba region 2000 km away. ONATRA's responsibilities to operate an integrated port/river/rail transport system and to be the main operator on a navigable river system of 15,000 km are unique. Although these entities will continue to play a crucial role in the Zairian economy and will require continued support from the donor community, their mandate and objectives need to be clarified, taking into account the competition from a dynamic private sector which needs further incentives to grow. While they are generally overstaffed with underqualified and poorly motivated staff, they lack a cadre of qualified engineers and technicians. They are overcentralized and burdened with non-transport activities that compound their inefficiency. The Government intends to redefine their roles and responsibilities and to streamline the organization accordingly. Some activities, such as ONATRA's shipyards, could be subject to privatization while others could be progressively reduced or eliminated altogether. Within the context of the public enterprise reform program (see section A, above), their relationships with the State and the private sector will be defined more clearly; and, in the case of ONATRA, Government has agreed to issue by December 1987 a "Contrat Plan" which would define these relationships. For both ONATRA and SNCZ a comprehensive program for human resources development will be designed and implemented. Technical assistance needs to be reassessed, refocussed as the need arises, and better managed. Government and the agencies have agreed under this program to carry out progressively the above reforms according to an agreed schedule of steps (as set forth in Attachment 7 to the Letter of Development Policy).

Improving Transport Planning, Programming and Budgeting

118. The transport investment planning, programming and budgeting mechanism deserves considerable improvement, both at the agency and the ministerial levels. In many areas the public investment program has not been satisfactorily updated on the basis of feasibility studies, and there exists no mechanism for review, monitoring and intermodal coordination. GET, the Transport Study Group and intended planning arm of the Ministry, has been used mainly as an advisory body to the Ministry on operational matters and has therefore not been able to function as a long term planning and coordinating instrument. A reorganization study is now underway, and the Government has agreed to review its recommendations and start implementing them by end of 1987.

Launching a Rural Road Improvement Program

119. As a result of Zaire's size and geography, the highway network is vast (about 150,000 km) but with only a small portion of it (50,000 km) being regularly maintained by the Office des Routes. On the rest of the network, entrusted to state and local authorities, minor and sporadic upkeep work is being undertaken sometimes with local and/or external project financing and with OR technical assistance. The proposed program would complement these ongoing activities and establish an appropriate

institutional framework for its development. As a new ministerial department (Rural Development Ministry; RDM) has been created with an Agricultural Road Service (SNRDA) officially in charge of all local roads rehabilitation and maintenance, it has been agreed that SNRDA would have the overall responsibility for developing the program. However, at the local level, the program would be executed by local communities and contractors under the control of (and with the technical assistance from) the Office des Routes, to which supervision, control and payment of works would be fully delegated. The responsibilities of OR, local jurisdictions and RDM have been clearly spelled out in an agreement (Convention-Cadre) to which the Rural Development and Public Works Ministries are parties. This agreement would also emphasize the role of state-level Feeder Road Committees in selecting the roads at the local level, mobilizing the local financing and overseeing the program's execution. Although a financial contribution from foreign donors and the central budget would be expected, the local financing share would be important from the start as the program is expected to become self-supporting eventually.

120. Initially, the program is targeted to maintain an additional 10,000 km of rural roads per year with about 3000 km of rehabilitation, to be subsequently maintained. Most of the work is to be carried out manually using road brigades (cantonnage manuel) provided by local entrepreneurs or collectivities that have a vested interest in maintaining the road open under OR's supervision. This program will be initiated in 1987 at the same time as a full scale project is being prepared with UNDP financing and with IDA as executing agency, for implementation in 1988/89 with possible IDA/UNDP and other donor cofinancing. Government has expressed a keen interest in this program and has agreed with the plan of action outlined in its Declaration of Development Policy (Annex III).

PART IV - THE PROPOSED OPERATION

A. Background

121. A preliminary outline of areas of policy reform which could provide the basis for a structural adjustment operation was discussed with the Government in March/April 1986, and again in September/October 1986. A preparation mission visited Kinshasa in January 1987. Between April 1986 and September 1986 a number of studies financed by PPF and UNDP funds were initiated. These included: (i) civil service employment and remuneration; (ii) indirect and company taxation, parafiscalities, and tax administration; (iii) the financial sector; (iv) the 1987-90 public investment program; and (v) public enterprises.

122. During the preparation of the Structural Adjustment Program, the Government set up an Interministerial Coordination Committee at the ministerial level under the chairmanship of the Prime Minister, with a Technical Secretariat, chaired by the Minister of Planning representing the Planning, Finance, Budget, Agriculture, Portfolio, Civil Service, Economy and Industry Ministries, and the Central Bank. The Committee, and Technical Secretariat, assumed the responsibility for coordinating the preparatory work, reviewing the recommendations for policy reform, and liaising with the

preparation and appraisal missions, as well as for monitoring the implementation of the SAP. This Technical Secretariat will also ensure proper coordination between the implementation of the proposed Credits and the associated Technical Assistance Project for Economic Management.

B. Relationship between the Proposed Operation and Policy Reforms

123. The proposed Credits would finance the first phase (1987-88) of the Government's medium-term structural adjustment program, which has been discussed in detail in Part III. The Government has provided the Association with a Letter of Development Policy (Annex III) which describes the specific measures that have been or will be taken during this phase of the adjustment program. These measures are enumerated in the policy matrix tables attached to the Letter of Development Policy. The Credits would ease Zaire's financial strain to allow for adjustment to take place during this period, not only with respect to external financing, but also by increasing budgetary resources.

C. Coordination with the IMF

124. Zaire has negotiated four stand-by arrangements with the IMF since the initiation of its reform program in 1983. In the second half of 1986, Zaire was unable to make its third and fourth purchases under the existing stand-by arrangement (which extended from May 1986 through March 1988) because of its failure to meet the performance criteria, due to larger than anticipated public sector borrowing from the domestic banking system. Rather than attempting to revive the arrangement, the Government and the IMF decided to negotiate a new stand-by agreement. The IMF board on May 15, 1987 approved a new stand-by arrangement totalling SDR 100 million covering the period May 1987-May 1988.

125. Given the nature of the proposed adjustment program, and the need for fiscal and balance of payments policies to support structural reforms at the sector level, there has been close collaboration between Bank and IMF staff in the preparation of the Structural Adjustment Program, both in Washington and during overlapping missions in the field. An IMF staff member participated in the appraisal mission for the SAL in March 1987. The Government has also prepared jointly with the IMF and Bank a Policy Framework Paper (PFP) in conjunction with its application for use of IMF resources under the IMF's Structural Adjustment Facility (SAF). The SAF program was also approved by the IMF Board, for an amount of SDR 137 million, with a first tranche of SDR 58 million. The PFP was also used as the Government's principal document for the meeting of the Consultative Group held on May 21-22, 1987.

D. Effects of the Adjustment Program

126. As outlined in Part II of this report, the first phase of the structural adjustment program undertaken by the Government of Zaire with the support of the proposed SAL, is part of a longer-term action plan to restore sustained economic growth and improve the very low living standards of a large part of the Zairian population. The implementation of this

program should set the basis for a substantial restructuring of the Zairian economy over the next five to ten years. The main changes envisaged imply a general reorientation of the economy in favor of private initiative in a number of vital economic sectors whose potential appears largely underutilized, including non-Gecamines mining, agriculture, and manufacturing. Other key changes triggered by this program are related to the public sector, whose relative importance in the economy will be reduced and whose organization and performance will be revamped to improve resource allocation and allow it to make a more effective contribution to the recovery of the Zairian economy.

127. The likely impact of the proposed program on the main macroeconomic variables is highlighted in two medium-term scenarios which summarize different patterns of adjustment of the Zairian economy to the international environment foreseen in the next decade, with and without comprehensive policy reforms. The international environment faced by the Zairian economy under both scenarios appears to be one of the most binding constraints to the restoration of sustained economic growth in the near future. Following the 25 percent drop in international terms of trade experienced during 1986, price projections covering the period 1987-1990 indicate for copper, diamonds and coffee - three commodities accounting for more than 70 percent of Zairian exports - either a modest annual increase (1.9 percent for copper, 4 percent for diamonds) or a substantial decline (coffee price drops 26 percent in 1987 and is expected to grow 3 percent per year thereafter). Over the entire period 1987-95, terms of trade are expected to show only a slow improvement from the 1986 level and to be still 10 percent below the 1985 level at the end of 1995.

128. The two scenarios illustrated in the following paragraphs differ in two basic respects: the level of external assistance provided to support the Government's adjustment effort and the scope of the adjustment program . The "with program" assumes a considerable increase in the level of capital flows to an estimated total of about US$2.6 billion for the period 1987-90, compared to a total of US$1.5 billion in the "without program" scenario. These exclude debt reschedulings which, under the "with program" scenario, would be more favorable and allow the financing of larger financial gaps. Overall, the difference in new capital flows between the two scenarios is estimated at about US$1.6 billion for the 1987-90 period. For the most part, the additional resources mobilized under the policy case would finance additional imports (US$1.4 billion). The remainder would go to further build up foreign exchange reserves. The additional foreign exchange to be provided in the form of quick disbursing flows and expected increase in credit availability to the private sector would allow both completion of the investment cycle started in 1986 - delayed because of the acute foreign exchange shortage experienced from May 1986 onwards - and significant production increases in the manufacturing sector.

129. In terms of economic policies, the "without program" scenario assumes the full commitment of the Government to continue and deepen its program of economic reforms, along with continued stabilisation. The "without program" scenario assumes no change in the present structure of the public sector at large and a partial reversal of past liberalization policies, resulting in increased administrative controls in the allocation of foreign exchange and in the determination of the exchange rate.

130. The short- and medium-term effects of the Structural Adjustment Program will depend on the its timely implementation with the objective of reestablishing control over the composition of public expenditures and accelerating the implementation of the PIP. The change in the composition of Government expenditures in the next few years is expected to stimulate domestic demand without creating inflationary pressures. The progress in resource mobilization as a result of expected improvements in OFIDA's tax collection capability, a comprehensive revision of domestic taxes and required adjustments in parastatal tariffs combined with a strict fiscal discipline would help reduce the Government deficit. This would be critical in terms of monetary policy designed to reduce inflation rates (from 44 percent in 1987 to 15 percent in 1989) and to slow down the rapid depreciation of the currency.

131. The "with program" scenario illustrated in Table 4 highlights for the period 1987-90 the following pattern of adjustment: On the supply side, the largest contribution to growth is expected to come from local industry, commercial agriculture and construction sector. The expected improvement in rural areas of credit availability and road transportation, accompanied by the increased protection to agricultural production (from specific anti-dumping measures or from the follow up of tariff reform under the ISAL) should also stimulate a slight acceleration in agricultural sector growth. Both the international environment and structural constraints limit the growth rate of mining and metal transformation industries.

132. In contrast, the overall adjustment pattern of the "without program" scenario would be dominated by the export oriented mining sector, in the context of a generalized stagnation of all other sectors and demand components. Under these circumstances, more expansionary budgetary and monetary policy would aggravate internal inflation and require increasing intervention in the area of exchange rate and price controls, further broadening the importance of black markets and non-official trade.

133. In the medium- and long-term (1990-95), the impact of the Government's adjustment program becomes fully apparent; the new incentive framework combined with the changes in the composition of government expenditures and the reform of the structure and organization of the Zairian economy, should trigger the following changes:

(i) a resumption of sustained export growth through increased diversification, mainly in favor of the non-Gecamines mining sector and manufacturing;

(ii) a reduction in import dependency, mainly in the area of agro-industrial raw materials and low-income final consumption goods (food and non-food), allowing an import growth of about 3 percent and a GDP growth of 4.1 percent;

Table 4

ZAIRE : Comparison of Adjustment Scenarios - Selected Economic Indicators

	1980-84	1985	1986	--With Program---- 1986-90	1990-95	---Without Program--- 1986-90	1990-95
(% growth constant Zaires)							
Agriculture	2.3	3.8	2.6	3.0	3.3	2.2	2.2
Mining & Metal Processing	3.6	3.4	3.4	1.2	2.7	0.8	1.4
Other Industry	-2.0	4.3	3.9	9.4	7.1	1.8	1.8
Manufacturing	-1.9	4.5	4.0	7.6	9.0	2.0	2.0
Construction & Utilities	-2.2	4.1	3.7	12.3	3.8	1.5	1.4
Services	0.4	0.9	1.5	3.5	4.2	1.1	1.2
GDP	1.3	2.5	2.4	3.5	4.1	1.3	1.5
Imports GNFS	-7.5	-4.2	-1.9	2.5	3.1	0.2	0.9
Exports GNFS	3.7	2.6	19.1	0.6	3.6	-1.0	0.6
Consumption	-1.5	0.4	-1.2	2.9	4.1	0.6	1.6
Private	-0.1	-0.1	-2.2	2.9	4.1	0.4	1.5
Public	-16.8	8.2	12.4	2.7	3.0	2.7	3.0
Investment	-9.7	-0.8	-16.9	11.6	3.5	1.3	1.5
Private	-15.1	-18.6	1.6	11.3	8.3	1.0	0.9
Public	-2.8	15.2	-28.7	11.9	-1.7	1.5	2.0
(% shares)							
Government Revenues/GDP	12.7	18.6	13.6	16.3	18.3	14.0	14.5
Government Expenditure/GDP	20.8	24.7	25.0	29.8	29.3	27.5	28.5
Deficit(-)/GDP (3)	-8.1	-6.1	-11.4	-13.5	-11.0	-13.5	-14.0
Copper/XGNFS	44.4	37.8	37.2	38.2	32.7	43.5	39.2
Cobalt/XGNFS	11.3	12.9	8.2	9.8	9.9	11.1	10.0
Other Metals/XGNFS	12.9	16.9	17.5	21.5	26.7	12.6	11.4
Oil/XGNFS	14.9	16.4	7.9	8.3	6.8	14.6	13.1
Other Exports/XGNFS	16.5	16.0	29.2	22.2	23.9	18.2	26.4
Export Unit Values ($)	-7.7	-5.0	-14.3	3.6	4.5	3.6	4.5
Import Unit Values ($)	0.6	-1.1	13.6	4.1	2.9	4.1	2.9
Terms of Trade ($)	-8.2	-3.9	-24.6	-0.6	1.5	-0.6	1.5

Source : Bank of Zaire and WB Staff estimates and projections.

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(iii) a positive growth in per capita income and consumption (approximately 1 percent per annum) and a more balanced pattern of regional growth resulting from the more rapid growth in agriculture and non-copper/cobalt mining; and

(iv) a substantial improvement in the level of public services as indicated in the projected growth of public consumption (4 percent annually) following the major increase of public investments of the previous period (1987-90).

134. The medium- and long-term prospects in the "with program" scenario are also characterized by the increasing importance of the private sector, both in terms of domestic savings (which increase from 5.5 to 11 percent of GDP between 1990 and 1995) and capital formation, reflecting the improvement in business environment and the consolidation of the new incentive framework. The expected progress towards economic efficiency and export orientation of the Zairian economy should also generate an increasing net flow of external resources and accelerate the repayment of Zairian external debt: the current account deficit is expected to decline to around US$500 million by 1995, which represents a decline of about 8 percentage points of GDP compared to its 1987 level.

135. The "without program" scenario would mean muddling through from one year to another and continued strain on the balance of payments and the budget. It is clear from the foregoing discussion that without comprehensive adjustment policies, the per capita incomes and consumption levels would continue to deteriorate through the next decade.

E. Benefits and Risks

136. The principal risk of the Credits relates to the capacity and willingness of the Government to implement such a far-ranging program in its entirety. The program is complex, involving a number of sectors and requiring carrying out of studies, development of programs and implementation of measures in a timely and coordinated manner. Given the existing institutional weaknesses and shortage of skilled manpower, this will place a burden on the Government's technical and administrative capabilities. The provision of a strengthened technical assistance program through an IDA-assisted parallel Technical Assistance Project for Economic Management, should help reduce this risk. Other risks of the program include delays or slippage in completing the studies and analyses underlying the structural adjustment program which may cause the Government to postpone critical program decisions. Furthermore, the Government program for privatization of public sector enterprises may also encounter delays due to the continuing weak international economic environment. An additional risk is that adverse reaction on the part of affected parties with vested interests in sustaining the remaining distortions may force the Government to delay implementation of key elements of the program. The success of the program faces also the following risks: (i) the vigor of economic recovery in Zaire's external markets which will determine the level of foreign exchange earnings for traditional exports and the ability of Zairian industries to expand non-traditional exports; (ii) the capacity of the private sector which has produced manufactured goods for protected markets to make the adjustment required to produce competitively for international markets; and (iii) the level of national support to carry out

the program, particularly if it proceeds less rapidly than anticipated. Some of these risks are beyond the Government's and the country's control. The Government has, however, demonstrated a willingness to take politically difficult economic actions and its ability to achieve national support. Zaire is also aware of its critical need of support from the international community and that the extent and timely availability of the support will be dependent upon the continued adherence to the implementation of the reform program.

137. The principal benefits of the Credits would be to help improve the efficiency of resource allocation and help establish institutions and policies conducive to growth in investment and production, particularly in the private sector. The policy measures and incentive framework are aimed at improving the investment climate for increased domestic and foreign private sector involvement. The structural adjustment assistance would help sustain a public investment program based on increasing the export potential of the country. The proposed Credits would improve Zaire's access to essential imports needed to support a program of resumed growth with movement towards balance of payments viability. Continued successful implementation of the Government's Structural Adjustment Program would also contribute substantially to improving Zaire's credibility within the international donor community.

F. Social Impact of the Adjustment Program

138. The Structural Adjustment Program is expected to have an overall positive social impact for both urban and rural populations, building on the areas of progress already achieved during the 1983-86 period. While negatively affected by the rapid increase in prices following the liberalization and exchange rate measures in 1983, the urban sector has benefitted substantially from the increased supply of commodities in official markets and from the increased competition in the distribution sector which has led to more uniform, and for some agricultural products, declining, real prices. The resurgence of inflationary pressures during the first quarter of 1987 largely reflected the effects of rapid exchange rate depreciation--itself largely a function of the substantial decline in the terms of trade in 1986--and inflation is expected to subside in the second half of 1987 as foreign exchange availability increases. A second area of improvement has been with regard to private sector wages, which since 1982 have arrested their decline (in real terms) and have recaptured part of the purchasing power lost since 1975. The domestic financial constraints facing the Government have not permitted similar results with regard to civil service salaries, although the decline in real wages since 1975 have now been halted; the most recent salary increase (April 1987) should lessen the impact on civil servants of the recent acceleration in inflation.

139. Following the price liberalization in 1983, there has been some improvement as well in rural living standards. While partly delayed by lack of information, and the monopoly power of distributors and transporters, the price liberalization led to increased producer surpluses in agriculture and, indirectly, in related artisanal activities. The structural adjustment program should consolidate these results, leading to increased purchasing power, and a stimulation of the income-generation process in rural areas.

140. The major impact of the structural adjustment program should be felt in two ways:

(i) the set of measures addressing the major structural constraints in the incentive framework and in key sectors (e.g., transportation, financial) will promote further progress towards more efficient and competitive markets, as well as the reduction of the main areas of rent in the distribution sector. At the same time, the program is expected to lead to a change in income distribution in favor of wage earners in the "official" economy, while reducing the differential currently benefitting a small group of economic agents arising from their intermediating and speculating activities. In addition, the program should help reduce resource leakages feeding the chain of illegal imports, tax evasion and corruption. The emphasis on private sector participation involving <u>small-scale enterprises</u> is also expected to lead to improvements in income distribution and employment creation. While some increase in urban unemployment is expected from implementation of the Government's public enterprise and civil service reform programs, the effects of this should be largely mitigated by the increased employment opportunities arising within the modern private sector. Measures to stimulate production in the agricultural sector are expected to further improve the incomes of small-scale farmers and to reduce the gap between rural and urban incomes.

(ii) the implementation of an effective system of public investment (and eventually public expenditure) programming will play an important role in improving the allocation of real resources, especially in favor of social sectors (health and education) which have been largely neglected in recent years.

141. The Government has requested to participate in a UNDP-financed, Bank-executed project on the social impact of structural adjustment in Africa. The objectives of the project are to: (i) strengthen the institutional capacity of the Government to develop and maintain, in the framework of its national accounting systems, adequate statistical data bases on the social dimension of structural adjustment; (ii) conduct studies on the socio-economic implications of structural adjustment; and (iii) reinforce the institutional capacity of the Government to design and monitor poverty alleviation programs and projects to accompany structural adjustment programs. A first Bank mission to assess the availability and needs of statistical information in this area and to determine the scope of the proposed study will take place in June 1987.

142. The Government is conscious of the need to take environmental considerations into account in formulating its public investment program. To facilitate this task, a series of regional studies of environmental impacts of investment projects will be undertaken, beginning with the Kivu region.

G. Proposed Financing

143. The financing package, totalling US$165 million, would include a proposed Development Credit of SDR 42.2 million (US$55 million), an African Facility Credit of SDR 72.2 million (US$94.3 million, all from IBRD

Contribution), and Special Joint Financing, including a Japanese Grant of Yen 1.1 billion (US$7.85 million) and a Japanese Loan of Yen 1.1 billion (US$7.85 million). The SAL Credits would be disbursed in two equal tranches. The first tranche of US$83 million equivalent is expected to be disbursed soon after credit effectiveness. The second tranche of US$82 million equivalent would become available after it has been determined that satisfactory progress has been made with respect to continued implementation of the first phase of the Government's Structural Adjustment Program, following a review of performance to be carried out by March 1988 and if the conditions mentioned in para. 154 have been met. Disbursements for the entire credits are expected to be completed within 15 months of credit effectiveness, ending in December 1988.

144. The proposed Credits represent 8 percent of Zaire's total import requirements (goods and non-factor services) over the next twelve months and would meet about 5 percent of the 1987/88 gross external capital requirements of the country. These Credits are part of a package of external balance of payments support from the IMF, quick disbursing non-project financing from bilateral donors at concessional terms, official grants and project foreign concessional borrowings.

H. Disbursement, Procurement, Administration and Auditing

145. The proposed Credits would finance 100 percent of the foreign exchange cost of eligible imports against a negative list, with the foreign exchange being sold in the inter-bank market at a market-determined exchange rate. Disbursements would cover the CIF cost of eligible imports, subject to documentary evidence that they had been paid for on or after credit signing. Goods not eligible for financing include alcoholic beverages, tobacco, precious metals and stones and military equipment. A list of ineligible imports is provided in Schedules 1 of the Development Credit and African Facility Credit Agreements. Imports financed by other sources would also not be eligible for IDA financing. Financing of imports of petroleum products and foodstuffs would not exceed 25 percent each of disbursements under the Credits. Invoices of less than US$20,000 equivalent would not be financed.

146. The Bank of Zaire, the country's Central Bank, would administer the SAL credit funds, and would be responsible for the coordination and collection of relevant documentation from the commercial banks and submission of withdrawal applications and supporting documentation to the Association to be aggregated into amounts of not less than US$5 million equivalent. For expenditures against contracts or purchase orders of less than US$100,000 equivalent, statements of expenditures would be used. Associated documentation, including invoices, would be retained by the Central Bank for periodic review by IDA. Full documentation would be required for all other expenditures.

147. Procurement would be in accordance with Bank procurement guidelines, except that for the Japanese SJF funds, sources of procurement would be limited to Part II members of IDA, and Part I members who have contributed to the Facility or any country which maintains Special Joint

Financing arrangements with IDA. Both private and public sector imports would be eligible for financing. Private firms would follow normal commercial practices in Zaire, involving contracts of less than US$1,000,000. Contracts amounting to US$1,000,000 or more would be procured by International Competitive Bidding. Direct imports by Government would require International Competitive Bidding for contracts of US$1,000,000 or more and three price quotations for goods under US$1,000,000 to be eligible. Procurement of goods is to be governed by the provisions of Schedules 1 to the Development Credit and Africa Facility Credit Agreements.

148. In order to facilitate disbursements, three Special Accounts, one for IDA funds, one for African Facility funds, and one for the Japanese Grant funds, would be established at the Central Bank on terms and conditions satisfactory to IDA. At effectiveness, IDA would make initial deposits into the Special Accounts of US$15 million for IDA, US$20 million for African Facility, and US$500,000 for the Japanese Grant. To the extent possible, proceeds from the African Facility Credit would be disbursed first. The Special Accounts would be replenished at regular intervals against withdrawal applications aggregated for a minimum of US$5 million each. The Special Accounts and the statements of expenditures would be audited periodically by an independent auditor.

I. Monitoring

149. The review of implementation under the Structural Adjustment Program will cover all of the components of the program as well as the specific conditions to be met for second tranche release. The objectives are the restructuring of the economy and achievement of higher economic growth through policy and institutional reforms and production incentives. The program is fully complementary with the other Bank Group lending in agriculture, industry, mining, transport and energy sectors and with human resource development objectives. Bank Group projects in these sectors seek to support high-return investments. Future projects are designed to reinforce the macro, sectoral and institutional reforms accomplished under the structural adjustment program and translate them into longer-term development goals.

150. The Structural Adjustment Program would be implemented by the various Government departments involved in the reform measures, under the overall responsibility of the Minister of Planning. An Interministerial Coordination Committee under the chairmanship of the Planning Minister and an associated Technical Secretariat (para. 122) would be responsible for monitoring the implementation of the proposed Credits and of the overall Structural Adjustment Program. Because of the heavy demands of this program on the capabilities of the Zairian Government and specifically the Ministries of Planning, Finance and Budget, a Technical Assistance Credit to support these ministries has been prepared in parallel with the Structural Adjustment Credits (paras. 1 and 47).

151. The specific measures supported by the proposed Credits are described in the Government's Letter of Development Policy and Annexes. A detailed program of monitorable actions under the SAL agreed with the

Government concerning the reforms that take place before credit effectiveness and specific conditions for release of the second tranche, is described in the policy matrix tables (Attachment 8 to the Statement of Development Policy), which provides a schedule and identifies actions to be monitored during supervision of the proposed structural adjustment program.

152. The following major actions have already been taken by the Government under the proposed program:

Agreement on a macroeconomic framework for 1987-90, including the level and composition of the 1987-1990 PIP presented to the CG meeting (May 1987); establishment of the special account mechanism in Central Bank to ensure timely availability of domestic financing of the PIP;

Reestablishment of the market-determined exchange rate system with weekly fixings;

Adoption of a new mechanism for periodic adjustment of pump prices of petroleum products to fully reflect exchange rate movements and maintain real value of petroleum taxes;

Implementation of tariff increases for the major public enterprises (ONATRA, SNCZ, REGIDESO) as needed to preserve their financial soundness;

Agreement to an initial list of public enterprises to be liquidated or privatized;

Issuance of decree eliminating (i) preferential interest rates for agricultural credit and CCA tax on agricultural lending and (ii) requirement of prior central bank authorization for agricultural and medium and long term lending; agreement on timetable for eliminating the CCA on interest for other lending;

Consolidation into the central budget and elimination of earmarking for the special funds for Agriculture and Treasury Fund No. 1 and elimination of tax and on all agricultural exports raised for the Fonds Agricole;

Agreement on the four-year program of rationalization of the tariff structure and implementation of its first phase; and

Agreement on an action program for 1987 for accelerated maintenance and rehabilitation of rural roads.

153. The following actions will be required as the conditions of effectiveness:

Unification of functions of OZAC and OZACAF in the coffee market;

Elimination of the earmarking of the tax on interest (CCA) and completion of legal formalities for integration of the Special Development Funds in the central budget;

Initiation of formal legal procedures for the liquidation of Institut Zairois de Management, Centre de Commerce International and Office National de Logement; and

Completion of the civil service census and elimination of the vacant positions from the payrolls.

154. Disbursement of the second tranche would be contingent upon satisfactory progress towards the implementation of the overall program described in the Letter of Development Policy and taking the following major actions in a manner satisfactory to the Association:

Revision of macroeconomic framework for 1988-91, including the level and composition of the 1988-91 PIP;

Establishment of an oversight structure for supervision of public enterprises, and the appointment of its Administrator;

Classification of enterprises to be maintained in State portfolio, liquidated or wholly or partially privatized;

Finalization of a restructuring and reorganization program for public enterprises remaining in state portfolio; and

Completion of financial and administrative arrangements for the retirement of eligible public employees.

PART V - BANK GROUP OPERATIONS AND STRATEGY

155. Through March 31, 1987, the Association has made 44 credits to Zaire totalling US$673.25 million and two Special Africa Facility credits (US$90 million equivalent). The Bank Group has also extended grants totalling US$400,000 as contributions towards the cost of two planning assistance projects. The Bank has approved two loans to Gecamines for mining expansion (1975) and for rehabilitation (1986) projects, complemented by a Technical Assistance Credit (1983). There have been six IFC investments in Zaire, the most recent being an investment in TEXAFRICA. IFC also has a US$1.3 million equity participation in SOFIDE, the development finance company. Reflecting the development needs of the country, Bank Group lending has concentrated on physical and social infrastructure and on institution building, with agriculture accounting for about 23 percent, transport 29 percent, mining and industry 24 percent, energy 16 percent and human resources and social sectors 9 percent. Bank Group lending operations have benefitted from the focus on and close collaboration with selected agencies in key sectors of the economy which have received technical and financial assistance from the Association. Such involvement included SOFIDE, the development finance company established in 1970 with IDA and IFC assistance and supported further with eight credit operations; the major transport agencies (national transport authority, railways, river and maritime navigation and roads); the national

water supply authority (REGIDESO); the Agriculture Credit Bank (BCA); the National Electricity Company (SNEL). The Metals Production Company (Gecamines) received assistance to restructure its organization and to prepare a long term rehabilitation and expansion program. The impact of IDA projects on institutional development has been slow, but on the whole positive. The Bank Group has also played a major role in aid coordination efforts in helping the Government mobilize additional external financing through Bank-assisted operations.

156. Disbursement performance and project implementation in Zaire are in general similar to the rest of Sub-Saharan Africa. In FY86, disbursements totalled US$72 million, compared with new commitments of US$362 million. The average annual disbursement rate for the same period was 25.3 percent, which is comparable to the average for the Eastern Africa Region. While implementation of Bank Group projects has been satisfactory in general, the pace of project implementation has been slow, resulting mostly from institutional, manpower and management weaknesses and, more recently, from the economic crisis. In recent years, fiscal constraints have made timely release of budgetary contributions difficult, particularly for the implementation of agricultural projects. In addition, lack of foreign exchange to finance spare parts and fuel, and the deterioration of the transport network and marketing system have resulted in severe supply problems for most projects. Recruiting and retaining skilled and managerial staff has also been difficult. Institutional weaknesses were also a factor in slowing earlier project progress, particularly in transport, education and agriculture. Given the institutional strengthening measures under subsequent projects and efforts by the Government to improve budgetary support for IDA-financed projects, overall project implementation has improved.

157. Past Bank Group lending has dealt with infrastructure and institutional development needs and policy issues in specific sectors. Following the deterioration of the overall economic situation in recent years, the emphasis of the Bank Group assistance strategy shifted towards a more comprehensive approach aimed at helping the Government in its efforts to restructure the economy and to effect the transition from stabilization to recovery. In the past three years, the Bank Group has expanded its assistance for the rehabilitation of productive capacity and infrastructure while emphasizing the need for economic and financial adjustment and helping to create the institutional foundation for better management at the sectoral and macroeconomic levels. A strengthened economic and sector work program focused on assisting the Government develop a realistic macroeconomic framework and investment climate for recovery. This involvement, at a time of sharply declining ODA to Zaire, allowed the Government to maintain the physical base needed for stabilization and led to substantive improvements in policies essential for the formulation of the structural adjustment program.

158. Bank Group strategy in Zaire is to help the Government implement its economic adjustment program while maintaining a viable economic infrastructure, and to stimulate economic recovery through the pursuit of further broad-based economic reform, increased mobilization of quick-disbursing aid and more efficient use of resources, including external

assistance. It includes operations designed to strengthen the sectors, processes, institutions and public sector agencies which would play a major role in the SAP. The achievement of these objectives would be sought through assistance in definition of appropriate sectoral strategies, creation of incentives for private sector involvement and emphasis on activities that generate or save foreign exchange, complemented by development of manpower resources and improvements in the social and health conditions of the population.

159. In keeping with these objectives, ongoing and planned operations are directed at assisting in the rehabilitation and development of the agriculture, industry/mining and transport sectors, in part through the design and implementation of further policy and institutional reforms. The Bank Group lending support is also assisting the Government in improving the management of the education sector, assessing future manpower and human resource development needs, defining a more suitable policy in the health and population, water supply and urban sectors, as well as in defining a regional development strategy. In addition, further support is planned for the energy sector, to develop least cost supply of energy products (mainly power and petroleum). To ensure that funds are available for investment in priority growth sectors, particularly industry, agroindustry and agriculture, Bank financing is contemplated for SOFIDE, through follow-up operations to the ongoing line of credit. A small scale enterprise operation has recently been approved (FY87) to encourage development of this subsector. Finally, to ensure the timely availability of increased external financing to support the reform program, the Bank Group has assumed the lead in developing consensus among the donors on priority areas for external support and on increasing the level of commitments of development aid to Zaire through the CG mechanism and related donors' cofinancing meetings for specific sectors.

160. To implement the policy analysis and dialogue related to SAL preparation work, a strengthened economic and sector work program contributes to the medium-term objectives of economic recovery and towards assessing the long-term constraints, options and their policy and financial implications. The majority of the studies are policy-oriented and aimed at assisting the Government develop a realistic macroeconomic framework and viable public investment/expenditure programs required for the adjustment process. Specific studies focus on helping the Government define sectoral policies, on defining an external debt management strategy, and on improving efficiency of resource use and mobilization of domestic and external resources. Other major studies planned include an analysis of the scope and characteristics of the underground economy and on the social impact of adjustment. Analysis of issues related to decentralization and regional/local administration and financing will also be undertaken.

161. Bank Group financing accounts for about 9 percent of total external debt outstanding and disbursed and about 5 percent of debt service. Bank Group share of disbursements of medium and long-term aid to Zaire from all sources amounted in 1985-86 to about 25 percent.

PART VI - RECOMMENDATIONS

162. I am satisfied that the proposed IDA Credit would comply with the Articles of Agreement of the Association.

163. I am also satisfied that the proposed African Facility Credit would comply with IDA Resolution No. 85-1 adopted on May 21, 1985 by the Executive Directors of the Association.

164. I recommend that the Executive Directors approve the proposed Development Credit, the proposed African Facility Credit, and that the Association act as Administrator of the proposed Special Joint Financing non-reimbursable contribution from Japan.

Barber B. Conable
President

Attachments
May 29, 1987
Washington, D.C.

Mid-1985 Population (mils.) 31
1985 Per Capita GNP in US$: 170

	A. Shares of Gross Domestic Product (from current price data) Actual						Projected				B. Growth Rates (% per annum) (from constant price data) Actual					Projected	
	1965	1973	1980	1984	1985	1986	1987	1988	1990	1995	1965-73	1973-80	1980-84	1985	1986	1987-90	1990-95
Gross Domestic Product c.p.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	3.9	-2.0	0.6	2.3	2.4	3.5	4.1
Net Indirect Taxes	..	5.3	3.5	2.2	3.3	3.1	3.3	3.1	3.4	3.2	..	..	..	..	..	..	..
Agriculture	21.0	15.7	28.8	31.3	30.5	28.9	29.7	30.4	30.6	31.0	-1.7	0.9	2.3	3.8	2.6	3.0	3.3
Industry	25.9	34.6	28.9	35.2	33.7	36.3	35.0	34.6	34.9	38.5	13.6	-3.4	2.0	3.2	3.5	4.1	4.5
(of which Manufacturing)	16.1	7.6	3.0	1.3	1.4	1.6	1.6	1.7	2.2	4.5	3.4	-5.7	-2.7	4.5	4.0	7.7	9.0
Services	53.0	49.8	42.3	33.4	32.5	31.7	32.0	31.9	31.1	29.3	2.3	-2.8	-1.7	0.9	1.5	3.5	4.2
Resource Balance	15.4	4.5	-1.2	2.6	4.3	0.5	-5.8	-5.6	-3.7	0.9	..	..	..	..	..	..	..
Exports of GNFS	36.4	19.8	24.1	40.3	41.1	33.3	39.5	42.3	44.1	45.0	10.6	0.3	3.7	2.4	18.1	2.6	3.6
Imports of GNFS	21.0	15.2	25.3	37.7	36.8	32.8	45.3	47.9	47.8	44.1	13.2	-1.6	-7.5	-4.1	-1.9	2.6	3.1
Total Expenditures	84.6	95.5	101.2	97.4	97.7	99.5	105.8	105.6	103.7	99.2	5.3	-2.4	-2.0	2.3	-3.9	3.5	4.0
Total Consumption	58.1	68.4	86.3	83.5	84.2	87.3	87.7	87.1	84.8	80.9	4.6	-3.2	-1.5	4.6	-3.5	3.2	4.1
Private Consumption	48.7	57.3	77.4	77.8	75.7	80.6	81.5	80.9	78.7	75.1	5.2	-3.0	-0.1	4.9	-3.7	3.2	4.2
General Government	9.4	11.1	8.9	5.6	6.4	6.7	6.2	6.2	6.1	5.8	5.8	-4.7	-16.8	0.0	0.5	2.8	3.0
Gross Domestic Investment	14.3	15.4	14.9	13.0	13.5	12.2	18.1	18.5	18.9	18.3	10.2	3.8	-5.2	-11.2	-6.3	5.4	3.6
Fixed Investment	14.5	13.2	11.9	11.6	12.5	7.7	..	..	..	..	12.4	0.5	-3.4	-1.2	2.3	..	..
Changes in Stock	..	2.2	2.9	2.4	1.0	0.7	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Saving	43.9	31.6	13.7	16.5	17.8	12.7	12.3	12.9	15.2	19.1	-0.4	-3.3	0.3	-10.9	-5.4	10.5	7.6
Net Factor Income	0.5	-3.2	-2.6	-11.3	-10.3	-7.8	..	..	..	..	..	..	..	..	..		
Net Current Transfers	..	..	..	-0.4	0.5	..	..	..	..	..	..	..	..	..	..		
Gross National Saving	..	..	..	4.8	6.0	..	..	..	..	..	..	..	-27.5	1.1	..		

In millions of LCU's (at constant 1980 prices)	1965	1973	1980	1984	1985	1986	1965-73	1973-80	1980-84	1985	1986
Gross Domestic Product	..	31692	28786	29884	30571	31305	3.9	-2.0	0.6	2.5	1.2
Capacity to Import	5167	9967	6942	5713	5628	4998	7.7	-4.8	-3.8	0.5	-4.6
Terms of Trade Adjustment	1884	3224	0	-1859	-2331	-3455	..	..	..	..	..
Gross Domestic Income	..	34916	28786	28025	28843	27559	3.9	-3.3	-1.2	2.2	-3.8
Gross National Product	..	30610	28044	26675	27627	28834	3.9	-1.6	-1.4	3.6	4.4
Gross National Income	..	33834	28044	24816	25645	25401	3.8	-2.9	-3.8	3.3	-1.0

C. Price Indices	(1980 = 100) 1980	1982	1983	1984	1985	1986	1987	1988	1990	1995	Inflation Rates (% p.a.) 1965-73	1973-80	1980-84	1985	1986	1987-90	1990-95
Consumer Prices (IFS 64)	100	183.8	325.5	495.6	613.5	893.9	..	..	..	..	18.3	59.5	50.4	23.8	45.7	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	100	180.6	331.8	602.3	783.3	1143.5	1623.8	1884.9	2598.5	5226.6	8.2	42.1	58.7	30.0	46.0	16.8	15.0
Implicit Expenditures Deflator	100	193.6	361.1	633.9	827.8	1304.9	1853.0	2242.2	2985.3	5984.3	8.3	48.6	59.1	30.6	57.6	..	..

D. Other Indicators	1965-73	1973-80	1980-85
Growth Rates (% p.a.):			
Population	2.4	3.1	3.0
Labor Force	1.9	2.3	..
Gross National Income p.c.	1.1	-5.8	-5.1
Private Consumption p.c.	2.4	-5.9	-2.4
Import Elasticity:			
Imports (GNFS) / GDP (mp)	3.4	0.8	-5.9
Marginal Savings Rates:			
Gross National Saving	..	..	..
Gross Domestic Saving	-12.9	127.0	332.2
ICOR (period averages):	1.7	-11.7	9.8

Share of Total Labor Force in:	1965	1973	1980	1985p
Agriculture	82.2	77	71.5	..
Industry	9.1	11.1	12.9	..
Services	8.7	11.9	15.6	..
Total	100.0	100.0	100.0	..

Notes:

Data on the Economic Indicators tables follow the definitions and concepts of the Standard Tables and Standard Attachments.

e = estimated data
p = preliminary data

E. Merchandise Exports	Volume Index (1980 = 100): 1980	1982	1983	1984	1985	1986	1987	1988	1990	1995	Value at Current Prices (millions US$): 1980	1982	1983	1984	1985	1986	1987	1988	1990	1995
Copper	100.0	115.4	111.6	104.3	104.3	103.7	108.4	108.0	107.0	112.6	1033	791	781	676	692	686	701	715	791	1037
Cobalt	100.0	105.8	137.7	144.9	162.3	246.1	217.3	228.9	228.9	245.6	377	183	121	228	238	150	165	192	221	309
Zinc	100.0	185.8	225.0	229.1	223.0	226.8	205.0	205.3	208.3	216.8	21	43	58	61	49	48	52	55	59	82
Silver	100.0	86.0	39.6	39.4	42.5	70.7	63.0	68.1	70.6	78.0	58	18	13	8	7	8	7	10	11	14
Gold	100.0	125.0	331.2	206.3	137.5	132.8	142.2	198.1	294.1	392.2	34	23	64	38	31	27	30	42	69	117
Diamonds	100.0	67.0	117.0	189.0	138.0	233.0	245.0	254.8	308.1	392.7	114	78	129	220	199	228	257	275	355	622
Coffee	100.0	91.8	93.8	107.4	87.2	196.8	135.0	128.2	132.8	135.6	183	165	117	212	154	437	220	213	238	275
Rubber	100.0	76.4	81.5	51.3	46.2	58.4	58.8	60.0	63.6	77.4	28	12	15	10	8	8	9	10	12	19
Crude Oil	100.0	124.6	130.8	181.5	187.7	183.0	184.2	172.1	172.1	172.1	225	274	237	323	301	146	147	163	169	198
Other	100.0	116.8	104.6	124.3	146.4	155.2	170.8	201.9	249.4	505.8	138	116	101	118	176	169	138	158	212	508
Total Merchandise Exports FOB	100.0	100.0	111.7	121.2	124.1	146.6	138.7	141.2	160.0	179.5	2269	1601	1686	1898	1852	1846	1714	1831	2137	3181
F. Merchandise Imports																				
Total Merchandise Imports FOB	100.0	74.9	74.0	73.5	70.5	69.1	70.7	72.6	78.3	89.1	1761	1545	1444	1399	1413	1550	1714	1827	2054	2749

G. Terms of Trade (1980 = 100)	1980	1982	1983	1984	1985	1986	1987	1988	1990	1995
Merch. Exports Price Index	100.0	76.7	79.7	78.5	74.6	63.9	64.0	67.3	73.7	91.6
Merch. Imports Price Index	100.0	97.3	95.4	93.1	92.1	104.6	112.6	115.9	122.8	141.6
Merchandise Terms of Trade	100.0	78.8	83.5	84.3	81.0	61.1	56.8	58.1	60.0	64.7

US$ millions (at current prices):

H. Balance of Payments	1980	1982	1983	1984	1985	1986	1987	1988	1990	1995
Exports of Goods and NFS	2372	1658	1786	2033	1978	2002	1893	2027	2357	3506
Merchandise (FOB)	2269	1601	1686	1918	1852	1846	1715	1831	2137	3181
Non-Factor Services	103	57	100	115	126	156	178	196	220	325
Imports of Goods and NFS	2353	1905	1903	1869	1771	1975	2169	2296	2554	3440
Merchandise (FOB)	1808	1545	1444	1399	1413	1550	1714	1827	2054	2749
Non-Factor Services	545	360	459	470	358	425	455	469	500	691
Resource Balance	19	-247	-117	164	207	27	-276	-269	-197	66
Net Factor Income	-497	-496	-409	-571	-570	-575	-619	-646	-707	-920
(interest)	284	315	291	376	333	392	449	383	315	155
Net Current Transfers	148	101	124	31	84	78	130	138	143	176
(workers remittances)	0	0	0	0	0	0	0	0	0	0
Current Account Balance	-330	-642	-402	-376	-279	-470	-765	-777	-761	-678
Long-Term Capital Inflow	289	408	319	165	138	381	812	873	948	588
Direct Investment	6	6	5	6	6	5	10	15	32	63
Official Capital Grants	40	50	52	52	60	60	62	64	68	79
Net LT Loans (DRS data)	-22	-179	-197	-295	-295	-199	-25	-37	-65	-479
Other LT inflows (Net)	265	531	459	402	367	515	765	831	933	985
Total Other Items (Net)	73	104	-20	79	107	69	5	28	36	36
Changes in Net Reserves	-31	129	103	134	36	21	-53	-116	-223	-26
Net Credit from IMF	17	94	112	107	66	-15	29	-86	-193	0
Other Reserve Changes (- indicates increase)	-48	35	-9	27	-30	36	-82	-30	-30	-26
As shares of GDP:										
Resource Balance	0.4	-5.7	-2.4	2.8	3.9	0.4	-5.8	-5.6	-3.7	0.8
Interest Payments	6.4	7.3	6.0	7.5	6.9	6.5	9.4	8.0	5.9	2.0
Current Account Balance	-7.4	-14.8	-8.3	-7.5	-5.8	-7.8	-16.0	-16.2	-14.2	-7.4
Memorandum Items:										
GDP (millions of current US$)	4440	4325	4827	4982	4810	6019	4790	4795	5346	7301

Notes:

Data on the Economic Indicators tables follow the definitions and concepts of the Standard Tables and Standard Attachments.

e = estimated data
p = preliminary data

I. Budget	Shares of GDP (%) 1980	1982	1983	1984	1985	1986	Growth Rates (% c.a.) 1980 - 86	1984	1985	1986
Current Receipts	13.0	12.0	11.1	15.5	18.6	18.6	-4.0	55.3	28.5	36.2
Current Expenditures	12.0	15.3	11.6	15.6	17.1	14.9	-0.2	50.2	16.1	13.5
Current Budget Balance	1.0	-3.2	-0.5	-0.1	1.5	-1.4				
Capital Receipts	0.0	0.0	0.0	0.0	0.0	0.0	--	--	--	--
Capital Expenditures	0.9	2.1	0.7	0.6	0.4	0.3	-7.5	3.5	-24.2	-37.0
Overall Deficit	0.1	-5.3	-1.1	-0.7	1.1	-1.7				
							--	--	--	--
External Borrowing (net)	-1.1	-0.9	-1.3	-1.4	-2.0	-1.5	7.5	35.0	52.6	-44.2
Domestic Non-Bank Financing	--	--	--	0.3	0.2	0.1	--	--	-8.5	-83.5
Domestic Bank Financing	0.9	6.3	2.4	1.8	0.6	3.1	38.1	-11.2	-68.3	549.5

J. External Capital Flows,Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1982	1983	1984	1985	1986	Debt Outstanding & Disbursed (US$ mil.) 1980	1982	1983	1984	1985p	1986e
Public & Publicly Guaranteed LT	325.0	-4.8	237.4	187.5	141.4	351.5	4280	4083	4386	4236	4821	5577
Official Creditors	149.0	-77.4	218.4	189.4	129.9	343.3	2685	2830	3400	3392	4059	5053
Multilateral	93.0	34.1	58.2	54.0	71.4	149.1	469	512	571	585	693	806
of which IBRD	17.0	-8.0	-8.0	-9.0	-10.0	-7.6	67	73	65	56	47	47
of which IDA	20.0	38.0	49.0	50.0	55.0	78.4	159	214	282	302	388	437
Bilateral	56.0	-111.5	160.2	135.4	58.5	194.2	2216	2318	2829	2808	3366	4247
Private Creditors	176.0	72.7	19.0	-1.9	11.5	8.2	1603	1253	980	844	762	524.4
Suppliers							345	258	193	153	123	82.9
Financial Markets							1258	998	787	691	640	441.5
Private Non-Guaranteed LT	-40.0	0.0	0.0	0.0	0.0	0.0	100	16	10	8	0	..
Total LT	285.0	-4.8	237.4	187.5	141.4	351.5	4388.0	4098	4398	4244	4821	5577
IMF Net Credit	17.0	94.0	111.0	107.0	66.0	-15.0	238	423	518	579	721	783

Bank and IDA Ratios	1980	1982	1983	1984	1985p	1986e
Share of Total Long-Term DOD						
1. IBRD as % of Total	1.99	1.78	1.48	1.32	0.97	0.84
2. IDA as % of Total	3.63	5.23	5.97	7.11	7.62	7.84
3. IBRD+IDA as % of Total	5.61	7.01	7.45	8.43	8.59	8.68
Share of Total LT Debt Services						
1. IBRD as % of Total	3.36	10.13	7.51	4.08	3.90	..
2. IDA as % of Total	0.21	1.60	1.13	1.22	1.23	..
3. IBRD+IDA as % of Total	3.57	11.73	8.63	5.30	5.16	..
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	0.00	243.05	243.73	208.54	240.21	302.1
2. IMF Credit/Exports	0.00	25.10	28.32	28.47	35.92	39.7
3. Short-Term Debt/Exports	0.00	13.30	11.66	11.99	15.40	..
4. LT+IMF+ST DOD/Exports	0.00	281.45	283.71	249.00	291.53	341.8
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	42.68	45.16	58.61	85.18	100.23	100.4
2. IMF Credit/GDP	2.27	4.66	6.81	11.63	14.99	13.9
3. Short-Term Debt/GDP	2.88	2.47	2.90	4.90	6.42	..
4. LT+IMF+ST DOD/GDP	47.83	52.29	68.22	101.71	121.65	114.3
Debt Service/Exports						
1. Public & Guaranteed LT	--	34.55	20.10	21.30	26.70	24.80
2. Private Non-Guranateed LT	--	0.15	0.04	0.00	0.00	0.00
3. Total LT Debt Service	--	34.70	20.14	21.30	26.70	24.80
4. IMF Repurchases + Serv Chgs.						
5. Interest Only on ST Debt						
6. Total (LT+IMF+ST Int.)						

Notes:

Data on the Economic Indicators tables follow the definitions and concepts of the Standard Tables and Standard Attachments.

e = estimated data
p = preliminary data

ANNEX II

ZAIRE

STRUCTURAL ADJUSTMENT CREDITS

Supplementary Credit Data Sheet

Section I. Timetable of Key Events

(a)	Identification:	January 1986
(b)	Preparation:	July 1986
(c)	Appraisal	March 1987
(d)	Negotiations	May 1987
(e)	Planned Date of Effectiveness:	September 1987

Section II. Special IDA Implementation Actions:

None.

Section III. Actions to be taken before the release of the second tranche:

a) Disbursement of the second tranche of US$82 million equivalent will be dependent upon satisfactory progress towards the implementation of the overall program described in the Letter of Development Policy and taking the following actions in a manner satisfactory to the Association:

b) Revision of the macroeconomic framework for 1988-91, including the level and composition of the 1988-91 PIP;

c) Establishment of an oversight structure for supervision of public enterprises, and the appointment of its Administrator;

d) Classification of enterprises to be maintained in state portfolio, liquidated or wholly or partially privatized;

e) Finalization of a restructuring and reorganization program for public enterprises remaining in state portfolio; and

f) Completion of financial and administrative arrangements for the retirement of eligible public employees.

Section IV. Special Feature:

Government Letter of Development Policy and supporting sectoral statements (Annex III).

ANNEX III

REPUBLIC OF ZAIRE

STRUCTURAL ADJUSTMENT PROGRAM

LETTER OF DEVELOPMENT POLICY

Mr. Barber Conable
President
The World Bank
Washington, D.C.

Dear Mr. President:

1. In response to the deep-rooted economic crisis of the late 1970s and early 1980s, the Executive Council instituted, in September 1983, a rigorous economic reform and stabilization program, the essential aims of which were to curb inflation and reduce the public finance and balance of payments deficits. The cornerstone of this program was reform of the exchange system. Zaire's currency was made convertible as of the beginning of 1984 and has been maintained so ever since; almost all restrictions on imports have been lifted and most domestic prices have been liberalized; fiscal discipline has been strengthened; the external and internal imbalances have been substantially reduced while external debt service payments (after rescheduling) were made punctually through end-1986. To support and sustain these reforms, the Executive Council introduced an interim rehabilitation program (PRINT) for 1983-85. In 1985, the Five-Year Plan for 1986-90 was drawn up which identified the structural problems of the economy and spelled out the orientations to be adopted in order to bring about the needed structural changes.

2. The Executive Council has also instituted a Structural Adjustment Program designed to remedy the deep-seated problems that continue to hamper economic growth. In the first phase of its adjustment program focussing on the industrial sector launched in the course of 1986, and which is supported by IDA and the Special Facility for Africa, the Council adopted a new tariff system and revised the Investment Code with a view to rationalizing the incentive system. In order to extend this structural reform to other sectors of the economy, the Council has called on the assistance of the World Bank through a Structural Adjustment Program, and that of the IMF, through the latter's new Structural Adjustment Facility. This Statement of Development Policy sets forth and reaffirms the basic orientations of the Executive Council's Structural Adjustment Program and provides details of the programs and policies for the key sectors.

I. Recent Developments and Present Economic Situation

3. The stabilization measures undertaken by the Government have produced positive results in certain areas. Thus, notwithstanding the fall in world prices for Zaire's main export products, the current account deficit declined from 14 percent of GDP in 1982 to 5 percent in 1986, while

the overall balance of payments deficit was brought down from US$660 million in 1982 to US$535 million in 1986 (SDR 598 million and SDR 455 million equivalent, respectively). Despite the overruns posted at the end of 1986, the net financing provided by the banking system for the Government has been reduced from 6.3 percent of GDP in 1982 to 3 percent in 1986.

4. These positive signs of economic stabilization have not, however, been accompanied by a sustained recovery of economic growth. Indeed, in real terms, GDP growth in 1984, 1985 and 1986 lagged behind the rate of population growth. This disappointing result is due in part to the deterioration in Zaire's external terms of trade, the country's significant external debt service obligations and the low volume of external assistance, which has remained well below the level expected, and finally, to the difficulties in formulating appropriate economic policies for dealing with the structural problems. External debt service payments, after rescheduling, amounted in 1986 to 25 percent of exports of goods and services (and nearly half of the State budget). Since up to the end of 1986 Zaire regularly met its debt service obligations under the Paris and London Club agreements, the volume of imports has had to be severely cut back, which has adversely affected the productive capacity of the industrial and agricultural sectors while investment has fallen to a very low level.

5. The economy is now in an extremely difficult situation. The success of the economic reform program launched in 1983 is threatened by the lack of foreign exchange. Nearly half of the US$5.6 billion debt has to be repaid over the next five years, and scheduled debt service payments will amount to US$1 billion a year on average. In the past, the Zairian economy has adapted itself to this difficult situation of high debt service and steady deterioration of terms of trade by cutting back imports and holding down investment. In the future, however, the restoration of growth and diversification will necessitate increasing of the volume of both imports and investments.

II. Structural Adjustment Program: Orientation of Basic Policies

6. The Executive Council is determined to put the Zairian economy on a sustained growth path. While prudent monetary and budgetary policies have to be pursued in order to maintain the domestic and external equilibria, it is vital to boost the production of certain sectors and to stimulate domestic demand by noninflationary means in order to revitalize the economy. The Council will accordingly adopt policies to increase the output and competitiveness of the productive sectors, including encouraging investment. In this framework, the Executive Council's policy will be to foster economic integration, to ensure the efficiency of import substitution and to promote exports.

7. In the short term, recovery of the economy will depend on increased mobilization of domestic and external resources and improvement of the mechanisms for their allocation. Zaire's growth strategy will continue to be based on a large role for the private sector, leaving productive activities in the private sector, apart from vital public services and some strategic activities. To support the private sector

activities, the Council has launched a program of public investment in order to facilitate rapid rehabilitation of the economic infrastructure, including a program of rehabilitation of rural roads. The Council has begun to take measures to improve the institutional framework and refine the policies for promoting small and medium enterprises, a sector with high employment-creation potential that has been relatively neglected up to the present.

8. Zaire's economic and social development is still hampered by a number of constraints, particularly in terms of its physical and human resources, together with the persistence of a system that encourages speculative activities to the detriment of productive activities. Adjustment and growth have been severely constrained by the low degree of confidence of the private sector, both domestic and foreign, as manifested by the unwillingness of Zairians to repatriate their assets from abroad. The Executive Council's commitment to implement its Structural Adjustment Program and the vigor with which it is implemented will help to lessen the country's structural constraints and to enhance its credibility with a view to attracting the capital flows needed.

9. The objectives of the Structural Adjustment Program are to ensure economic growth (a minimum of 3.5 percent per annum, in real terms, over the coming three years with a significant increase in the 1990s), to raise the population's living standards, to bring about over the medium term a reduction of the external financing requirements and to increase the country's ability to meet its external obligations. The achievement of these objectives will require a concerted effort on the part of Zaire and the international community. As far as Zaire itself is concerned, the economic policies described in this statement and which form the basis of its Structural Adjustment Program are necessary to alleviate the internal constraints in the medium term and to lay the bases for sustained economic development over the long term. On the other hand, in order for the productive sectors to be able to respond quickly to these policies, a considerable inflow of external resources will be needed immediately to rehabilitate and restructure the country's productive base and infrastructure.

10. In all of its activities, the Government is concerned with the need to preserve the quality of the environment. To facilitate this task, a number of regional studies focussing on the impact of economic development on the environment will be undertaken, beginning with the Kivu region.

Price Policies

11. The Executive Council will continue to apply its policy of price liberalization and will ensure a uniform interpretation of the liberalization measures in the different regions of the country, especially as regards agricultural products. Should it prove necessary to correct any imperfections in the market leading to excessive prices for some products, this will be done by means of measures to increase competition or by strengthening the tax system, rather than by introducing *ex-ante* or *ex-post* price controls. The Government will also continue its efforts to

rationalize pricing policies of the public enterprises. Furthermore, in order to fully cover the cost of importing oil products and to maintain the real value of the petroleum tax revenues, periodic adjustments will be made in the pump prices of petroleum products.

External Sector Policy

12. In order to ensure optimum foreign exchange allocation, the Executive Council will maintain a free exchange system with a market-determined rate. This policy constitutes a determining factor in the development of nontraditional exports and effective import substitutes. The Government will improve the functioning of the inter-bank foreign exchange market and seek transparency in the rates offered to customers. In this regard, foreign exchange provided by the SAL and other cofinanciers will be sold at the inter-bank market.

13. In order to improve the profile of the external public debt, the Executive Council intends to strictly limit its recourse to borrowing on non-concessional terms. An annual ceiling for commitments of all non-concessional borrowing will be determined and revised in line with the macroeconomic framework, each year during the annual review of the PIP with the Bank. For 1987, these commitments, excluding export-oriented mining projects, will be limited to US$15 million (SDR 12 million equivalent). In addition, the Council will introduce a program of incentives to encourage some external creditors to convert a part of this debt into equity in the privatized public enterprises and idle plantations. The Council will also take steps to stimulate the inflow of private capital by, among other things, progressively reducing the remaining restrictions on current account transactions. In view of its concerns regarding the evolution of the terms of trade, the Council intends to progressively increase the level of foreign exchange reserves in order to prevent excessive exchange-rate fluctuations.

Budgetary and Fiscal Policies

14. It is recognized that prudent budget management will be pursued in the years ahead because of the external debt situation and the need to avoid inflationary financing of the State budget. In the short term, the Government intends to seek the rescheduling of the debt for 1987 and the following years effected in such a way as to bring about a significant easing of the pressures affecting the budget. In order to significantly augment the mobilization of domestic resources, the Government has began to take measures to increase the efficiency of collection of tax and customs revenues, rationalize exemptions and consolidate parafiscal revenues in the budget. Steps will also be taken to continue the uniformization of customs tariffs and to reform taxation by focussing it much more on consumption, property and income than on production and by enlarging its base. A detailed description of the Government's tax reform program is presented in Attachment 3.

15. As regards public expenditure, the Executive Council will continue to follow its prudent policy and will maintain strict fiscal discipline. In this regard, and also to improve the transparency of the Government's accounts, budgetary control mechanisms will be strengthened. Since the

wage bill cannot be permitted to rise faster than budgetary revenues, real wage increases in the civil service will be linked to rationalization of employment in the context of global reform of the sector. This reform program, described in Attachment 5 to this declaration, will include reduction of the number of civil service personnel through elimination of fictitious personnel, attrition, voluntary retirements and resignations over a period of several years, and will also include a review of remuneration policies with a view to rationalizing wage differences by means of productivity and performance bonuses, while taking increases in the cost of living into consideration.

16. As is set forth in detail in Attachment 2, the Executive Council has prepared a Public Investment Program (PIP) covering the period 1987-90, which is to be transformed into a rolling three-year program and revised each year in light of the progress of project execution and the constraints imposed by the macroeconomic framework. The PIP for 1987-90, which builds upon the PIP for 1987-89 approved at the April 1986 meeting of the Consultative Group, places the emphasis on rehabilitation of infrastructure and consists of projects whose economic justification has been demonstrated. For those projects with consideration other than economic justification, total expenditures will be limited to a ceiling to be agreed during the annual PIP reviews. For 1987, this ceiling will be Z 1.5 billion. The 1987 tranche of the 1987-90 PIP involves an expenditure level of Z 54 billion at current prices. About two-thirds of the financing is expected to come from the disbursement of external loans and grants. The remainder would come from the Investment Budget and the financial savings of the parastatals. In order to ensure full funding and execution of the PIP, the Government will ensure that the parastatals are allowed to make tariff adjustments to cover their investment expenditures. The Government will also ensure that Z 5 billion allocated for the Investment Budget will be disbursed in a timely manner. In this regard, the Ministry of Planning will assume the responsibility for the financial execution of the Investment Budget. The external financing for the PIP projects will be contracted solely on concessional terms, with the exception of certain projects of the public enterprises for which financing on nonconcessional terms will be strictly limited (see para. 13).

Financial Sector Policy

17. In the financial sector, the policies followed will be aimed at boosting the mobilization of resources for the financing of the economy and will be applied in the context of a monetary policy that will to prevent further deterioration of the external current account deficit beyond 1987 and to bring the rate of inflation down from 45 percent in 1986 to 15 percent in 1989. In order to encourage growth of production, the proportion of credit allocated to the private sector will have to be progressively increased. The basic structure for an interbank money market, which will facilitate bank intermediation and competition and strengthen market-determined interest rate system, has also been established.

18. The Executive Council is also studying ways to improve the efficiency of the financial sector, as described in Attachment 4. In this context, it intends to strengthen the supervision of the commercial banks

(including improved auditing of accounts) in order to ensure that the banks are taxed appropriately and that the competition among them is strengthened. Measures will also be taken to improve the functioning of credit markets, together with liberalization of interest rates on agricultural credits, elimination of categories within lending ceilings, the phasing out of the turnover tax (CCA) on interest, and further development of the interbank money market. Finally, the Executive Council will take steps to enhance the effectiveness of the nonbank financial institutions specializing in attracting savings.

Public Enterprises

19. In line with Zaire's growth strategy, based on the dynamism of the private sector for the development of productive activities, the Government intends to rationalize the public enterprise sector. To this end, some of the enterprises concerned will be privatized and others will be restructured to make them more functional and competitive in the market, while others that are inherently unprofitable will be liquidated. The Government's reform program for the public enterprises is presented in detail in Attachment 1 to this letter.

20. As regards the enterprises that will be retained in the State's portfolio, there will be a general liberalization of markets and removal of monopolies, special protections and other exemptions. In addition, the existing system of oversight and control, together with the entire relationship between the State and the enterprises, will be reviewed to give enterprise management greater autonomy and more responsibility. The Executive Council will also strengthen the management and *a posteriori* control of enterprises by stipulating that they use outside auditors and developing the training of nationals in the audit profession. Public enterprises will be required to contribute to the budget by paying taxes and dividends. Explicit state subsidies will only be made available to them in exceptional circumstances.

Agriculture Policy

21. Positive results have already been achieved in the agriculture sector, as a result of the price liberalization policy followed since 1981. As specified in the Five-Year Plan, the division of responsibilities in agriculture between the private sector and the state has been clearly spelled out. The State's role in this sector will consist of developing and upgrading the infrastructure, promoting agricultural research, setting up guidance mechanisms for agricultural production through extension services and establishing a favorable investment climate, whereas the private sector will be engaged in production. A detailed description of agriculture policy is presented in Attachment 6 to this letter.

Policy on Transport Sector

22. Notwithstanding the efforts made since the mid-1970s, the performance of the transport sector remains unsatisfactory. This is reflected both in the deterioration of physical infrastructure of the transport network and in the decline in transport volumes since the 1970s.

23. The measures included in the Structural Adjustment Program regarding the transport sector comprise:

(i) Reorientation of the strategy of ONATRA, SNCZ and OR, including decentralization and selective reorganization, simplification of structures, and progressive disengagement from certain activities for ONATRA and SNCZ;

(ii) Immediate steps to restore the financial situation of ONATRA, SNCZ and the Office des Routes (OR) in order to improve their performance and ensure execution of the programs under way. Review of the rate structures of SNCZ and ONATRA based on analysis of their costs and sound commercial management;

(iii) Improvement of transport planning, strengthening of coordination and formulation of sector policies through GET; and

(iv) Commencement of a program to improve rural roads in an appropriate institutional framework utilizing by priority easily mobilizable existing means (OR for management and economic operators and local authorities for execution) under the supervision of the regional and rural development authorities.

III. Composition of the Structural Adjustment Program

24. The fundamental orientations of the Executive Council's Structural Adjustment Program have been described above. The detailed policy statements for the key sectors and their execution schedules are presented in the following attachments:

1. Public Enterprises
2. Public Expenditure Programming
3. Fiscal Reform
4. Financial Sector Policy
5. Civil Service Reform
6. Agriculture Policy
7. Transport Sector Policy
8. Policy matrix tables (programs of action, and calendar).

IV. External Financing Requirements

25. The balance of payments projections for 1987 and beyond give rise to concern, particularly on account of the uncertainties as to future prices for Zaire's main exports. Although the Government's objective is to achieve a faster growth of nontraditional exports, their impact on the

balance of payments in the medium term will remain modest. To allow the adjustment process, real growth of imports of goods are projected at an annual rate of 3 percent. Taking into consideration the tariff reform in progress that is designed to improve the structure of imports, the projected increase represents the minimum necessary to permit real GDP growth of 3.5 percent per year during the 1987-89 period.

26. Even with the modest objectives, the current account deficit (not including official transfers) is expected to jump from US$610 million (SDR 520 million equivalent) in 1986 to US$963 million (SDR 764 million equivalent) in 1987 and to remain at about that level through 1990. Taking into account scheduled payments, together with the need to increase foreign exchange reserves, annual external financing requirements over the period would average approximately US$1.8 billion (SDR 1.4 billion equivalent). About half of this could be covered by grants and loans already committed on the basis of disbursements programmed by bilateral and multilateral agencies. Other possible sources of financing include the IMF's Structural Adjustment Facility and the purchases under the Stand-by Arrangement from the IMF. The remaining financing gap would amount to US$850 million (SDR 675 million equivalent) per year over 1987-90, which should be covered by a combination of debt reschedulings and new commitments from the donor community. Mobilization of additional external resources is accordingly a prerequisite to enable Zaire to carry out its public investment program, on the one hand, and to permit the private sector to perform its role as principal promoter of future economic growth. A major reorganization of the debt, including both rescheduling at exceptional terms and other arrangements, will also be necessary to ease the pressures on both the balance of payments and the State budget.

V. Monitoring of the Structural Adjustment Program

27. During the preparation of the Structural Adjustment Program the Executive Council formed an Interdepartmental Committee, chaired by the Prime Minister, with a Technical Secretariat headed by the Minister for Planning. This committee will continue its work in the future and will be responsible for: (a) monitoring and evaluating the progress of the reforms under way and their impact on the economy; (b) the preparation and drafting of recommendations for future structural adjustment measures; and (c) liaison with the World Bank and other donors for periodic reviews of the progress of the Structural Adjustment Program.

VI. Conclusion

28. As you can see, Mr. President, Zaire has made considerable efforts both to promote private investment and to improve management of public sector resources. These efforts ought to be continued. However, the combination of deteriorating terms of trade and insufficient resource transfers has aggravated the already precarious situation of the basic equilibria. It is thus necessary to increase the level of resources available in order to cope with the uncertainties and at the same time ensure the level of growth desired. In addition, mechanisms for evaluating the program will have to be established that take into consideration the factors that are beyond Zaire's control, in order to strengthen consultation and coordination.

/s/ Mobutu Sese Seko
Marshall

ATTACHMENT 1

POLICY STATEMENT ON PUBLIC ENTERPRISES

Background

1. The public enterprise sector in Zaire predominates in such essential sectors of the economy as mining, energy and transportation, as well as in other traditional sectors like public services and communications. Public enterprises account for 38 percent of GDP, over 80 percent of export earnings and 85 percent of total public investment. The involvement of the public sector in agriculture and industry is, however, extremely limited.

2. Despite their importance in the economy, the contribution of the public enterprises to government revenue has been poor. While accounting for more than two-thirds of the outstanding external debt, public enterprises contribute very little to service payments on external debt, which are largely covered by the central government's budget.

3. There have been several attempts in the past to rationalize the sector, with varying degrees of success. Despite these attempts, the disappointing performance of the sector stems from both endogenous factors (institutional setting, poor management) and exogenous factors (the international economic environment, declining export prices, etc.). For instance, the existing institutional framework and the division of labor between the supervising ministries has made it very difficult to introduce and monitor performance evaluation criteria. Legally defined "public enterprises" cover a wide range of entities, some of which are entirely commercial while others are agencies providing public services. The interplay of these factors results in a plethora of controls which fails to maintain any real coordination, and a degree of weakness in the agencies responsible for designing and evaluating projects that undermines the investment planning and programming process.

Government Objectives

4. The Government's strategy for the sharing of economic responsibilities between the Government and the private sector is clearly defined. For its part, the State will focus on rehabilitating and upgrading essential infrastructure, while the private sector will be engaged in production. For the public enterprises, the essential objective of the Structural Adjustment Program is to rationalize the state's involvement in the economy, through selective closures, disengagement, and by increasing the role of the private sector.

Action Program

5. The Government's public enterprise reform effort will follow four major directions:

(a) clear identification of those enterprises providing public services that are administrative in nature, and their removal from the State portfolio;

(b) privatization of certain activities which are currently the exclusive domain of public enterprises.

(c) liquidation of all public enterprises in the productive sector that show no prospects for being economically and financially viable.

(d) for those enterprises remaining in the State portfolio, implementation of the following actions, designed to improve their economic effectiveness:

(i) improve the institutional and legal framework in which they operate by clearly defining their responsibilities in the spheres of supervision, goal setting, policies to be applied, State aid, staffing and incentives, and by adopting a sound legal definition that distinguishes them clearly from agencies providing public services of an administrative nature;

(ii) strengthen the system of financial controls _a posteriori_ by requiring each enterprise to introduce regular accounting procedures and to submit its accounts annually for examination by external auditors.

(iii) reorganize financially, technically and managerially those enterprises that are essentially viable but currently incapable of functioning effectively because of internal obstacles;

(iv) improve the management effectiveness of enterprises by changing the rules and procedures of recruitment and compensation and by giving managers more _freedom of action_ within the institutional and legal framework described above;

(v) eliminate the special privileges and specific exemptions now available to enterprises operating in competitive sectors (e.g. special protection against foreign and domestic competition, legal monopolies, special tariffs, etc.); and

(vi) rationalize the financial situation of the parastatal sector, including settlement of cross-claims.

6. Implementation of this strategy as a whole cannot be undertaken until after detailed study, one of the principal results of which will be to enable the State to determine with greater accuracy what economic impact the activities of the public enterprises have, and to formulate possible alternatives. The Executive Council has commissioned a UNDP-financed, Bank-executed study, to be conducted by local and foreign consultants working in conjunction with the Ministry of the Portfolio and the parastatal sector, which will carry out a systematic review of the present position, financial flows and cross-claims of the public enterprises, and identify the changes that need to be made in their overall management.

7. This study will also make it possible to classify the enterprises according to whether they should be privatized or liquidated, to formulate recommendations for the reorganization and restructuring of those retained in the state portfolio, and to design information systems that can be relied upon to undertake the reform of the sector.

8. A team, comprised of staff from both the Portfolio Department and the Permanent Council of Accounting (CPCZ) has been working since the beginning of the second quarter of 1987. The team's main goal is to carry out an initial evaluation of the capital assets of public enterprises in order to determine their value, as well as to fix in a realistic way their social capital by Presidential Decree, thus resolving the judicial void that has existed so far in this sector.

9. In addition, the Portfolio Department is currently classifying public enterprises in terms of the criteria of profitability and their contribution to the budget, taking into account the performance and remuneration of staff and managers. This classification will constitute an incentive system for staff and managers of enterprises who, through their performance efforts, will be able to upgrade the productivity of their respective enterprises, and their own remunerations, as a consequence.

ATTACHMENT 2

POLICY STATEMENT ON PUBLIC EXPENDITURE PROGRAMMING

Background

1. The programming, budgeting and execution of the public investment program (PIP) in Zaire are now in a transitional phase. The major development thrusts in the country and the critical role of public investment in ensuring the transition from stabilization to economic recovery have been formulated in the framework of the first Five-Year Plan (1986-1990), promulgated in the form of a law on January 1, 1986. In order to translate the Plan into implementable programs, reflecting the availability of both domestic and external resources, the Executive Council prepared a three-year priority public investment program (PIP) for 1987-89, which constitutes the first segment of the Five-Year Plan. An earlier version of the PIP, which was approved at the meeting of the Consultative Group in April 1986, represented a significant improvement over preceding investment programs, particularly as regards its realistic approach, choice of projects, sectoral policies and macroeconomic consistency. However, the magnitude of debt service, which constrains the budgetary resources available for investment by the State, serious flaws in methodology and the weakness of the institutions responsible for formulating and implementing the PIP continue to handicap its implementation. Like the public investment programs which preceded it, the 1986 tranche of the 1986-89 PIP was largely under-implemented.

2. The principle of investment programming in all departments in Zaire is that the investment program should give priority to projects under way and only then to the launching of new projects. This approach assumes, however, that (i) the financial and physical progress of current projects is sufficiently monitored; (ii) the cost of new projects is estimated correctly; (iii) the Government regularly finances a portfolio of projects that have been properly selected on the basis of their economic and financial viability and (iv) criteria for selection among new concurrent projects are established. These conditions are not always met. In some sector departments, project monitoring is at an embryonic stage and the Ministry of Planning, which coordinates the monitoring of the PIP as a whole, is barely beginning to set up the mechanisms needed for realistic monitoring. The information system has not been organized in the technical departments or the Ministry of Planning in order to allow for regular updating of data on projects and programs. With limited exceptions, annual projections of capital expenditures outside the investment budget (budget d'investissement--BI) are still done very irregularly. The estimated cost of projects included in the PIP are all too often based on very approximate calculations. At times the selection of new projects is not consistent with clearly defined criteria. Moreover, owing to a limited capacity for analysis, the role of arbiter that the Ministry of Planning and sector departments should play is weak as regards public enterprise investments, which represent nearly three-fourths of the PIP.

3. Consistent programming of the funds made available under the BI and the requirements of the three-year investment program still leave a great deal to be

desired. The procedures for formulating the PIP and BI are different and the three-year program is not yet recognized as a constraint for the budget. The approved BI is not a final authorization of expenditures, since the allocation of resources by project is not always in line with initial plans and because projects not included in the PIP can appear in investment budgets. In addition, non-respect for BI credit allocations which involve local counterparts for external financing ultimately prevents a share of available external resources from being mobilized. In addition, the implementation of the PIP is slowed down by the cumbersome procedures for expenditures under the BI (commitment of expenditures and procurement).

Objectives

4. In order to stimulate economic growth, the Executive Council wishes to improve the selection and implementation of public development projects. To this end, it wishes to:

(i) Institutionalize beginning with the PIP 1987-90 a rolling three-year public investment program which will be revised annually. The rolling three-year PIP will include all investment projects involving State financing, namely the investments by the Government and all investments by public or quasi-public enterprises;

(ii) Ensure, through an appropriate mechanism, consistency between the BI and PIP; it will define and implement a mechanism that ensures that the implementation of the BI as defined in the PIP is accorded priority;

(iii) Enable public enterprises to take the necessary measures to ensure the self-financing of projects it has agreed to include in the PIP, in particular as regards ccunterpart funds committed in the loan agreements it signs or guarantees;

(iv) Strengthen the programming capacity of the Ministry of Planning and sector departments;

(v) Minimize the cost of borrowings to finance the PIP.

Proposed Measures

5. (i) The Executive Council will revise the rolling three-year PIP annually. The PIP will include all public investment projects and list their sources and budgetary and off-budget means of financing so that the planned expenditures are compatible with realistic projections of resources. The projects included in the PIP should be documented as completely as possible and will be selected on the basis of criteria and guidelines used for all projects including, where possible, cost-benefit analysis. To this end, the Government will decide on the methods and procedures to be used in formulating the three-year rolling PIP, ensuring the consistency between the PIP and the BI;

(ii) The PIP will be finalized in consultation with the World Bank in view of the implementation of current projects, three-year macroeconomic and resource projections, and the quality of new projects. The Government agrees to consult with the World Bank on any changes in a given year of the PIP. The 1987-1990 PIP updated by the Government and discussed with the World Bank has been distributed to the donors and agreed on at the meeting of Consultative Group held on May 21-22, 1987.

(iii) The PIP focuses on the rapid rehabilitation of infrastructure, in particular in the agriculture, water, telecommunications, education and health sectors. The PIP projects in these sectors are justified from the economic standpoint. Capital expenditures for other projects not included in these sectors will not exceed a ceiling to be set each year during the annual review of the PIP. For 1987, that ceiling will be Z 1.5 billion.

(iv) In order to ensure the most advantageous financing of the external component of the PIP, the Executive Council, with the support of its foreign partners, will systematically seek to obtain grants or loans on concessional terms. Loans on non-concessional terms will be secured only as a last resort and in special cases. An annual ceiling for commitments under non-concessional loans will be determined and revised each year during the annual review of the PIP so that it is consistent with realistic macroeconomic projections. For 1987, such commitments, excluding export-oriented projects in the mining sector, will not exceed US$15 million.

(v) The Executive Council will take the necessary measures for the timely implementation of the PIP. It will be disseminated as rapidly and widely as possible in the form of a circular letter sent by the Prime Minister to the Ministers responsible for PIP implementation as well as the President and Managing Directors of the major public enterprises, requesting them to respect PIP priorities for the projects for which they are responsible. The PIP will be attached as an annex to that letter, accompanied by a summary of program implementation for the preceding year, as well as a brief document explaining the macroeconomic, sectoral and financial framework of the PIP and the priorities to which its main projects and programs respond. The Executive Council agrees that projects included in the priority program be given priority in the allocation of resources under the BI.

(vi) The Executive Council will take the necessary measures to improve the monitoring and follow-up the financial status of the projects included in the BI on a quarterly and annual basis and for all projects included in the PIP; the physical progress of projects will be monitored at least once a year.

(vii) The appropriations in the BI will be paid in four equal disbursements into a special account opened with the Bank of Zaire. This account will be managed on the basis of a mechanism to be formulated, by the Ministry of Planning.

(viii) The public enterprises will ensure counterpart financing in local currency to allow timely disbursements of their external borrowings or borrowings secured on their behalf by the State to the extent they are capable, on the basis of self-financing, in particular through rational pricing and tariff policies.

(ix) The Government will begin to develop public expenditure programs for selected sectors (agriculture, education and health), including investment and current expenditures, in order to promote the development strategy for those sectors.

(x) The Government will decide on the means of operation and plan of action for the study fund which is to replace the pre-investment fund.

ATTACHMENT 3

POLICY STATEMENT ON FISCAL REFORM

I. Background

1. A basic concern of the Five-Year Economic and Social Development Plan is the preparation of a monetary, financial and fiscal policy for promoting private investment. The macroeconomic environment for enterprises must therefore improved so as to favor growth and investment, and the Executive Council must urgently mobilize additional resources in order to tackle the budget deficit, thus preventing budgetary pressures from leading to an excessive reduction in public expenditure. With regard to taxation, a systematic analysis confirms the presence of several types of economic and technical distortions, considerable institutional and administrative weaknesses, and the lack of effective monitoring mechanisms. More specifically, the following shortcomings can be identified:

- Until the adoption of the tariff reform in August 1986, the system of customs duties was providing a high degree of protection for industry, and a very low degree of protection for agriculture and agroindustry. At the same time, no correction mechanism was available to protect the economy from subsidized goods dumped from the international market. While progress has been made to reduce the variations in protection accorded to different industries, the customs duty system still provides for a large number of exceptions (e.g. DPT, CKD, MKD and under provisions of the Investment Code) all of which favor industries generating relatively little domestic value added. Despite the efforts undertaken by the Executive Council for reducing export taxes, several problems remain, notably as regards parafiscal charges (e.g., agricultural products). As a whole, the fiscal system still conflicts with development objectives, notably export diversification, food self-sufficiency, and economic integration.

- As regards domestic taxation, numerous distortions and contradictions arise from the multiplicity of supplementary taxes levied under the various public budgets, whose number has rapidly increased over the last few years. The impact of these taxes on the economy is especially harmful because many of them are applied to the same base. In addition, the dispersion of tax authority hinders efforts towards rationalization of budgetary options and a better definition of priorities.

- Despite its considerable potential for generating substantial revenues without creating disincentives to production activities, the turnover tax (CCA) has not provided the desired results for the following reasons:

  (i) Despite the harmonization undertaken in July 1986, the coordination between CCA rates (domestic and import) and excise taxes remains incomplete. The tax bases of different

CCA rates are not fully harmonized and excise duties, by virtue of their specific nature, are neither indexed to inflation, nor linked to the CCA in order to determine a rational tax structure. As a result, the system appears complicated, limiting its administrative applicability and reducing substantially its revenue potential.

(ii) Efforts to collect CCA are concentrated on a few large enterprises, without any reasonable attempt being made to enforce payment by small- and medium-scale enterprises.

(iii) There is a tendency to increase rates in order to compensate for inefficient tax collection.

(iv) No deductions are allowed, resulting in a cascading taxation, particularly negative on industrial production.

- Added to all these problems is the lack of a system of inflation accounting, introducing other types of distortion in company taxation, penalizing the rehabilitation of existing plants and creating an incentive to evade taxes.

2. These distortions are aggravated by weaknesses in the tax administration, and by the inconsistencies and complications of the present tax legislation:

(i) customs collection affected by fraud and smuggling and with tax collection facing considerable problems;

(ii) there is no effective application of legal mechanism for harmonizing the various parts of tax legislation at the central level, and the monitoring mechanisms are weak.

Objectives of Fiscal Reform

3. Fiscal policy and administration must be progressively and systematically revised in order to solve these complex problems. In particular, the Government seeks, through its Structural Adjustment Program to improve resource mobilization and its administration by reducing distortions, and by improving the distribution of fiscal and parafiscal charges. In the short-term, the fiscal component of the Structural Adjustment therefore aims to identify a series of corrective measures which: (i) are the most urgent necessary to limit the adverse effects of taxation on economic development; (ii) can be implemented rapidly; and (iii) are coherent with the long-term objectives of the fiscal reforms.

II. ACTION PROGRAM

A. Fiscal Reform Procedures

4. In order to provide a firm foundation for the fiscal reform process, the Executive Council will submit all fiscal reform proposals to the appropriate bodies, particularly the Legislative Council, for their examination.

B. Establishment of Uniform Customs Duties

5. As implemented under the Industrial Sector Adjustment Program, the next stage of fiscal reform consists of the following measures:

- adoption of the plan for the gradual uniformization of customs duties resulting in a miniumum level of 20 percent and a maximum of 40 percent by 1990 according to the following schedule:

July 1	Minimum	Maximum
1987	10%	50%
1988	10%	45%
1989	15%	40%
1990	20%	40%

The minimum tariff of 10% will be extended to agricultural and food products (see attachment on agriculture).

- the establishment of an adjustment mechanism to protect the Zairian economy against the effects of dumping or subsidized international markets; this mechanism will be designed on the basis of the ongoing study on the competitiveness of selected agricultural products and on the appropriate nature for such a mechanism. The criteria for application of this anti-dumping protection (list of products, time horizon, etc.) will be defined in consultation with the Bank in order to assure its consistency with the objectives of the overall tari.. reform.

- revision of the conditions for exemption and redefinition of criteria to extend preferential treatment (régimes privilégiés), in order to increase their economic efficiency and bring them more closely into line with development objectives. By June 1987, the number of import tariff exemptions under DPT (Dispositions Preliminaires aux Tarifs des Droits d'Entrée) should go from 272 to 136. Moreover, by December 1987, the Investment Commission will be restructured and the extension of exemptions under the Investment Code strictly limited.

C. Institutional Measures

- Establishment by the Minister for Finance of an interdepartmental committee for implementing the tax and parafiscal reforms over a 30-month period.

- Strengthening of the Study Department of the Ministry of Finance, allowing it to serve as the Technical Secretariat for the above-mentioned interdepartmental committee. Among other tasks, this Department will prepare periodic progress reports on the implementation of fiscal reforms.

- Strengthening the Tax Revenue Department (Direction des Contributions), in order to assure the coherence of reforms. For this purpose, the Government will prepare, by September 1987, a three-year program to be also financed with external assistance, in order to achieve the following objectives:

- expand the Department's analytical capacity for preparing economic and legal studies;

- prepare a program to enable taxpayers to have recourse against government agencies for arbitrary actions;

- strengthen the Department's human and material resources by improving the qualifications and motivation of its staff and providing them with adequate resources for data gathering and processing; and rationalizing procedures for classification, analysis and inspection;

- restore the powers and capacity of its Regional Divisions.

- The program for rehabilitating OFIDA will be continued with EEC assistance, the purpose being to improve excise collection.

D. Tax and Customs Codes

6. Fiscal legislation and regulations will be revised and combined into a Tax Code and Customs Code which will be kept up-to-date. Funding for printing and disseminating them widely is to be planned.

E. Strengthening Budgetary and Parliamentary Control

7. All government tax and parafiscal revenue, whether accruing to the Ministry of Finance, other agencies of the Executive Council or the decentralized agencies, will be increasingly integrated into the general budget process, so that it can be systematically brought under the control of the Legislative Council, the Court of Auditors, and other monitoring mechanisms. The following funds will also be consolidated into the general budget:

- Special Treasury Fund No. 1;
- the Energy Security Fund;
- the Tourism Promotion Fund.

8. As regards the Fonds de Convention de Developpement (FCD), the Executive Council will legally confirm that, although it forms part of the CCA system, its resources are no longer earmarked to the Secretariat of the FCD.

F. Reduction of Export Taxes

9. The number of parafiscal charges will be progressively reduced:

- An action plan will be jointly prepared by the Ministry of Finance and the Ministry of External Trade, and the Executive Council will consolidate the activities of OZAC and OZACAF with respect to coffee, thus reducing their levies.

- Effective July 1, 1987, the Executive Council intends to eliminate the tax on agricultural exports, revenue from which is paid into the Agricultural Fund (Fonds Agricole).

G. Elimination of all Property and Administrative Taxes Producing Marginal Revenue and of Doubtful Usefulness

10. In order to simplify the fiscal system, the Government will reexamine the following taxes perceived by different ministries and, by September 1987, will issue the list to be either abolished or consolidated effective January 1988:

Ministry of Justice:

- tax on registration in the Register of Commerce;
- tax on company capital increases.

Ministry of the Environment and Real Estate:

- certificate of approval for restaurants;
- license to operate a restaurant;
- forestry concessions;
- tax on small vessels and nets;
- license to operate a hotel;
- permit to operate an establishment causing pollution;
- license to operate a travel agency.

Ministry of Culture, Arts and Tourism:

- establishment permit;
- exit authorization.

Ministry of External Trade:

- import-export authorization number;
- presidential authorization.

Ministry of Public Health and Social Affairs:

- taxes on the establishment of pharmacies, hospitals and dispensaries;
- certificate of health-care provider;
- tax on the import of pharmaceutical products;

- taxes planned for FONAMES.

Ministry of the National Economy and Industry:

- tax on company identification numbers.

H. Extension of the Scope of the CCA and Introduction of a Tax Crediting System

11. By the end of September 1987, a Committee of Experts under the coordination of the Ministry of Finances will define a strategy and the general lines of a medium term action plan in order to:

- extend the applicability of CCA to include all excise taxes;
- establish a tax crediting system for the CCA.

I. Small and Medium-Scale Enterprises: Taxation and Forfeiting

12. A unit will be established in the Ministry of Finance (Department of Tax Revenue) to be responsible for strengthening and improving the administration of the CCA and CCR with respect to small and medium-scale enterprises. To this end, the Department of Tax Revenue has presented an action plan in May 1987, to be executed in 1988.

J. Excise Taxes

13. *Ad valorem* duties will be introduced to replace the current specific taxes applied to individual goods (i.e. beer, mineral water, nonalcoholic beverages, tobacco, etc.). The Executive Council has presented the necessary proposal in May 1987.

K. Duties on Petroleum Products

14. The possibility will be examined of replacing the various taxes on petroleum products with an *ad valorem* tax, the rates being determined according to the following three supply areas: East, West and South.

L. Establishment of Firm Economic Bases for the Taxation of Decentralized Agencies

15. The Executive Council will launch immediately an in-depth study of problems relating to the tax revenues of decentralized agencies and to seek solutions enabling decentralization to be based on sound economic foundations.

M. Establishment of an Inflation Accounting Mechanism

16. In order to rationalize the company tax regime and to provide additional incentives to investments and rehabilitation of fixed assets, the Executive Council will adopt a system for the periodic revaluation of company balance sheets. For this purpose, the Ministry of Finance will prepare, by January 1988, a system for the determination of company income correcting it for the distortions created by inflation.

N. CCA Payments on Interest

17. The elimination of CCA on interest will be carried out in two-years, starting in June 1987 with the elimination of CCA on agricultural loans, followed by a generalized 50 percent reduction in January 1988, and by the total elimination in January 1989.

ATTACHMENT 4

POLICY STATEMENT ON FINANCIAL SECTOR

Background

1. The financial sector in Zaire consists of the Central Bank, nine commercial banks and two development banks, SOFIDE and BCA (agricultural credit). The non-bank financial sector includes two subsidiaries of commercial banks specialized in the financing of construction and real estate development, an insurance company (SONAS), a savings institution (CADEZA), a postal savings network (CCP) and a social security fund (INSS), as well as a number of saving cooperatives (COOPEC). The financial sector is responsible for mobilizing domestic financial resources to finance economic growth, with special emphasis to be given to agriculture and small- and medium-scale enterprises.

2. Nonetheless, an analysis of activities of the financial sector indicates that, other than deposit banks, financial institutions remain at a low level of development. It should also be noted that commercial banks, whose primary mission remains the collection of deposits and the distribution of credits, have not sufficiently mobilized savings. This has been due to both exogenous and endogenous factors. Exogenous factors have included the low levels of incomes, as well as a widespread preference among the population for maintaining assets in liquid form. Among the endogenous factors are the inconveniences to the banks associated with the maintenance of obligatory reserves, the low level of deposit interest rates, the lack of discipline in the application of the law on use of checks, and the preponderance of cash in the payments effected by the Treasury. Taken together, these factors have led to an increase in the level of currency outside banks, estimated to represent more than 50 percent of the money supply.

3. Given the restrictive nature of credit policy of recent years, commercial bank lending to the economy has been inadequate and largely limited to short-term foreign trade financing. Medium-term lending required Central Bank approval on a project-by-project basis and was accommodated by a part of the credit ceiling not allocated to the banks. The cost of borrowing is high: at present, interest rates on short-term advances rage from 32-37 percent and on medium-term credits around 40 percent, to which an 18 percent tax and commissions should be added. Given the importance the Government accords the agricultural sector, preferential interest rates for non-coffee agricultural credit were fixed by the Central Bank. To ensure that commercial banks lend at this rate, the Central Bank was obliged to channel credit to agriculture through a project-by-project approval mechanism outside the credit ceiling (credit non reparti).

4. Central Bank supervision over the management and operation of financial institutions is limited. Although basic legislation and regulations for supervision exist, the financial sector is still not satisfactorily monitored.

Objectives

5. In the context of the Structural Adjustment Program, the financial sector will continue to play an important role in maintaining stability in external accounts and in curbing inflation. In order to improve the efficiency of the financial sector in the economy, the Government intends to: (i) revise the credit allocation system; (ii) increase saving mobilization by developing domestic financial markets; and (iii) strengthen the Central Bank's supervision of financial institutions.

Action Program

6. With respect to credit allocation, the Government has eliminated the distinction between allocated and non-allocated credit within the credit ceiling, and prior Central Bank authorization for medium-term and agricultural loans. In the context of its Structural Adjustment Program, it will (i) introduce a requirement that, during the transition period, commercial banks extend 20 percent of their total credit to agriculture and for medium- to long-term loans under the same terms and conditions as all other credits; (ii) conduct a study on the credit needs of the fishing and livestock sub-sectors; and (iii) establish an Agricultural Credit Consultative Commission, responsible for assessing periodically the adequacy of credit supply to agriculture and examine ways to increase access of smallholder farmer to agricultural credit.

7. In order to fully liberalize the interest rate structure, the preferential rates for agriculture credit has been eliminated. Moreover, to reduce the cost of credit and improve its transparency, the following actions will be taken: (i) in conjunction with the fiscal reform of the SAP, the CCA tax on interest will be phased out over a two-year period (the tax on agricultural credit was eliminated entirely in 1987); and (ii) commercial banks are now required to issue on a monthly basis the composition of the cost of credit, including all charges, which will be published by the Central Bank.

8. Savings cooperatives, which, at present, are not accredited by the Central Bank, are potentially important financial intermediaries with regards to savings mobilization, especially in the rural areas and for small-scale enterprises. In order to strengthen the financial structure of these cooperatives and eventually incorporate them into the formal financial system, the Government intends to: (i) prepare a special law governing cooperatives; and (ii) conduct a management audit to identify weaknesses in the system and define an action program that would strengthen their financial structure. To encourage the use of savings accounts, the Government plans to increase the use of checks as means of payment.

9. In order to strengthen other means for mobilizing savings, the Executive Council also intends to pursue measures to facilitate the reactivation of the insurance and social security sectors, which up to now have played only a limited role.

10. Although it has advantages in controlling the money supply, the compulsory reserve requirement policy deters banks from mobilizing deposits above the amount strictly necessary (since the reserves are not remunerated

by the Central Bank), reduces inter-bank competition in mobilizing deposits, and encourages high lending rates. To redress the situation, the Central Bank under instruction of the Executive Council, will promote the use of Treasury Bills for satisfying the compulsory reserve requirement up to a maximum percentage to be determined. The Central Bank also intends to take further measures to promote the development of the inter-bank money market.

11. Over a longer-term horizon, the Executive Council will also define the modalities for the creation and the development of financial markets.

12. In the area of supervision, the Central Bank has introduced a new and more comprehensive reporting system for banks. To improve further the Bank's supervisory function, the accounting systems used by commercial banks will be standardized, changes in the treatment of non-performing assets will be introduced, and specific financial ratios to measure the performance of banks will be defined and applied.

ATTACHMENT 5

POLICY STATEMENT ON CIVIL SERVICE REFORM

Background

1. The Zairian civil service has been characterized by limited effectiveness and very low efficiency. The quality of the civil service, which has deteriorated rapidly, has been adversely affected by management problems, reflected mainly in the persistence of fictitious employees, poor definition of job responsibilities and qualification requirements, and an inadequate remuneration package. The distribution of civil servants among different ministries and agencies is highly uneven, with excessive numbers in some sectors and insufficient in others. Given the overall budgetary constraints the country is facing, the overall size of the civil service is too large to provide adequate compensation. At present, there are roughly 434,000 active employees in the total civil service, of which 117,000 are civil servants in the central and regional administration, 180,000 primary and secondary school teachers and 88,000 military personnel.

2. Since 1982, the Executive Council has attempted to rectify the situation by eliminating fictitious employees and freezing recruitments and promotions. Although it has succeeded in stabilizing (and perhaps slightly reducing) the number of civil servants and the share of the budget allocated to their payroll, the decline in the real value of their salaries has continued, despite its efforts to raise compensation levels. Budgetary constraints have also affected operating expenditures, accentuating even further the general paralysis of the public administration.

3. As a result of the high inflation experienced in Zaire since 1975, the real incomes of civil servants has deteriorated steadily. The average civil service salary deflated by the Kinshasa Consumer Price Index (1975=100) indicates a loss of over 80 percent in the purchasing power of civil service salaries over the period 1975-85. In 1986 and 1987, the Government accorded relatively large nominal salary increases -- on average 67 percent and 70 percent, respectively. In real terms, these increases have helped to arrest the declining trend in the purchasing power of the civil service, but, in absolute terms, the income levels of practically all civil servants still remain far below the minimum subsistence requirements of an average family. In fact, real average salaries in 1987 still represent about 20 percent of those in 1975. However, the 1987 salary increase, which was not applied uniformly, did attempt to reduce the anomalies in the salary structure between the higher and lower grades by favoring the lower-level staff.

4. Although the 1987 salary increase benefitted the lower-paid staff, particularly the intermediate grades who are responsible for the day-to-day business of the Government, the salary differentials of the existing salary structure need to be reviewed in order to reduce blatant anomalies between staff levels. The system of fringe benefits, especially the provision of automobiles and gasoline allowances designed as incentives for higher-level staff, has created additional disparities among the categories of the civil

service. At present, with these supplementary benefits, the gap between the remuneration of the highest civil servant and that of the lowest-paid employee reaches nearly 50:1, while without these benefits, the ratio is 13:1.

Objectives

5. Well aware of the seriousness of the situation, the Executive Council has decided to address the problems of the civil service within the context of its Structural Adjustment Program. The strategy for the rationalization of the civil service includes both long-term objectives and a program of short-term measures.

6. The restructuring of the civil service over the long term will focus on three factors: incentives, qualifications and organizational effectiveness. The goals will be to: (i) provide a remuneration structure capable of attracting, retaining and motivating the personnel needed to run the public services; (ii) control and monitor the staff so as to guarantee its competence and motivation, within the limits of budgetary constraints; and (iii) ensure that manpower and other resources are deployed so as to allow implementation of each Ministry's programs and projects.

Action Program

7. An immediate move toward these goals will be made through a set of short-term measures as part of the Structural Adjustment Program: (i) continuing the rationalization drive by eliminating fictitious employees and retiring eligible staff -- actions which will depend on the completion of the census and physical inventory begun in 1985 with UNDP assistance, as well as the computerization of the results by SPIZ. A study on designing a new payment system for government workers will also be undertaken; (ii) revising the salary structure in order to correct present anomalies and reduce the glaring disparity between higher- and intermediate-level staff. Such a structure will also introduce pay steps within each grade so as to allow greater incentive for good performance; (iii) improving the purchasing power of civil servants by introducing mechanisms that reflect both cost-of-living and good performance and that stay within budgetary limits; (iv) rationalizing the system of fringe benefits by formulating clearer allocation criteria. In this connection, vehicle allocations will be presented under a separate budget heading, so as to limit abuse of this benefit.

8. In the medium term, the Executive Council will aim at improving personnel management by: (i) instituting manpower planning and budgeting systems in the Ministry of Public Administration; (ii) strengthening the personnel management function in the Ministry's regional offices; (iii) introducing procedures for setting priority objectives/tasks in all ministries (to begin, procedures will be introduced on a pilot basis in four ministries (Public Admiministration, Planning, Agriculture and Rural Development).

9. The definition of goals, combined with the adoption of a manpower planning, budgeting and monitoring system, will make it possible to assess

the needs for qualified manpower more accurately and evaluate the performance, as well as the cost-effectiveness of the public administration. To this end, a Manpower Planning Unit will be created in the Ministry of Public Administration; the Corps of Inspectors and the Organization and Methods Unit of the Ministry will be strengthened; the criteria of the existing staff evaluation system will be clarified and reinforced; and a personnel training program to meet identified manpower needs will be developed and instituted.

ATTACHMENT 6

POLICY STATEMENT ON AGRICULTURE

Background

1. Agriculture provides direct employment to about three quarters of the labor force and accounts for a third of GDP. While it was a major source of export revenues in the early 1960s, agricultural exports now represent only one-tenth of total export earnings. Agriculture has a great potential as a source of production, export diversification and gainful employment.

2. Despite the vast potential, the performance of agriculture has been very disappointing in the last two decades. The sector suffered from inadequate resources which led to a rapid deterioration of physical infrastructure and public sector institutions involved in the sector. The measures of zairianization in the 1973, followed by nationalization in 1974 and the retrocession in late 1976 resulted in a major disruption of confidence and the distribution network. Since then the sector has been characterized by a process of disinvestment.

3. The state of agricultural research has deteriorated due to weak management, lack of funds, and unbalanced staffing in the National Institute for Agronomic Research (INERA). The agricultural extension service is thinly scattered and largely ineffective due to lack of funds and mobility, and inadequate staffing. Currently agricultural extension is provided the private companies(in cotton, maize, sugarcane) and rural development projects. These services occasionally duplicate and overlap each other with limited coordination efforts to date.

4. The sector also suffers from a rural roads network in disrepair, which along with an inadequate distribution system for petroleum products, hampers the use of inputs and marketing of agricultural products. Trade liberalization in 1983 resulted in removal of protection for some agricultural products which had to face severe competition from subsidized imports and dumping. Other problems in the sector arise from an ill-adapted agricultural credit system, and a tax system with taxes and parafiscal charges hampering productive activities. The low level of private sector participation in agricultural input distribution has also contributed to shortage of fertilizers, insecticides, agricultural implements and veterinary products in the interior of the country.

Government Objectives

5. One of the objectives of the Executive Council under its Structural Adjustment Program is the recovery of agricultural production with a view to achieve food self-sufficiency, expansion and diversification of exports and increased production of cash crops as inputs for agro-industry. The essential conditions of agricultural recovery are: (i) a better definition of the role of the Government for supporting agricultural production; and (ii) overhauling the incentive system to encourage productive investment in the sector. For the latter, the Executive Council

continues to face the very difficult task of creating the necessary conditions for increasing private investment in the sector.

6. The Executive Council reiterates that the role of the State in agriculture will continue to be to rehabilitate and improve basic infrastructure, promote research and provide basic agricultural extension services and create a climate favorable for private investment. These measures are expected contribute to private investments in the sector.

Action Program

7. The action program focuses on two areas: (i) incentive framework; and (ii) public sector intervention in agriculture.

8. The main action in the incentive framework will be to continue the integration of the agricultural sector in the process of tariff uniformization begun in 1986 under the Industrial Sector Adjustment Program, and following its timetable. This implies that the minimum tariff will be raised from their present level of 5 percent to 10 percent and the maximum tariff reduced from 60 percent to 50 percent; this process will continue progressively until 1990, when the rate will range from 20 percent to 40 percent. Simultaneously, an adjustment mechanism will be designed to protect selected agricultural products against the effects of dumping, or subsidization. This mechanism will take into account the conclusions of the ongoing study on the competitiveness of selected agricultural products and on the appropriate nature for such an adjustment mechanism (see also attachment on fiscal reform, para. 5.2). Once this mechanism and the conditions for its application are officially established, the ad hoc supplementary tariffs currently imposed on selected agricultural products, as well as quantitative restrictions, will be eliminated.

9. In line the with measures undertaken under the Industrial Sector Adjustment Program, the Government will eliminate remaining taxes and parafiscal charges on exports of agricultural products. Furthermore, the Government will continue the process of streamlining and simplifying administrative procedures facing exporters. The Government will seek alternative financing arrangement for decentralized entities so as to avoid imposing taxes and parafiscal charges on agricultural production and exports.

10. The Government is in the process of preparing a program for rehabilitation and reconversion of abandoned plantations which offer positive economic potential. This program which could be based on a special financing mechanism will also include the debt-equity swap mechanism.

11. In the context of its liberalization policy, the Government will eliminate the preferential interest rate for agriculture, thus allowing the banks to charge market interest rates on agricultural credit. At the same time, to ensure acceptable lending levels for the agricultural sector, floor levels will be established, communicated to the banks and reviewed periodically by the Bank of Zaire (see Policy Statement on Financial Sector).

12. The Government intends to develop support structures to improve the access of credit to small farmers. To this end, the Government will seek appropriate mechanisms to increase the level of own resources of the Agricultural Credit Bank (BCA) and improve its scope of action. In this regard, an Agricultural Credit Consultative Commission will be set up with the identifying agricultural credit needs (including seasonal crop credits) and making recommendations to the banking sector for effective coordination of activities. The Commission will include representatives from the Ministries of Planning, Agriculture and Rural Development, the Bank of Zaire, ANEZA and BCA.

13. The Government will also take the required measures to eliminate bottlenecks hampering input distribution once the results of an ongoing study in this area become available.

Public Sector Institutions

14. A study is under way to examine and propose recommendations on the ways to improve the efficiency and streamline the extension and field support agencies. In consultation with the Bank, the Government will take required measures in this area which would aim at tailoring their programs to available human and financial resources.

15. A detailed program for reactivating agronomic research was drawn up by a National Commission in 1984, in light of recommendations put forward by a mixed group of Zairian experts and ISNAR, the specialized international agency in this field. Actions to mobilize the financial resources required to implement the first stage of this program will begin as soon as possible and not later than the start of the 1988 budget year.

16. To stimulate the production and marketing of food products, cotton and export crops, the Executive Council plans to:

- install the regional agencies of the National Feeder Roads Service (Service National des Routes de Desserte Agricole);

- draw up a medium-term program for the rehabilitation of all rural feeder roads in the agricultural production areas;

- make an immediate start on an urgent maintenance and rehabilitation program in the priority areas, including a personnel training component (see Policy Statement on Transport).

- conduct a study for the development of storage facilities and product conservation and prepare projects with appropriate financing mechanisms.

17. The administrative coordination problems at the central level are particularly acute in the areas of agriculture and rural development. They concern in particular multiple sources of project financing and the constraints imposed by the farming calendar. These problems, together with rationalization of certain training criteria in agriculture, will be

assigned priority among the objectives set for the Ministries of Agriculture and Rural Development.

ATTACHMENT 7

POLICY STATEMENT ON TRANSPORTATION SECTOR

Background

1. Despite efforts made since the 1970s, the situation of the transportation sector is still worrisome. The poor performance of the sector is compromising other efforts to promote economic development and integration. The major problems of the sector, identified by the Five-Year Plan and to be addressed under the Structural Adjustment Program, are: (i) physical deterioration of both transportation infrastructure and equipment; (ii) insufficient coordination of the transportation sector as a whole; and (iii) management of national companies and offices that results in three key problems:

- a serious financial squeeze because of inadequate tariff adjustments which do not fully reflect production costs during a period of high inflation (rates charged by ONATRA and SNCZ; road taxes for the Office des Routes). In the case of the Office des Routes, this has forced the closing down of certain essential operations,

- inadequate control of production costs,

- general organizational weaknesses, in particular in the areas of planning and investment monitoring;

Government objectives

2. Although a strategy has to be developed for increasing private sector involvement in transportation, the solution to the problems of ONATRA, SNCZ and the Office des Routes remains critical for the sector as a whole. As part of its Structural Adjustment Program, the Executive Council will therefore adopt measures to promote: (i) the financial and operational recovery, and improved management, of SNCZ, ONATRA and Office des Routes; (ii) the strategic reorientation of these companies, including decentralization and selective reorganization, streamlining of structures, and gradual withdrawal by ONATRA and SNCZ from certain activities; and (iii) improved transportation planning, coordination and formulation of sectoral policies. In addition, to redress the acute shortage of functioning feeder roads, which is compromising efforts to promote agricultural recovery, the Council intends to launch a program to improve feeder roads and to establish an institutional framework for their maintenance.

Plan of Action

Financial and operational recovery of ONATRA, SNCZ and Office des Routes

3. Financial recovery for ONATRA and SNCZ involves the urgent establishment of short- and medium-term financial recovery plans requiring an immediate increase in tariffs and the introduction of cost-cutting measures.

4. In addition, as regards the Office des Routes, for which program implementation is seriously compromised by a lack of available funds, the Executive Council will immediately increase road taxes to the level needed for the Office to run properly and will introduce a new system for the collection of that tax.

5. In general, the policy will seek to guarantee enough funds to cover the operating and investment requirements of the companies. This policy also requires a program to recover costs from the users of transportation services and infrastructure and the establishment of appropriate rate structures for ONATRA and SNCZ.

6. With a view to offsetting the negative effects of inflation on the revenues of the companies, the Executive Council plans to establish mechanisms for adjusting the rates and road taxes to reflect both the real costs and the impact of inflation.

7. In addition to these mechanisms, the Executive Council will act upon the recommendations of studies under way on rate structures and cost prices for ONATRA and SNCZ.

Strategic reorientation of ONATRA and SNCZ

8. The strategic reorientation of ONATRA and SNCZ requires a number of measures to improve productivity:

- For the two companies: decentralization of responsibilities, gradual withdrawal from certain activities and streamlining of structures by selective reorganization. This should in particular lead to an improvement in the management of human resources and a smaller wage bill through a reduction in staff, including early retirements.

- For ONATRA: reassignment of responsibilities, including privatization and/or "subsidiarization" (filialisation) of certain activities that are not essential to the company's mission, reworking of ONATRA's role and relationship with the Government and private sector, requiring the formulation of a program contract.

- For SNCZ: search for solutions to non-economic lines and accounting and financial reorganization in view of the decentralization of services.

Launching of the feeder roads program

9. This program, which supplements the maintenance of the main road network by the Office des Routes, will consist of the maintenance by manual crews of an additional 10,000 km initially of feeder roads and the returning to service of an additional 3,000 km per year, which will also be subsequently maintained.

10. The program will be funded by the State budget and could over the short term include external financing.

11. For the sake of efficiency, program implementation will give priority to existing means which can be readily mobilized and avoid the establishment of administrative structures with the exception of the need for central and regional coordination to be assured by the National Feeder Roads Service.

12. The institutional framework envisioned is as follows:

(a) The setting of program objectives in accordance with appropriate economic criteria, formulation of geographic priorities, general coordination and monitoring will be done at the central level by the Rural Development Department (National Feeder Roads Service), which will be the implementing agency for the program.

(b) The annual selection of roads to be maintained will be made by the regional farm road commissions on the basis of expected resources (from the national budget, possibly supplemented by locally raised funds).

(c) Oversight for the program will be delegated to the regional delegations of the Office des Routes, which will participate in programming, decide on the technical content of the works, recruit the agencies responsible for carrying out the works, supply the necessary technical assistance, meet any training needs, monitor implementation and ensure payment for the works by those agencies, under the direction of the Regional Administration authorities. The general provisions for program oversight will be covered by a model agreement between the Rural Development Department, Department of Public Works and Regional Development, and Department of Regional Administration (Administration du Territoire).

(d) The physical execution of the works will be contracted out (to companies, economic agents, religious missions, communities) and will only exceptionally be carried out by the Office des Routes (for ferry management in particular).

13. In order to ensure the effectiveness of the program and monitor its economic effect, a progress report and evaluation of the economic impact will be made periodically under the direction of the Interdepartmental Farm Roads Commission.

18-May-87

ZAIRE: STRUCTURAL ADJUSTMENT LOAN - POLICY MATRIX

Policy area and reform objectives	Actions already taken by Government	Actions to be taken by Government	Monitorable actions and schedule	Related programs and projects
A. INCENTIVE FRAMEWORK AND PRODUCTIVE EFFICIENCY				
A.1 Tariff reform				
Strengthen economic integration; promote efficient substitution of imports and export diversification; correct bias against agriculture and export activities in general.				
A.1.1 Import Duties	Introduction of a minimum rate of 10% and a maximum of 60% with exceptions at 5% and 80% (July 1986).	Adopt a program of uniformization to be implemented in 4 years, in order to achieve a nominal protection rate of 20-40%.	April 1987	ISAL
		Extend 10% tariff to all commodities previously taxed at 5% and reduce maximum rate to 50%, with the exception of luxury cars and textiles for which 60% is applicable.	July 1987	ISAL
		Reduce number of exceptions granted under DPT from 272 to 136.	July 1987	ISAL
		Update and publish list of industrial inputs/equipment produced locally.	July 1987	ISAL
		Restructure and strengthen the Investment Commission in order to be able limit tariff exemptions granted under the Investment Code.	December 1987: plan of action and terms of reference for Technical Assistance	SAL I
	Study on the competitive position of selected agricultural products exposed to competition from subsidized imports and recommendations of tariff measures to offset dumping.	Define dumping correction mechanisms as well as the list of goods and the time frame for its application.	June 1987: end of study; September 1987: plan of action	SAL I

A.2 Export Promotion Correct bias against exports, mainly of agroindustrial and manufacturing products.				
A.2.1 Export Procedures	Initial simplification of procedures concerning exports (July 1986).	Continue simplification of procedures concerning export crops (intervention of OZACAF/OZAC).	See B.1.1	ISAL
A.2.2 Export Taxes and Duties	Elimination of export duties, except for copper, coffee, unprocessed wood and crude oil (July 1986).	Eliminate taxes on agricultural exports currently being raised for the Fonds Agricole.	June 1987: elimination of taxes: January 1988: elimination of Fund	ISAL/SAL I
B.1 Tax Reform Integrate domestic and trade taxation and harmonize it with the Tariff Code reforms (see A.1). Improve and expand resource mobilization and its administration by, inter alia, reducing distortions and improving the distribution of fiscal and parafiscal charges. Eliminate a number of parafiscal taxes and replace them by user charges or budgetary allocations.				
B.1.1 Parafiscal Charges		Consolidate into the central budget and eliminate earmarking of: - Fonds Special du Tresor n.1; - Fonds de Promotion du Tourisme; - Fonds de Securite a l'Energie.	June 1987 decree; January 1988: application	SAL I
		Formalize by law the consolidation of the Fonds de Convention de Developpement in the central budget and non-earmarking of the two percentage points of the CCA.	May 1987	SAL I
		Eliminate taxes on agricultural exports currently being earmarked for the Fonds Agricole.	June 1987: elimination of taxes; January 1988:	SAL I

			elimination of Fund	
		Unify the interventions of OZAC and OZACAF in coffee exports; and reduce the level of their charges on agricultural exports.	June 1987: decree on unification; September 1987: application	SAL I
		Eliminate all administrative and property taxes where the yield is marginal and potentially questionable.	May 1987: presentation of list; January 1988: elimination	SAL I
B.1.2 Indirect Taxation	Harmonization of domestic and import CCA (July 1986)	Introduce a crediting system for domestic and import CCA tax on inputs.	February 1988: plan of action	SAL I
		Change excise taxes on main products to ad valorem taxes, under the administration of OFIDA, including the road tax.	May 1987: proposals; January 1988: implementation	SAL I
		Eliminate in two years the CCA on financial services (interest).	Reduction by half in 1988, total elimination by 1989	SAL I
		Eliminate CCA on interest for agricultural loans.	June 1987	SAL I
		Introduce the forfait system for the CCA taxation of SME's.	May 1987: document; Jan. 1988: application	SAL I
B.1.3 Company Taxation		Introduce a permanent framework for inflation accounting regulations for periodic revaluation of assets and liabilities.	January 1988	SAL I
B.1.4 Tax Organization and Administration	Cooperation agreement with EEC to provide technical assistance to OFIDA.	Revise, harmonize and unify the various bodies of tax legislation and regulations into a single coherent tax and tariff code.	September 1987: creation of working group and implementation schedule	Project WB/TA SAL I
		Create an inter-ministerial commission responsible for implementation of fiscal and parafiscal reform within a 30-month horizon.	May 1987: creation; Six-month progress and action reports	SAL I
		Strengthen Fiscal Research Division of Ministry of Finance, which will	September 1987	Project WB/TA SAL I

		be responsible for Technical Secretariat for above-mentioned Inter-ministerial Commission and will prepare periodic progress reports on fiscal reform.		
		Strengthen Tax Revenue Div. of Ministry of Finance by improving its: human and material resources involved in tax base identification and verification; claims office and procedures for contentious cases; regional divisions; and capacity for economic and legal analysis.	September 1987: plan of action; January 1988-90: implementation	Project WB/TA SAL I
		Continuation of EEC program for the rehabilitation of OFIDA to improve its tax and tariff collection, especially excise taxes.	Through March 1989	SAL I
		Launching of a study on regional and local finance to review current practices and to correct distortions affecting production and exports.	September 1987: terms of reference	SAL I
		Establish a unit in the Ministry of Finance (Dept. of Revenues) in charge of the administration of CCA and CCR forfait taxes for SME's.	May 1987	Project WB/TA SAL I
B.2 Public Expenditure Management Improve efficiency and control of public expenditures; increase coordination between capital and recurrent expenditures; ensure implementation of high priority investment projects.				
B.2.1 Investment Programming	Preparation of 3-year PIP and identification of a three-year core PIP 1987-90 presented to the CG Meeting (May 1987).	Evaluate execution of 1987 PIP, in consultation with World Bank, and update 1988-90 PIP.	February 1988	SAL I
		Institutionalize preparation mechanism of 3-year rolling PIP, under the coordination of Ministy of Plan, particularly assuring the link between the core PIP and	May 1987: circular from Prime Minister, stressing execution and coordination of core PIP.	SAL I; Project WB/TA

		investment budget.		
		Strenghten organizational structure of Ministry of Plan in order to increase its programming and monitoring capacity.	May 1987: definition of structure; September 1987: application of structure	SAL I
		Open a special account in Bank of Zaire, in which appropriations inscribed in the investment budget would be deposited on a quarterly basis.	June 1987: definition of mechanism	SAL I
		Prepare public expenditures programs (PEP) for selected sectors (agriculture, education, health).	June 1987: program of action; June 1988: completion of PEPs October 1988: Inclusion in 1989 budget	SAL I Project WB/TA
		Strengthen planning units (PPBS) in key sector ministries (agriculture, education, health).	March 1987: program of action	SAL I Project WB/TA
		Define operating procedures and a program of action for a study fund to be used for the preparation of projects and economic and sectoral studies.	January 1988	SAL I Project WB/TA UNDP
		Streamline the budgeting process implemented by the Ministry of Budget and Finance in the areas of: expenditure authorization and procurement.	March 1987: program of action	SAL I Project WB/TA
B.3 Civil Service Reform				
Strengthening of the management of the civil service, including manpower control and rationalization of remuneration structure.				
B.3.1 Manpower Planning, Budgeting and Control	Ongoing civil service census by regions and computerization of results (since 1985).	Complete civil service census and computerization of results.	June 1987	SAL I

	Ongoing census of primary and secondary teachers (1985).	Introduce system to maintain up-to-date employment records and ensure that they be transmitted to Payroll Division in Ministry of Finance.	June 1987	SAL I
	Reduction of fictitious employees (since 1981).	Eliminate remaining fictitious employees after completion of census.	September 1987	SAL I
	Systematic retirement of 31,000 agents between 1981-83.	Begin retirement of eligible staff.	February 1988	SAL I
	Freeze on recruitment and promotion since 1983.	Create a manpower planning unit in Ministry of Public Administration.	January 1988	SAL I
	Establishment of a target of 100,000 for civil service (strict definition).	Introduce manpower planning, budgeting and control systems.	June 1988: program of action February 1989: implementation	SAL I Project WB/TA
B.3.2 Remuneration Policy		Improve existing salary structure in conjunction with reduction of employees.	April 1988: revised salary structure	SAL I
		Introduce salary differentials and pay steps within grade levels.	April 1988	SAL I
		Design a mechanism for cost-of-living adjustment.	June 1988: agreement on mechanism; September 1988: application to 1989 budget	SAL I
		Rationalization and definition of specific criteria with regards to fringe benefits, particularly car and gasoline allowances for private use.	February 1988	SAL I
B.3.3 Public Administration Management	Declaration to undertake civil service reform (second and third party congress of 1981 and 1982).	Introduce system for setting priority objectives/tasks in 4 pilot ministries.	February 1988	SAL I
	Statute on career personnel in the public administration (1981).	Strengthen Inspectorate Unit and Organization and Methods Unit of the Ministry of Public Administration.	September 1987; December 1987: program of action	SAL I Project WB/TA
	Draft proposal of reorganization of Ministry of Public Administration (May 1986 with PNUD).	Review and define the personnel management function in the regions.	June 1988 and beyond	SAL I

	Directive and decision of Central Committee of Party on administrative reform.	Design a training program in basic management.	February 1988 and beyond	SAL I
		Strengthen existing staff evaluation systems and elaborate on the criteria used.	June 1988	SAL I
B.4 Public Enterprises Reform Rationalize state involvement in the economy through selective liquidation, disengagement and by increasing the role of the private sector.				
	Restructuring of GECAMINES into four entities: holding, production, marketing and development (non-mining activities) during 1983-85. Liquidation of 17 public enterprises in the agricultural, transport and services sectors.	Reassess capital of public enterprises.	June 1987	SAL I
		Prepare draft legislation governing the activities of public enterprises, including mandatory external auditing of accounts.	June 1987	SAL I
		Take decision and prepare schedule to liquidate selected enterprises which are clearly not economically or financially viable.	April/May 1987	SAL I
		Liquidate identified enterprises.	September 1987	SAL I
		Decide on the type of oversight structure for supervision of public enterprises and schedule for implementation.	September 1987	SAL I
		Classify mixed enterprises that will be increasingly privatized and initiate the mechanism to enable debt/equity swaps.	November 1987	SAL I
		Complete studies on crossed debts and agree on calendar for their elimination.	October 1987	SAL I
		Issue relevant legal texts on new oversight structure.	December 1987	SAL I

Classify remaining enterprises into those to be: (i) maintained within State Portfolio; (ii) liquidated; (iii) wholly or partially privatized.	October 1987	SAL I
Establish new oversight structure.	January 1988	SAL I
Elaborate a plan for the restructuring and reorganization of those public enterprises maintained in the State portfolio with the aim of improving their management and efficiency.	February 1988	SAL I
Establish a new system and criteria for appointment and remuneration of PE managers.	February 1988	SAL I
Liquidate or initiate process to privatize selected enterprises so classified in October 1987.	February 1988	SAL I
Eliminate proportion of crossed debts agreed upon with external partners.	February 1988	SAL I

C. SECTORAL POLICIES

C.1 Agricultural Sector Policy

Eliminate constraints to production and exports and improve the incentive framework for the expansion of production and investment.

Improve trade and marketing of agricultural inputs, strengthen the sector's physical and institutional infrastructure, improve public and private finacing of the sector, and improve agricultural research.

C.1.1 Rural Road Program	In the context of institutional framework mentioned in the transport component, definition of a rural road program for 1987.	Elaborate an accelerated rural roads program to ensure the maintenance and rehabilitation of 17,000 km. of rural roads. Encourage labor-intensive techniques and establish an institutional framework based on existing regional institutions and relying on the participation of local economic operators.	Before June 1987: adoption of action plan	SAL I
C.1.2 Tariff Reform of Agricultural Products		Apply minimum tariff of 10% to all agricultural products. (see A.1.1)	July 1987	ISAL/SAL I
	Study to recommend ways to protect selected agricultural products against "dumping" and subsidized international markets.	Design an adjustment mechanism for selected agricultural products exposed to dumping (see A.1.1).	June 1987: end of study; September 1987: action plan	SAL I
C.1.3 Improving Availability of Agricultural Inputs	Undertaking of study in January 1987.	Based on recommendations of study, prepare actions that would eliminate obstacles to input distribution.	September 1987: proposals to IDA	SAL I
C.1.4 Simplification of Export Procedures for Agricultural Products		Propose a plan of action for measures to be taken to simplify export procedures for agricultural exports. Propose reform measures to be adopted in consultation with IDA (see A.2.1).	June 1987: end of study; September 1987: action plan	ISAL/SAL I
C.1.5 Agricultural Credit		Eliminate preferential interest rates and the CCA tax on agricultural credit.	June 1987	SAL I
		Set up an Agricultural Credit Consultative Commission, responsible for identifying agricultural credit needs (including seasonal crop credit) and making recommendations to banking sector for effective coordination of activities.	Before August 1987:	SAL I
		Modify statutes of BCA to extend its capital participation.	Before September 1987: revision to statutes	SAL I
C.1.6 Agricultural Research	Recommendations on agricultural research by Presidential Commission.	Implement recommendations of mixed committee on agricultural research.	Before May 1987: implementation schedule; By September 1987: implementation and financing of support	SAL I

C.1.7 Rationalization of Staff in Ministries of Agriculture and Rural Development	Ongoing study on extension work.	Implement recommendations of study on extension work.	September 1987: action plan, following UNDP/FAO study on extension; Before February 1988: implementation of program of action	SAL I
C.2 Transport Sector Policy Improve financial and operational situation of ONATRA, SNCZ and improve the financing of Office des Routes. Recover costs by implementing appropriate tariff structures with timely inflation adjustments. Reorient strategy of ONATRA and SNCZ by decentralizing responsibilities, streamlining selectively the organizations and progressively divesting some activities. Improve transport planning, strengthen coordination and elaborate sectoral policies. Promote rural development through implementation of a rural roads program.				
C.2.1 Financial and Operational situation of SNCZ and ONATRA		SNCZ and ONATRA: . Prepare financial recovery plans with short and medium-term cost reduction measures and operational improvements and initial implementation.	Before May 31, 1987	SNCZ and ONATRA Modernization
C.2.2 Funding of O.R.	Adjustment in road tax from Z 5.4/l to Z 7.8/l, in the context of April 1987 increase in petroleum prices.	Office des Routes: . Introduce a double mechanism for timely collection and periodic adjustment of petroleum prices at the pump and of the road tax, taking into account changes in the	May 1987	

	exchange rate and in the international price of oil, as well as the level of local resources required to implement its programs.		Highway VI
	. Eliminate progressively all arrears accumulated by petroleum companies, and ensure timely payments of the tax, in order to allow O.R. to repay its debts and carry out its agreed maintenance and rehabilitation program.	June/December 1987	SAL I
C.2.3 Cost recovery, tariff structure and periodic inflation adjustments.	SNCZ and ONATRA: . Review tariff structure of ONATRA and SNCZ, based upon analytical accounting and commercial practices, and define a mechanism for periodic adjustment of tariffs to take inflation into account.	End of studies & recommendations: ONATRA, September 1987. SNCZ, December 1987. February 1988: Implementation of new tariff structure:	SNCZ and ONATRA Modernization
C.2.4 Strategic Planning and Selective Reorganization of ONATRA and SNCZ.	ONATRA: . Improve human resources management, implying a reduction of staff, also by retirement.	June 1987: Action program & timetable	SAL I
	. Improve efficiency by reorganizing, decentralizing and redefining responsibilities, including spinning off and/or privatization of certain activities.	June 1987: plan of action and schedule; September 1987: implementation of first measures	
	. Redefine role of ONATRA and its relations with the State and the private sector.	December 1987: Preparation of a "Contract Plan"	SAL I
	SNCZ: . Undertake study on non-economic activities.	Dec. 1987: end of study; March 1988: action plan; June 1988: implementation and first measures	SNCZ II
	. Improve human resources manage-	July 1988:	

	ment, implying a reduction of staff, also by retirement.	action program & timetable	SNCZ II / SAL
	. Undertake study to improve accounting and financial organization. decentralizing services.	July 1988: end of study and recommendations	SNCZ II / SAL
	. "ndertake study on divesting certain activities and their subsidiarization.	Sept. 1987: start of study June 1988: end of study and recommendations	SAL I
C.2.5 Transport planning, budgeting, coordination and elaboration of sector policies.	Redefine mechanisms for the preparation, elaboration and control of investment plans, particularly the updating of sectoral PIP.	December 1987: action plan June 1988: implementation of first recommendations	SAL I
C.2.6 Rural Roads Program.	Launch first phase of a rural roads program.	May 1987: preparation of program; September 1987-end 1988: implementation of first tranche	SAL I
	Define an appropriate institutional structure, without creating new administrative structures, except for the central and regional coordination provided by the National Rural Roads Service, for the rehabilitation and maintenance of rural roads, operating as follows:		
	. definition of priorities at regional, sub-regional levels and selection of roads.	End June 1987	SAL I
	. definition of technical works by OR.	End August 1987: preparation of contracts	SAL I
	. control of program delegated to OR in coordination with regional authorities of Ministry of Territorial Administration.	June 1987: preparation of agreement between ministries of Rural Dev. and Public Works	SAL I
	. contracting of work to economic operators and sub-contractors.	Sept. 1987-Dec. 1988: execution of contracts	SAL I
	. audit and evaluation a posteriori.	September 1988: audit	SAL I

			and first evaluation	
		Prepare a second phase rural roads program.	July 1988: end of UNDP preparation study;	SAL I
C.3 Financial Sector Policy Increase stability of financial sector and its efficiency in credit allocation. Develop internal financial markets with view to expand financial savings.				
C.3.1 Credit allocation		Eliminate distinction between "credits repartis" and "non repartis", and liberalize credit allocation by banks without authorization of Bank of Zaire.	June 1987	SAL I
		Oblige banks to indicate exact composition of the cost of credit and to publish monthly average rate, including all charges.	June 1987: circular by Bank of Zaire	SAL I
		Conduct study on credit needs of fishing and livestock sectors.	September 1987: terms of reference	SAL I
		Establish an Agricultural Credit Consultative Commission to review periodically the volume of credit required by the sector (see C.1.5).	August 1987	SAL I
C.3.2 Interest Rate and Financial Markets	Liberalization of all interest rates, except for agricultural credit (September 1983).	Eliminate preferential interest rates on agricultural credit.	June 1987	SAL I
		Eliminate CCA tax on interest.	June 1987: total elimination for agriculture; January 1988: application for half reduction; January 1989: total elimination	SAL I
C.3.3 Savings Mobilization		Prepare a special law governing the cooperatives (COOPEC).	December 1987	SAL I/ Project SME's

		Carry out a management audit to define a program of action which would strengthen financial structure of COOPEC.	March 1988	SAL I/ Project SME's
		Exchange views and reach an agreement with IDA on program of action for COOPEC.	June 1988	SAL I/ Project SME's
		Establish a plan of action to increase the use of checks in the Government's payments.	January 1988	SAL I
Supervision of Banks	Implementation of the new asset and liability situation in banks (January 1987).	Define financial ratios to be followed by banks and a program of action to strengthen the supervisory function of the Bank of Zaire over financial institutions.	September 1987	SAL I

STATUS OF BANK GROUP OPERATIONS IN ZAIRE

A. STATEMENT OF BANK LOANS AND IDA CREDITS (As of March 31, 1987)4/

Loan or Credit Number	Year Signed	Borrower		Amount in US$ Million: Bank	IDA 1/	Undisbursed
	Prior to June 1960	Congo & Otraco	Transport Infrastructure	91.58 2/		
One Loan Fully Disbursed				100.00		
Sixteen Credits Fully Disbursed					200.34	
796	1978	ZAIRE	Oil Palm		7.31	2.43
902	1979	ZAIRE	Railways		20.00	[illegible].82
998	1980	ZAIRE	Fifth Dev. Finance		18.50	[illegible].31
1040	1980	ZAIRE	Smallholder Maize		11.00	[illegible].76
1089	1981	ZAIRE	Kwilu Ngongo Sugar		26.40	0.31
1152	1981	ZAIRE	Kwango-Kwilu Technical Assistance		2.90	0.01
1180	1982	ZAIRE	ONATRA Modernization		26.00	10.72
1224	1982	ZAIRE	Shaba Power System Rehabilitation		19.00	1.18
1241	1982	ZAIRE	Water Supply II		18.00	0.15
1244	1982	ZAIRE	Agriculture T.A.		5.00	1.04
1264	1982	ZAIRE	Second Cotton		11.30	7.95
1273	1982	ZAIRE	Sixth DFC		21.50	2.78
1290	1982	ZAIRE	Highway V		43.50	2.26
1325	1983	ZAIRE	North East Rural Development		13.00	8.03
1335	1983	ZAIRE	Ports Rehabilitation		25.00	12.10
1336	1983	ZAIRE	Gecamines T.A.		7.00	1.63
1409	1983	ZAIRE	Petroleum Sector T.A.		4.50	2.33
1421	1984	ZAIRE	Ruzizi II Hydroelectric		15.00	7.14
1475	1984	ZAIRE	Railways II		26.00	24.96
1492	1984	ZAIRE	Seventh DFC		36.00	7.54
1519	1984	ZAIRE	Education Technical Assistance		9.00	5.16
1540	1985	ZAIRE	Lulua Agricultural Development		12.50	12.02
1609	1985	ZAIRE	Seeds		14.90	13.94
A006	1986	ZAIRE	Sixth Highway		30.00	29.34
1608	1986	ZAIRE	Sixth Highway		55.00	54.06
1685 3/	1986	ZAIRE	Eighth DFC		50.00	50.00
1708	1986	ZAIRE	Industrial Sector Adjustment		20.00	11.15
1712 4/	1986	ZAIRE	Second Power		37.00	37.00
2682 3/	1986	GECAMINES	Gecamines Rehabilitation	110.00		110.00
A019	1986	ZAIRE	Industrial Sector Adjustment		60.00	[illegible]4.63
1761 4/	1987	ZAIRE	Navigation Improvement		27.60	27.60
	Total (less cancellations):			301.58	873.25	480.55
	- of which has been repaid			155.30	4.90	
	Total now outstanding:			146.28	868.35	
	Amount sold:		54.47			
	of which has been repaid		54.47			
	Total now held by Bank and IDA 1/			146.28	841.26	
	Total Undisbursed:			110.00	370.55	480.55

1/ US dollar amounts for credits 1089-ZR and onwards are computed at the rate of Credit negotiations dates.
2/ Guaranteed by the Kingdom of Belgium.
3/ Signed but not yet effective.
4/ Approved but not yet signed.

B. STATEMENT OF IFC INVESTMENTS IN ZAIRE

EXPRESSED IN US DOLLARS
(As of March 31, 1987)

Fiscal Year	Obligor	Business	Amount in US$ Million Loan	Equity	Total
1970	Sociéte Fiancière de Développement (SOFIDE)	DFC	-	0.8	0.8
1984	Sociéte Financière de Développement (SOFIDE)	DFC	-	0.5	0.5
1985	Société Textile de Kisangani	Textile Company	8.5	0.6	9.1
1985	Grands Hotels du Zaïre	Hotel Company	15.0	-	15.0
1985	Société Textile Agricole Zaïroise	Cotton Farming	-	0.1	0.1
	Total gross commitments		23.5	2.0	25.5
	- repayments		-	-	-
	- undisbursed		-	0.3	0.3
	Held by IFC*		25.8	2.0	27.8

* Difference due to exchange adjustments.

April 28, 1987

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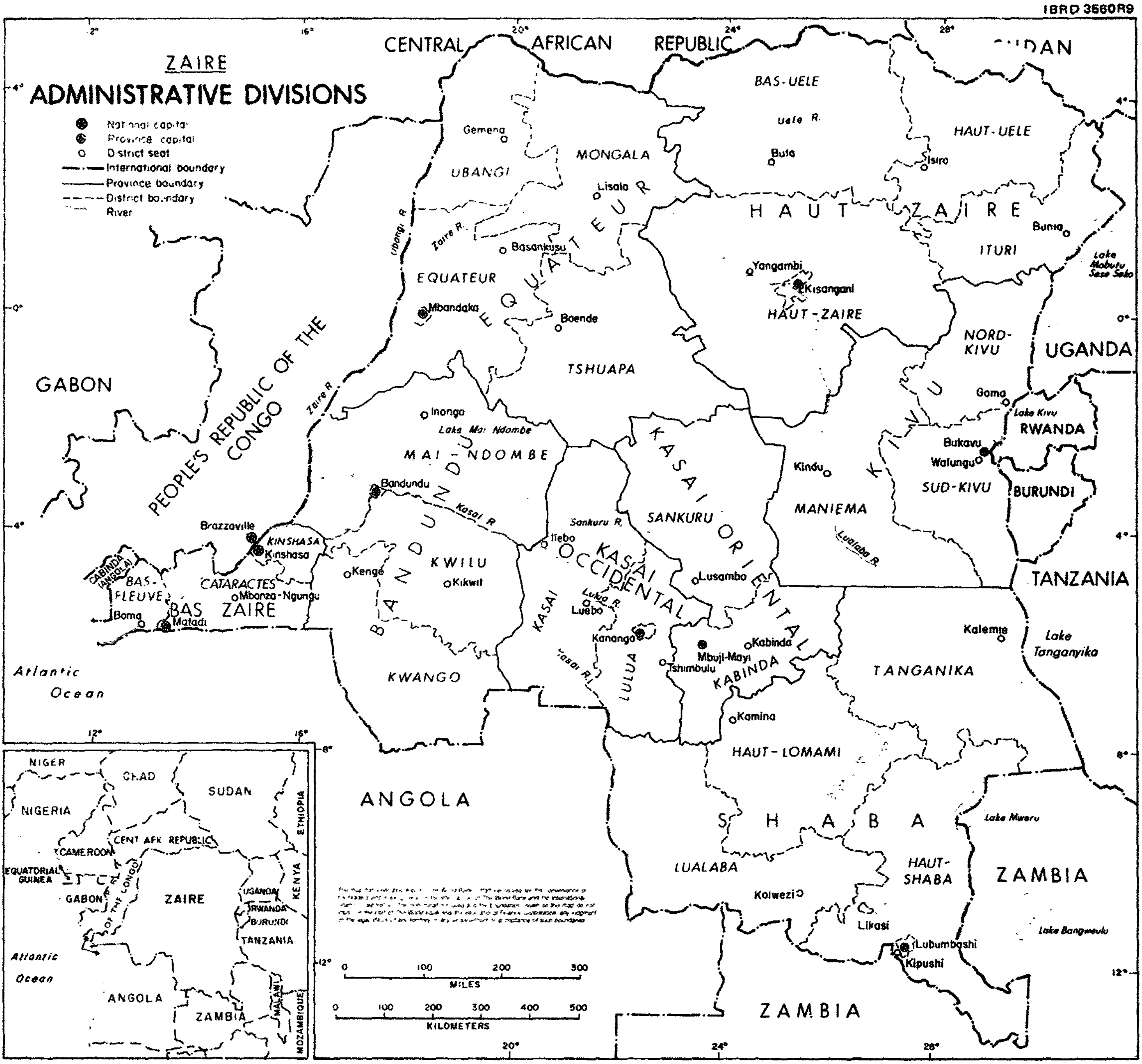

AUGUST 1985