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To: Members of the Executive Board

From: The Secretary

Subject: Zaïre - Structural Adjustment Facility -
Policy Framework Paper, April 1989-March 1992

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for Zaïre, which will be brought to the agenda for discussion on a date to be announced.

Mr. Taplin (ext. 8730) or Mr. van der Mensbrugghe (ext. 8737) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ZAIRE

Structural Adjustment Facility

Policy Framework Paper, April 1989-March 1992

Prepared by the Zairian Authorities

(In collaboration with the staffs of the Fund
and the World Bank)

May 10, 1989

I. Introduction

1. Zaire, the third largest country in Africa, is richly endowed with natural resources, but its GDP per capita remains one of the lowest. Following a difficult period immediately after independence, Zaire adopted important financial and economic reforms in 1967, and, with the benefit of relatively high copper prices, the economy expanded rapidly from 1967 to 1974. This period of relative prosperity came to an end in 1974 when copper prices fell sharply. Toward the end of this period Zaire borrowed abroad on a large scale. The downturn in the external economic environment owing to the drop in export prices and a deterioration in the terms of trade led to stagnation of domestic activity from 1974 to 1982. Economic policy was not sufficiently adapted to cope with the situation; increasing budget deficits were financed by a major expansion of domestic credit, which fueled inflation and led to a serious overvaluation of the currency. From 1974 to 1982, GDP per capita declined steadily, the country's infrastructure gradually fell into decay, and by the end of 1982 external arrears had increased to some SDR 850 million.

2. To improve the economic and financial situation, and to eliminate the significant distortions that had emerged and grown in the preceding years, in 1983 the Government began implementing a strong stabilization program. This effort was supported by three consecutive stand-by arrangements from the International Monetary Fund and large debt reschedulings, which ensured a marginally positive net transfer of resources to Zaire during 1983-86, a period during which Zaire's terms of trade deteriorated by almost 20 percent. The cornerstone of the 1983 program was a reform of the exchange rate system. The convertibility of the currency was restored in early 1984, when a market-determined exchange rate system was adopted. As a result, the volume of exports in 1984 was 29 percent higher than in 1982. External debt service obligations were honored and gross reserves increased.

3. On the domestic front, tighter monetary and fiscal policy reduced the annual rate of inflation from about 100 percent in 1983 to 25-30 percent in 1984-85, and economic growth between 1983 and 1986 averaged 2.7 percent a year, in contrast to the very low growth rate in the years immediately preceding implementation of the program. In 1986 the authorities began implementing structural adjustment measures to address the deep-seated problems that hampered more rapid economic growth. As part of its industrial sector adjustment program, the Government replaced the tariff structure by adopting a comprehensive reform program, and revised the Investment Code to streamline the incentive framework. These reforms were supported by IDA's Industrial Sector Adjustment Credit (ISAC) with cofinancing under the Special Facility for Africa.

4. The first policy framework paper (PFP), covering the period May 1987-April 1990, described the structural adjustment program that the Government launched in 1987 with the support of the World Bank's first structural adjustment credit (SAC) and the Fund's structural adjustment facility (SAF). The Fund provided further support in the form of a stand-by arrangement and a purchase under the compensatory financing facility. The program included a wide range of policy measures that were aimed at laying the basis for long-term economic growth and a sustainable external financial position. It included further improvements in the incentives system and in public resource management, as well as financial sector reforms.

5. Overall, performance during the first year of the structural adjustment program was uneven. Some of the balance of payments targets were met in 1987, and Zaire continued to honor most of its external debt obligations. In addition, the increased ability to mobilize foreign resources led to substantial disbursements to Zaire in 1987, and there was external debt rescheduling on favorable terms. The selection and execution of public investment projects were improved through the development of a three-year public investment program (PIP), which was endorsed by the Consultative Group in May 1987, and through greater coordination between the PIP and the government budget. Budget execution, however, was significantly more expansionary than programmed, which in turn prevented the monetary, credit, and inflation targets from being met. Owing in part to the unstable economic environment, the economic growth target of 3 percent could not be achieved.

6. In most respects, the adverse economic and financial developments of the second half of 1987 continued in 1988. The second annual program under the SAF, as envisaged in the first PFP, was not implemented. The World Bank did not release the second tranche of the SAC scheduled for the first quarter of 1988, and a second annual SAF arrangement was not approved. There was a sharp reduction in balance of payments assistance loans but they were offset by high copper export revenues and the accumulation of external debt arrears. Substantial government spending led to a significant decline in the net foreign reserves of the Bank of Zaire and to acute pressure on both domestic prices and the exchange

rate. Despite favorable developments in the terms of trade, which partly compensated for the deterioration in the previous years, and the positive net transfer of external resources to Zaire, the growth in real GDP amounted to only 2.5 percent, and thus there was a further deterioration in income per capita.

7. This update of the PFP sets out the economic policy stance for 1989-92, reaffirms the Government's commitment to its structural adjustment program, recalls the main features of the original PFP, and incorporates additional measures required to strengthen program implementation, to correct distortions created by the current inflationary environment, and to make the program more effective in achieving its aims. This paper also reiterates the structural measures, particularly as regards external policy, the public investment program and sectoral policy, within the framework of the ongoing structural adjustment programs and those currently under preparation (adjustment credit for the social sectors and the energy sector). The following sections present: (i) a review of objectives and performance under the first year of the SAF, and economic and financial developments in 1988; (ii) a description of medium-term objectives and policies; and (iii) external financing requirements.

II. Objectives and Performance of the Structural Adjustment Program Under the Original PFP

8. The Government's objective under the original PFP was to generate an average annual growth rate of about 3.5 percent in real terms during the period 1987-90, so as to ensure real growth in income per capita while avoiding a deterioration of the balance of payments in the period 1988-90. To provide the basis for faster growth in real GDP over the medium term, it was envisaged that investment would increase from about 12 percent of GDP in 1986 to 18 percent in 1987, and would remain at that level during the entire program period. The overall deficit of the Central Government on a commitment basis before debt relief was projected to increase in 1987, but to decline gradually thereafter. An associated objective was to reduce the deficit on the external current account (including official transfers) from SDR 558 million in 1987 to SDR 483 million in 1990.

9. Economic and financial developments in Zaire during the first year of the structural adjustment program and in 1988 were disappointing. Owing to the poor allocation of resources, real GDP grew by only 2.7 percent in 1987 and 2.5 percent in 1988, which was far less than the program target. This performance was due in part to a lower-than-expected growth in agriculture as well as to technical problems which slowed production at the government-owned mining company, GECAMINES. In addition, owing to the unstable economic environment and the shortage of foreign exchange, private investment stagnated.

10. As a result of the level of government expenditure, fiscal and monetary policies were much more expansionary than envisaged in the original PFP. Delays in the implementation of several new tax measures, plus general difficulties in collections, caused overall revenue growth to lag behind inflation. Consequently, in 1987 budgetary revenue declined to 13.4 percent of GDP, or 3 percentage points short of the program target, and continued to decline in 1988, to 13.2 percent of GDP, or only 11 percent of GDP if the exceptional payments from GECAMINES are excluded. In contrast, government expenditure in real terms increased in both years. Consequently, government recourse to domestic bank financing far exceeded the program target in 1987 and the target contained in the 1988 budget. As a percentage of the beginning period money stock, net credit to the Government (excluding counterpart funds) amounted to 71 percent and 134 percent in 1987 and 1988, respectively. Reflecting this rapid growth in credit, the money supply nearly doubled in 1987, compared with the program target of 35 percent, and grew by 127 percent in 1988. Given the excessive level of liquidity in the economy, the annual rate of inflation was about 100 percent in both years.

11. In 1987 the balance of payments position remained close to program estimates. The external current account deficit, excluding official transfers, is estimated at SDR 663 million, compared with the program target of SDR 758 million. Despite the 13 percent increase in the volume of merchandise imports, in 1988 the current account deficit, excluding official transfers, declined marginally to SDR 661 million, reflecting a further substantial increase in copper export prices. Official grants and disbursements were 29 percent higher in 1987 than in 1986 but still somewhat below initial forecasts. In 1988 aid flows declined by about 10 percent. Following the May 1987 rescheduling agreements, external debt service payments were made with minor delays during the year. However, in 1988, owing both to the expiration of the rescheduling agreements and to the unilateral decision to suspend payments to many creditors, the accumulation of external debt arrears amounted to SDR 580 million, of which SDR 100 million represented overdue financial obligations to the Fund. Accordingly, the actual debt service ratio, which amounted to about 22 percent in 1987, fell to 13 percent in 1988. The net transfer of resources in favor of Zaire increased sharply to SDR 234 million in 1987, and declined somewhat in 1988, to SDR 187 million. Despite favorable copper revenue trends and the significant accumulation of arrears, the net foreign reserves of the Bank of Zaire fell by about US\$100 million in 1988. In view of the inflationary pressure, the zaire depreciated in terms of SDRs by 48 percent and 58 percent in 1987 and 1988, respectively, which represented a slight depreciation in real effective terms.

III. Medium-Term Objectives and Policies

A. Main development constraints

12. Growth is impeded by a combination of deep-rooted structural problems, the inflationary environment, and, a closely related factor, the poor investment climate in the private sector. In agriculture, which employs most of Zaire's population, yields are low. The results of industrial export crops have been particularly disappointing in the light of Zaire's agricultural potential. Cocoa and tea production has stagnated, while cotton, rubber, and palm oil output has dropped sharply. Large-scale replantings in the plantation sector (coffee, rubber, tea) are required. High transportation costs, the deteriorating road infrastructure, and fuel shortages in the interior of the country have obstructed the farmers' access to markets and have made the flow of inputs and wage goods from the cities into the interior very expensive. Other important production constraints include the absence of effective means to disseminate better techniques. Also, investment has been low in the manufacturing and food processing industries. On a longer horizon, the decline in the quantity and quality of education will weigh heavily on growth of the economy. Deteriorating public health services threaten the population's productivity; the already critical situation may be worsened by the incidence of AIDS.

13. Zaire's foremost financial constraint is related to its external debt. Zaire's outstanding external debt is estimated at about US\$8 billion, which equals 124 percent of estimated GDP. One half of this amount, including its financial obligations to the Fund, would need to be amortized in the next five years, which would imply a 50-60 percent debt service ratio. In contrast, the undisbursed medium- and long-term loans in the pipeline totaled only about US\$1.1 billion at the end of 1988, with about 65 percent to be disbursed between 1989 and 1991. More than half of Zaire's medium- and long-term debt service was rescheduled under nine agreed minutes with the Paris Club. In the most recent rescheduling (May 1987), Zaire obtained exceptional terms; debt service due on account of previous reschedulings, with the exception of the 1986 rescheduling, was covered. Nevertheless, the terms of Paris Club reschedulings resulted in increases in the average interest rates on Zaire's debt; in addition, the amount eligible for rescheduling in the future by the Paris Club under its conventional rules is declining.

14. Civil service salaries are especially low. Public expenditure on education and health is insufficient. These problems are partly due to the fact that budgetary revenue is itself chronically insufficient and remains heavily dependent on taxation and royalties from minerals, petroleum, and international trade. The tax base is narrow, covers almost exclusively a small number of enterprises in the modern sector, and has been highly inelastic with regard to inflation. Also, tax administration remains weak because sufficient equipment has not been provided to central and regional offices, particularly the General Directorate of Taxes, and because the salaries of officials responsible

for tax assessment, control, and collections are very low. In addition, the fiscal system is more burdensome on low incomes than high incomes, and tax evasion is difficult to control.

15. Despite substantial efforts to rationalize the management of public enterprises, they still suffer from inappropriate pricing policies, unprofitable investments made in the past, and occasional overstaffing. With the exception of GECAMINES, the contribution of the public enterprises to the Government's budget in the form of taxes and dividend payments is negligible; in fact, the Government implicitly subsidizes a number of public enterprises by servicing their external debt obligations. Some enterprises, such as the water company (REGIDESO) and the electric company (SNEL), have improved their performance; for others, such as the railroad company (SNCZ) and the river transport authority (ONATRA), rehabilitation plans are under way.

16. The social sectors, particularly education and health, have been in a state of decline in terms of both the quality and the quantity of services rendered. This has resulted from underspending by the public sector and serious administrative difficulties. The inadequacy of social services also impedes future growth. Some groups (workers who have lost their jobs, and underprivileged women and children) are especially vulnerable from a socioeconomic perspective, cannot meet their immediate social needs, and do not participate in the general development process. The potential for integrating women into development programs has not been sufficiently used. Future growth could be threatened by deterioration of the environment and natural resources: deforestation and soil erosion. The presence of private sector organizations and of nongovernmental organizations (NGOs) provides an opportunity for effectively supplementing government action in the education and health sectors. These sectors will continue to be in need of public resources both to cover operating expenditures and to rehabilitate their buildings, facilities, and equipment.

B. Objectives and strategy

17. As set out in the original PFP, the private sector will have to play a major role in Zaire's economic development. The Government is committed to intensifying the application of its structural adjustment and macroeconomic stabilization policies, which were set out in the original PFP, and were intended to achieve an average growth rate of 3.5 percent per year, while keeping the external current account balance to manageable levels. However, some of the original targets have had to be revised in the face of the larger financial imbalances in Zaire in 1987 and 1988. The Government is committed to a strong fight against inflation in 1989.

18. The 1989-92 program, within the framework of the SAF, covers the short-term measures needed to attain the medium-term economic objectives. The macroeconomic objectives are as follows: (a) a growth rate of about 3.3 percent in 1989, rising to 3.5-4.0 percent in 1990-91; (b) a reduction in the inflation rate from 94 percent in 1988 to

75 percent in 1989 and to 38 percent from March 1989 to March 1990, 20 percent in 1990, and 15 percent in 1991; (c) limiting the budget deficit to 17 percent of GDP in 1989, and a gradual reduction in the deficit in subsequent years; and (d) reduction of the external current account deficit, from SDR 650 million (14.2 percent of GDP) in 1990 to about SDR 600 million (11.3 percent of GDP) by 1992.

19. In addition, the Government is committed to limiting the expansion of domestic credit in line with inflation, growth, and balance of payments objectives. Moreover, it will take the necessary steps to achieve real positive interest rates in 1989. The economic policy reforms initiated during the first year of the SAF will be expanded and strengthened, particularly those concerning public resource management, trade policies, financial sector policies, and management of the public enterprises. Social sector policies will be emphasized. The above economic growth objective will require increased levels of foreign aid on concessional terms.

20. The sources of economic growth are the following:

(i) Growth in the mining sector is expected to average 3-3.5 percent per year owing to export diversification and productivity increases.

(ii) Growth in agriculture is expected to average 3.5 percent per year and to come especially from export crops (coffee, cotton, palm oil, rubber) and from substitutes for imports of food products, which will be fostered by the implementation of rational protection in the context of tariff reform.

(iii) The construction and public works sector is expected to expand by more than 5 percent per year with the implementation of the 1989-91 PIP and a revival of private investment.

(iv) Growth in manufacturing could reach 5 percent a year and increase further thereafter, given the considerable underutilization of current capacity and the large potential for production of goods for import substitution and increased rural-urban trade.

(v) Growth in services is projected at 3 percent a year until 1992.

C. Investment

21. As in the original PFP, investment will have to grow faster than GDP. The share of investment in GDP should increase from 11 percent in 1988 to about 14 percent by 1991, allowing for a gradual restoration of the investment levels that were achieved in the early 1980s. Even though about two thirds of the 1989-91 planned investment, excluding GECAMINES and the petroleum sector, is in the public sector, the share of private investment as a percentage of total investment is expected to

rise. Public investment reflects the priorities of the 1989-91 PIP set in agreement with the World Bank, which are discussed in more detail under Section H. Initially, the increase in the share of private investment is expected to be financed mainly with foreign savings. Domestic savings are expected to increase from 8.5 percent of GDP in 1988 to about 12 percent of GDP in 1992, reflecting the Government's policy to increase domestic resource mobilization.

D. Immediate adjustment policies

22. Because the first annual SAF program encountered implementation problems, most notably in the areas of budgetary and monetary policies, in July 1988 and January 1989 the Government took some important steps to re-establish budgetary equilibrium while strengthening the measures already taken toward tariff and fiscal reforms supported by the World Bank's SAC. The Government pursued a policy of narrowing the import tariff range: the minimum tariff rate has been set at 15 percent and the maximum at 50 percent, and the number of tariff items subject to the minimum specific duty rate has been almost eliminated. The administrative tax on imports that benefit from Investment Code provisions was increased from 3 percent to 5 percent. The applicability of this administrative tax was expanded to cover all imports, and there can be no exemptions unless specifically provided. Imports of the state, ministries, public enterprises, and NGOs are not exempt, unless the exemption is specifically granted by the Minister of Finance. Furthermore, the Government has undertaken a program to simplify export procedures.

23. In January 1989 the spread between the official and parallel market rates, which had grown to about 40 percent toward the end of 1988, was reduced. The Government has allowed market forces to play a greater role in the foreign exchange market, and by early May the spread will be reduced to a strict minimum. To increase the supply of foreign exchange on the exchange market, the Bank of Zaire has decided to limit the commercial banks' foreign exchange position to a day's operations, to allow residents to reopen foreign currency deposits, a measure designed to encourage the repatriation of assets held abroad, to allow gold exporters to retain 30 percent of their foreign exchange receipts, and to suspend all export taxes except those on undressed timber and coffee. In the area of monetary and credit policy, the system of credit ceilings has been streamlined, interest rates for agriculture have been liberalized, and the structure of interest rates has been rationalized. In January and April 1989, the monetary authorities increased interest rates by a total of 25 percentage points, with a view to achieving positive real interest rates by the end of the second quarter of 1989. The Government also updated its PIP for 1989-91 in agreement with the World Bank.

24. Regarding the public enterprises, the Government has established a reform plan for the entire sector, identifying the enterprises from which the Government will withdraw, either through privatization or

liquidation, and those which need restructuring or rehabilitation. In January 1989 the Government passed legislation to create a public body, called the Supreme Council of Portfolio (SCP), which is to be a legal entity organized in a simple structure. A chairman has been appointed. The SCP has been requested to develop liquidation and privatization plans, and to assure their implementation. Moreover, the SCP will help the Government in the monitoring and control of public enterprises. In order to increase autonomous management in public enterprises, the SCP will assist the Government in preparing program contracts, performance contracts, and terms-of-reference contracts to be reached with the public enterprises in accordance with the sectoral policies defined by the technical ministries. In April it was decided to abolish the Portfolio Ministry.

25. Under the fiscal reform program, several parafiscal charges have been eliminated, and a technical assistance project has been finalized to introduce additional reforms in this area. Among the results already achieved, the import tariff and tax structure has been streamlined, and in June 1988 specific excise taxes on alcoholic beverages, tobacco, and other products were increased and converted into ad valorem taxes. In early 1989, other important measures were adopted with a view to increasing revenue by the equivalent of 2 percent of GDP.

a) The excise tax on beer was increased to 20-25 percent, and a 20 percent tax was placed on other alcoholic beverages, the excise tax on tobacco was raised from 30 percent to 50 percent, and a 5 percent excise tax was imposed on cement, sugar, and matches.

b) The domestic turnover tax was raised from 12 percent to 18 percent; on domestic automobile assembly, it was raised from 7.6 percent to 18 percent.

c) The minimum import duty was raised from 10 percent to 15 percent.

d) Previously specific import duties were converted to ad valorem.

e) On February 1, 1989 a new petroleum tax structure was applied, specifically an import duty of 10 percent, an excise tax of 10 percent, and a surcharge of 15 percent, 45 percent or 55 percent, depending on the products (see paragraph 23).

f) To avoid double taxation, the Government suspended the domestic turnover tax on basic industrial and agricultural inputs. As soon as the tax administration is able to handle it, a value added tax will be introduced. Given that the suspension of the turnover tax on basic inputs is only temporary, the Government has decided for the time being to limit access to this exemption to inputs which have no direct application as transformed consumer goods or which make up a very large proportion of the production cost of products subject to the turnover tax or consumption tax. The Government will decide on the procedures

for implementing this limited access policy by the end of May 1989. At the same time, the tax base will be broadened by the introduction of a system of administrative tax assessment for small enterprises. The stage was set for this measure by the ministerial decree No. 021 of March 3, 1988, which established the minimum tax base. The turnover tax on interest payments (except interest payments on agricultural loans) has been maintained at the rate introduced in 1987. Within the framework of the import tariff reform, the Government has introduced for certain imports a system of official list prices to which the import tariff will be applied. The system will be replaced by a temporary surcharge on the existing tariffs, but applied to the invoice value of the imports, as soon as the conclusions of a study on the structure and competitiveness of the industries concerned are available. The study will be undertaken by the Government before the end of 1989, with support from the World Bank. Other decisions have already been taken with respect to the collection of a special road tax, a doubling of automobile registration fees, and a reduction in the time period for repatriating the foreign exchange to pay the turnover tax on exports. Also, administrative fees and licenses will be doubled by May 15, 1989. With respect to expenditure, since 1987 the Government has eliminated about 25,000 phantom workers from the payroll, and has budgeted for the retirement of 19,000 other civil servants.

26. A new price and tax structure for petroleum products was introduced in February 1989. Prices will be adjusted monthly to reflect changes in the import price of petroleum products and the exchange rate. The tax structure was simplified and put on an ad valorem basis, which will ensure Z 7 billion in supplementary revenue for the Treasury and will finance the rehabilitation program of the highways authority (Z 14.8 billion) and provide Z 1.2 billion for the river transportation authority and Z 2 billion for rural roads. The committee responsible for dividing up these funds has established the distribution criteria and formulated a plan for 1989. The reform of the price and tax structure has been accompanied by a full settlement of the cross arrears between the Government and the petroleum distributors. The medium-term goal is to improve the competitiveness of the petroleum products market and its contribution to the public treasury and public institutions financed from this source; the Government will study the means of doing this with the help of the World Bank.

E. External sector policies

27. The Government will maintain a liberal exchange regime with a market-determined exchange rate, in order to ensure the diversification of exports and efficient import substitution. The spread between the official exchange rate and the parallel market rate will be kept within a very narrow range. Improvements will be undertaken in the organization and functioning of the customs office (OFIDA). On January 3, 1989, in order to reduce further the spread between the minimum and maximum import duties, the Government increased the minimum tariff from 10 percent to 15 percent. In 1989 the operation of the Investment

Commission will be improved, and a study on the appropriateness of revising the Investment Code will be undertaken. With regard to imports of batik imprinted cloth, a study will determine the impact of restrictions of these imports on the Treasury and on competition with local industry. To reduce further the existing anti-export bias, the Government will continue to streamline the administrative procedures currently in effect, taking into account the recommendations of the Committee to Promote Foreign Trade, and will continue the study under way aimed at promoting wood and coffee exports. In addition, the Government will continue the study to define a general policy for promotion of exports, both agricultural and manufactured goods.

28. In the area of external debt management, the Government intends to limit strictly its recourse to external borrowing on nonconcessional terms in order to improve the profile of the public debt over time. Moreover, it will not borrow abroad short-term. In an effort to finance its balance of payments deficit, the Government will seek, partly within the framework of the Special Program of Assistance for the Low-Income Debt-Distressed Countries in Sub-Saharan Africa, more favorable rescheduling terms than have previously been obtained, as well as more financial aid in the form of grants and concessional loans. It will also take measures to stimulate the inflow of private equity capital. Moreover, the authorities intend to increase progressively the level of their foreign exchange reserves, to about four weeks of imports in 1989, and to make further annual increases in subsequent years.

29. Also, the Bank of Zaire will modify its interventions in the exchange market so as to ensure a greater transfer of foreign exchange to private economic operators. With this in mind, foreign exchange expenditure of the Government will be limited to US\$15 million a month, excluding expenditure with respect to foreign debt. To ensure the most favorable debt rescheduling terms for Zaire, the Government will negotiate with Paris Club creditors on the basis of the terms now available for heavily indebted low-income countries. All external arrears of the Bank of Zaire will be eliminated by the end of 1991.

F. Incentive structure

30. The policy of a market-determined exchange rate, combined with the liberalization of foreign trade and the tariff reform, have set the basis for a sound incentive structure. An important complement is the creation of an atmosphere of confidence in which the private investors can make decisions on the basis of stable national economic policies and on the assurances that only market-related risks will exist. In 1989 a study will be undertaken on the freeing of profit margins so as to permit the transition from controlled prices to price monitoring. To that end, the status of the Price Control Office will be changed. Also, after the price increases in December 1988 and February 1989, the Government will periodically adjust public transportation prices, so as to ensure the financing of new investments in this sector. Supporting measures to solve social problems resulting from higher transportation

and fuel prices are being prepared. In February 1989 the Government ratified the membership treaty of the Multilateral Investment Guarantee Agency.

G. Sectoral policies

31. To stimulate growth and investment in agriculture, the Government is committed to implementing an emergency program to rehabilitate rural roads and build a permanent road maintenance system.

(a) It has developed a plan of action to encourage the rehabilitation of plantations and to channel substantial funds into plantation investment, which it will present to the World Bank and other donors in 1989 for financing.

(b) It will establish mechanisms for adequate and timely availability of agricultural credit; the fund to cover foreign exchange risks will be applied only to small- and medium-sized enterprises and will under no circumstances be used to subsidize loans obtained abroad;

(c) It will develop a comprehensive policy on input supply, particularly involving enhanced private sector participation in the distribution of agricultural inputs.

(d) It will strengthen the institutional basis for future agricultural research.

(e) It will continue its efforts to develop a national agricultural extension policy, which will be tested in the field in 1989 before being extended nationwide.

(f) It will develop strategies for the various subsectors (coffee, sugar, cotton, and livestock). Regarding coffee exports, the Government is aiming at an open export system that protects the Zairian trademark and facilitates the full collection of taxes from this source. On February 21, 1989 it extended the list of accredited exporters from 40 to 60 traders and producers. Before June 30, 1989 it will open the list of licensed exporters to new applicants. The Government will license all existing exporters and new applicants on the basis of the same objective standards of good business conduct, such as correct grading of coffee sold under the Zairian trademark and a good record in paying taxes. The Government will discuss these criteria with the World Bank in the framework of the overall export promotion policy and in the framework of sectoral development policy, with the help of the World Bank.

32. To stimulate private investment, the Government will maintain a liberal policy concerning the repatriation of profits and dividends by foreigners working in Zaire. It will update the Mining Code and re-

examine the restrictions on the movements of foreigners in the mining zones and the modalities of the new fiscal system for the diamond subsector.

33. In the transportation sector, the Government has already eliminated ONATRA's river transport monopoly, except for copper transportation, and has established free entry into the sector. A plan has been prepared to remove the distortions arising from the tariff structures in the two major public enterprises, the river transportation authority (ONATRA) and the railroad company (SNCZ). Management will be allowed a certain amount of discretion in setting rates, which will be allowed to cover long-term marginal costs with timely corrections for inflation, while extensive rehabilitation programs will increase the cost-effectiveness of these enterprises and help maintain their competitiveness.

H. Public sector management

34. On account of the accumulated large fiscal imbalances, weak tax and customs structures and administration, inadequate expenditure control mechanisms, and the weight of the external debt, the budgetary situation will remain tight for a number of years. Therefore, a significant improvement in the mobilization of resources is imperative. Given the multiplicity of taxes and tax rates and the serious undercollection of taxes due, a comprehensive reform of the tax structure and of domestic and foreign trade tax administration is needed to rationalize the incentives structure and to generate sufficient resources to reduce fiscal imbalances.

35. In addition to the measures mentioned in paragraph 22 above, new legislation on real estate taxes will be put in place in 1989, with a view to putting the system created by the Executive Law of 1987 on a more personalized basis. The Government has started to take measures to strengthen the tax and customs administration. Exclusive responsibility for import tax collections will be returned to OFIDA and during 1989 the system of bonuses for the uncovering of fraud, which was introduced in 1988, will be implemented. Other measures, which have been initiated or are being studied by the Government, will be implemented according to the timetable in the attached Policy Matrix. These measures are:

(a) the introduction of a new income tax schedule, to lighten the tax burden on wage earners, and to reduce tax fraud in this area;

(b) the introduction of reforms in the systems of regional taxation and parafiscal charges;

(c) the re-evaluation of company assets in such a way as to minimize the initial loss of government revenue; and introduction of a new depreciation system to benefit the productive sector; and

(d) the re-examination of the export levies on coffee and wood.

36. The Government will pursue the process of incorporating parafiscal revenue into the general budget. It will also study and reform the regional taxes in order to bring them in line with the national taxation system. With the assistance of the World Bank, the Government will also study the progressive nature of the tax system, and will take measures to increase significantly taxes on luxury goods and to distribute the tax burden more equitably. The Government will ensure that all these measures, together with a major improvement in tax and customs administration and the enactment of application provisions for the Customs Code and the Tariff Law, will substantially increase government revenue.

37. On the expenditure side, for the period of the PFP beginning in 1989, the aim of the Government is to limit the increase in current expenditure to a strict minimum while improving the allocation of operating expenditures so as to improve the efficiency of the civil service. The Government will prepare a public expenditure program designed to step up development and social service expenditure, in line with the priority PIP. The PIP will allow for improved coordination between recurrent and capital expenditure while ensuring a better execution of the budget. Average wages in the public sector remain low, while the number of people on the government payroll is relatively large. Given the limited amount of available resources, further improvement in civil service wages will be associated with a reduction of staff levels in the context of an overall reform of the civil service and a complete census of staff on the public payroll. The civil service census of 1987 and the removal of phantom workers, as well as the program for the retirement of civil servants, affected only 30 percent of government employees. By the end of 1989 the Government will carry out a survey of all staff on the public payroll in order to remove phantom workers in the other branches of the public sector and to achieve substantial reductions in the overall numbers by June 1990. A census of the armed forces will be concluded by the end of June 1989.

38. In 1988 the Government took a number of steps to improve control over public expenditures. In the past, this control was weakened by the proliferation of offices that could authorize public expenditures and the frequent use of exceptional procedures. Both in 1987 and 1988 these weaknesses led to very substantial over-expenditures on the budget targets. To remedy the situation, the President of the Republic has decided to unify under the Prime Minister all expenditure-authorizing units. In this framework, all expenditure commitments must be rigorously subjected to budgetary procedures; beyond that, only the Prime Minister will be able to authorize possible additional expenditure. To control expenditure within the indicated limits, all expenditures will be carefully screened against detailed monthly commitment and treasury plans, the first under the responsibility of the Minister of Budget, the latter under the responsibility of the Minister of Finance. Foreign exchange expenditures will be planned and reported separately to monitor the achievement of the monthly ceilings for this category. The expenditure plans and programs will be submitted to the

service an increasing portion of their external debt obligations. By the end of 1989 the Government will have prepared a plan for improving the financial performance of the main public enterprises, while allowing them to make a greater contribution to the servicing of their external debt.

I. Public Investment Program (PIP) and public expenditure

42. The Government has prepared a PIP for 1989-91 by updating the 1987-90 PIP that was endorsed by the donors at the last meeting of the Consultative Group. The 1989-91 PIP, which has been reviewed by the World Bank, covers three areas: a priority program, a stand-by program, and projects under discussion. The priority program is set at US\$2.3 billion (or Z 920 billion). It consists of projects which offer a solution at the lowest cost, on which the rate of economic return is higher than 10 percent, and which are consistent with the sectoral and macroeconomic policies. Given the inadequate public investment forecasting system and the incompleteness of the forecasts produced, the Government and the World Bank have agreed on an annual ceiling on expenditure in the PIP of US\$15 million (Z 6 billion) for projects with undeniable social usefulness which do not necessarily meet the World Bank economic criteria for program selection. In accordance with the original PFP, the Government has opened a special account at the central bank, managed by the planning ministry, so as to improve the disbursement procedure for the public investment budget. This procedure will be reviewed with a view to increasing transparency. To allow Zaire to finance the PIP and to have access to a share of the resources available under the World Bank's initiative for heavily indebted African countries, the Government will take action to ensure that the amount allotted to projects with other than economic justification will be less than the above-mentioned ceiling.

43. The Government will not undertake any investment project, or provide public financing for or guarantee any project that is not included in the priority PIP reviewed by the World Bank. No action will be taken to implement the projects "under discussion" mentioned above, unless the questions concerning these projects are resolved in agreement with the World Bank. For 1989 the Government's investment budget will be consistent with the priorities, criteria, and local financing requirements of the PIP. The Government will ensure full domestic funding of projects in the priority PIP. In this regard, the planning ministry will assume responsibility for the financial execution of the investment budget.

44. About 60 percent of the external financing required for the priority PIP has already been secured. The Government is committed to financing its investment program with only highly concessional funds and will consult the World Bank in case of exceptions that may concern high-profitability sectors, particularly for exports. The Government believes that the willingness of a lender to provide financing is not in itself sufficient reason to incorporate a project in the PIP. An

Government for approval. In case no budget allocation or treasury funds are available for specific expenditure proposals, these expenditures will be postponed until the next fiscal year or, alternatively, other budgeted expenditures will be cut.

39. The Government has decided not to permit any expenditures outside this framework, and will submit the implementation of the new system to strict monitoring and ex post controls, and pass legislation that the State of Zaire is not bound by any commitments that have not been formally approved by the Minister of Finance or on his behalf. The Prime Minister will appoint a unit in his office responsible for the monitoring and ex post controls on the system. This unit will have access to all financial records of the Ministries of Finance and Budget, as well as those of the Bank of Zaire. The head of the unit will report possible weaknesses in the implementation of the system to the Prime Minister, can ask the Minister of Finance to make retroactive adjustments in the accounts if necessary, and propose compensatory cuts in other budgets. He will produce monthly reports for the Government on the implementation of the new budget procedures and possible deviations from the earlier-mentioned expenditure plans. To achieve more transparency, and to avoid overspending or the use of budget categories for unrelated expenditures, the Government has decided that the units responsible for the execution of government programs will be given full knowledge of the monthly budget available for their programs and monthly statements of the actual utilization of these funds.

40. To ensure prompt monitoring and careful implementation of this system, the Minister of Finance and the Governor of the Bank of Zaire will meet weekly to harmonize government foreign exchange expenditure in the budget and in the foreign exchange budget. Moreover, they will submit monthly reports on expenditure under the budget and the foreign exchange budget to the Interministerial Economic Committee. Monthly reports on these expenditures will be transmitted to the Fund and the World Bank by the Ministry of Finance and the Bank of Zaire. Centralized expenditure on water, electricity, and petroleum products consumed by various public agencies but paid by the Treasury has been high in recent years. To encourage these agencies to control consumption, the Treasury will deduct from the monthly allocation for each agency the expenditure incurred by that agency in the previous period for water, electricity, and petroleum products. Finally, the amount of foreign currency expenditure of the Government provided for in the foreign currency budget of the Bank of Zaire will be fixed annually to be consistent with the program's objectives in the area of public finance, monetary policy, and the balance of payments.

41. The servicing of the external debt remains a heavy financial burden on the budget, in part because most public enterprises have not serviced their external debt. The Government is committed to approving reasonable requests for tariff increases so as to ensure that public enterprises generate sufficient resources to cover their operating costs, self-finance a larger share of their capital expenditure, and

updated 1990-92 PIP will be prepared and reviewed with the World Bank in September 1989.

45. The Government will also improve planning and project preparation capabilities within core ministries and key technical units and agencies. It will gradually move toward a unitary budget structure combining recurrent and capital expenditure in the form of a three-year rolling public expenditure program. To this end, in 1988 the Government completed a revision of the public expenditure nomenclature used in preparation of the 1989 budget. It will perform a more complete review of public expenditure in order to prepare a public expenditure program by September 1989 at the latest. This public expenditure program will be used to prepare the Government's 1990 budget.

J. Public enterprise reform

46. The broad objective of the Government is to make the private sector responsible for productive activities, with the exception of essential public services such as utilities and some strategic activities. To this end, in May 1988 the Government published an initial list of public enterprises to be privatized, and established a program to implement the privatization process quickly. Enterprises remaining in the public sector will have greater management autonomy and increased accountability within the framework of clearly defined company objectives. To implement this policy, the Government has created a simple, specialized public unit, which will be the spokesman of the state enterprises in the Government and will provide assistance to these enterprises. The new portfolio management principle is based on the definition of specific objectives for each enterprise, greater autonomy, and management incentives to achieve these goals. This policy will be realized by the signing of program contracts between the public enterprises and the Government, which will allow the heads of such enterprises greater freedom of action and, accordingly, will reduce state interference in daily operations.

47. A number of important initiatives have already been taken in specific enterprises, and will be pursued in the coming three years. In particular, GECAMINES has taken significant measures to strengthen its rehabilitation program with the support of the World Bank, and will establish a new dividend policy with the approval of the Government. In 1988 GECAMINES completed an extensive report on its future dividend policy. The goals of the report, which was supported by a loan from the World Bank, were to define a dividend policy which was compatible with fluctuations in copper prices, the long-term goals of the enterprise, its long-term rehabilitation program, and the financial needs of the Government. GECAMINES will pay dividends to the Government in accordance with established principles of sound financial management, and which take into account its profitability, liquidity, short-term debt, and investment needs. In early 1989 the Government approved this dividend policy as it was described in general terms in the above-mentioned report. The Government will translate the general

recommendation into operational terms and put into place this dividend policy not later than September 30, 1989. In the interim, all dividend payments by GECAMINES must obtain prior approval from the World Bank. Some enterprises have been closed; the Government has withdrawn from others; and the management of still others has been contracted out to the private sector. If new copper and zinc deposits need to be put into production after 1990, the Government will consider various capital structure possibilities for the operating companies (including private sector participation). To revive gold production in the Kilo-Moto area, a project is under preparation for creating a mixed enterprise to be responsible for developing the D7 KANGA.

48. Program contracts have been signed with the Government for both REGIDESO and SNCZ. To facilitate and speed up the signing of program contracts with the public enterprises, an evaluation meeting was organized in November 1988 to extend information on the preparation of program contracts. As a result, at least a dozen other program contracts will be signed in 1989, most notably with SNEL and ONATRA. ONATRA's program will include measures aimed at: (a) decentralization of services; (b) trimming of support services; (c) subcontracting to the private sector, and (d) divestiture of nontransport activities. Already, ONATRA, SONATRAD, RVA, and CMZ have submitted the drafts of their program contracts.

K. Monetary and financial sector policies

49. Monetary policy will be designed to prevent a further deterioration of the current account balance and to reduce substantially the inflationary pressure which appeared in 1987 and 1988. To promote expansion of industrial production and private sector exports, the share of credit allocated to this sector will be increased gradually over the medium term. In addition, a ceiling on net bank credit to the Government will be maintained. The functioning of the interbank money market will be improved by limiting the Bank of Zaire's intervention in the market to about 20 percent of commercial banks' required reserves and by pursuing a more active interest rate policy. The interest rate structure will be streamlined. The Bank of Zaire increased its intervention rate from 35 percent to 45 percent in January 1989, and in April raised it by an additional 15 points with a view to transforming the present market into a true interbank market. The Bank of Zaire will continue to increase its lending rates monthly, so as to establish real positive interest rates by the end of June 1989. The monetary authorities will ensure that interest rates remain positive in real terms thereafter.

50. By the end of 1988, the Government took measures to strengthen the supervisory role of the central bank through better reporting, control and inspection procedures. In addition, by the end of June 1989 the Government will redefine the scope of activities of the Banque Zairoise

du Commerce Extérieur (BZCE) and in 1989 will reorganize the Nouvelle Banque de Kinshasa, so that both banks operate under the same regulatory and competitive framework as the commercial banks.

51. The funds in zaires which are derived from sales in foreign currencies from quick-disbursing grants and loans in support of the balance of payments will be used by the Government to repay its debt to the banking system. This will allow an increase in the amount of credit available to the private sector within the framework of an overall monetary policy that is in line with the macroeconomic framework. The ceiling on net domestic assets of the banking system and the subceiling on net bank credit to the Government will be re-examined with the IMF and the World Bank in the light of the funds that will eventually be made available to Zaire within the framework of quick-disbursing grants and loans under discussion with both the World Bank and the other donors.

L. Social sector reforms

52. The social implications of the Government's structural adjustment program during its first year were positive in two areas: (i) the liberalization of producer prices resulted in a shift of income into the rural sector; and (ii) the urban sector benefited from the foreign trade liberalization measures as the monopolies of major importers were reduced. However, high inflation eroded the real income of wage earners in the urban sector. The drop in purchasing power had particularly unfavorable effects in the social sectors; to the extent that a high share of the cost of these services was recovered from the beneficiaries, this allowed health and education services to function despite very a low government contribution. Concerning this latter point, government participation in essential sectors, such as health and education, has fallen to levels which cannot be offset by nongovernmental organizations, donors, and users of the services.

53. The economic program is expected to have a positive social impact by improving productivity in agriculture, facilitating transportation, and in general making it possible to achieve higher levels of consumption and per capita income. By stimulating competition in the economy, the Government's liberalization policies should further reduce excessive profits that persist in the distribution system, and thereby help improve income distribution. The Government is committed to designing, with donors' assistance, a comprehensive plan of action aimed at implementing redeployment programs to ease the negative impact of downsizing in the public sector. The Government is also committed to tightening the overall allocation of government expenditure so as to improve the share of the social sectors over the long term. Under the 1989-91 PIP more resources will be allocated to health and education. In this context, the Government will not implement any investments outside the PIP, and will give priority to the efficient use of budget resources, so as to cover the basic health and primary education needs. It will focus its efforts on the functioning and rehabilitation

of basic social services for the rural and urban populations, in particular mother and child health programs, and primary education programs. The Government will also complete a comprehensive analysis of needs in the social sectors. The public expenditure program in the social sectors, which will be established on this basis, should be completed in September 1989 at the latest, for use in preparing the 1990 budget.

54. In the context of the Social Sector Adjustment Project (SSAP), the Government is determined to improve the efficiency and equity of social programs. This will be achieved through sectoral (health, education) and intersectoral (population, nutrition, employment) adjustment policies. To implement these policies, the Government has provided for the required financial needs, and has established institutional mechanisms through which the NGOs and the private sector can play a more important role. In addition, the Government is determined to assist directly population groups that are particularly vulnerable. Priority programs (for example, vaccinations, basic care, labor-intensive public works) will be expanded. Among the vulnerable groups, particular attention will be focused on women, to the extent that their fundamental role in economic activity and family well-being are not sufficiently recognized and supported. Lastly, through the Social Dimensions of Adjustment Project, the Government wishes to monitor the impact of socioeconomic policies on the living standards of the population, so as to be able to introduce additional compensatory measures in a timely fashion.

55. Rapid population growth (about 3 percent a year) outpaces the country's capacity to create employment and to provide social services (health, education, urbanization, water supply, housing, etc.). Population pressure on fertile land varies from one region to another, with the highest density in the eastern part of the country, particularly in Kivu, and with overpopulation linked to deforestation and erosion. A national population policy is being put in place as reflected in the creation of the National Population Committee, a unit to coordinate population and family planning programs. These programs are currently limited to health facilities in urban areas, and have not benefited from a nationwide distribution of information. After adopting the national population policy, the Government envisages requesting external support to extend these activities nationwide, while continuing a dialogue on global population problems at the highest government levels.

M. The Environment

56. The Government recognizes that the conservation of Zaire's land, soil, water, and forest resources will affect its ability to meet objectives related to agricultural productivity, food security, and household energy and water supply. The Government is also increasingly aware of world interest in Zaire as one of the priority countries retaining large expanses of tropical forest and biodiversity, including

some endemic and endangered species. Zaire is accordingly cooperating with a multidonor group in the development of a Tropical Forestry Action Plan, which is exploring issues related to: a) land use and forestry; b) wood industry development; c) wood energy needs and reforestation implications; d) conservation of forestry ecosystems, including national parks and reserves; and e) institutional development, training and research needs. In addition to these forestry-related concerns, the Government is engaged in: a) assessment of the sanitation and drainage problems of Kinshasa and preparation of an accompanying investment plan; b) development of an improved cadastral system; c) review of environment-related legislation; d) definition of resource use issues at the village level through a UNDP/UNEP "ecodevelopment project", to be followed by efforts to improve the focus of agricultural research and extension; and e) study of the environmental impact of the copper mining and processing activities in the Shaba region.

IV. External Financing Requirement

57. Largely on account of the external debt and its repayment schedule, the balance of payments situation is expected to remain critical in the coming years. Moreover, as copper prices are projected to decline significantly from their peak attained at the end of 1988, improvement in the external balance can be achieved only slowly as it will depend on the development of nonmineral exports and efficient import substitution. Hence improvements in infrastructure and the reduction of barriers to entry into the tradable goods market are imperative. The current account deficit (including official transfers) is expected to decline from SDR 516 million in 1988 to SDR 464 million in 1989, but then deteriorate in 1990 to SDR 650 million on account of a sharp adverse movement in the terms of trade. By 1992, as export diversification is firmly in place, the current account deficit is projected at about SDR 600 million.

58. As recent developments clearly indicate, the balance of payments projections, which are heavily dependent on commodity prices, are subject to acute volatility and thus uncertainty. The copper price assumption retained for 1989 is US\$1.15 per pound compared with US\$1.17 per pound in 1988; in 1990 a sharp decline is forecast and thereafter the price is assumed to keep pace with world inflation. In addition, should the volume of copper exports in 1989 again be at the low level attained in 1988, export revenue could be as much as US\$60 million below the forecast. In conjunction with the decline in government nondebt foreign exchange spending, imports of goods and nonfactor services in real terms are projected to decline by 5 percent in 1989, after having risen by 14 percent in the previous year. However, the volume of imports for the private sector will increase. In the absence of a larger level of external resources, exogenous and endogenous, imports of goods and nonfactor services in real terms are projected to rise by about 3 percent per annum after 1989. The debt

service ratio before debt relief is expected to remain at about 60 percent in 1989 and 1990 before tapering off to about 50 percent in 1992.

59. In view of the need to settle SDR 580 million of external arrears accumulated in 1988 and taking into account the scheduled amortization payments and allowing for a buildup of international reserves, the external financing requirement is projected at SDR 1.9 billion in 1989, and at about SDR 1.4 billion a year in 1990 and in 1991. In addition to substantial debt relief, a significant increase in disbursements from multilateral and bilateral sources is required to close the external financing gap. Excluding drawings from the Fund, official grants and loans, both already committed and noncommitted, are projected to increase by 20 percent in 1989. In order to secure the required financing, additional support from bilateral and multilateral sources will be required, for the balance of payments as well as for specific sector programs.

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
<u>1. External sector policy</u>					
1.1 Rate of exchange	Strengthen the free exchange rate system and a market-based rate	a. Improve operation of the interbank foreign exchange market b. Keep the gap between the official rate and parallel rate within a very narrow margin	1987 - ongoing	a. Narrow the gap between the official exchange rate and parallel rate within a 10 percent margin	1989
1.2 External debt	Improve the debt profile	a. Refinance the external debt on concessional terms, and seek to obtain better conditions for future reschedulings b. Limit new nonconcessional borrowings	In progress Ongoing	a. Participate in the World Bank's initiative for the indebted sub-Saharan countries and explore other possibilities in this field b. Ceiling determined c. No recourse by Government to short-term debt (less than a year)	1989 1989
1.3 Foreign exchange	Increase the volume of available foreign exchange Gradually raise the level of net official reserves		Ongoing	a. Ceiling in 1989 of US\$180 million on government use of foreign exchange not linked to the debt b. Target determined	1989 1989
1.4 Private capital	Encourage injections of private capital in the form of equity participations	a. Review investment incentives	Ongoing	a. Study the possibility of setting up a debt equity conversion system and define a policy	1989
1.5 Tariff system and incentives	Increase incentives to export industries and provide adequate effective protection for industries that compete with importers	a. Eliminate export duties b. Rationalize exceptions in order to reduce exemptions c. Increase the administrative import fee to 5 percent and ensure general application	Implementation in 1987 (except coffee and wood) 1987/89 in progress June 1988	a. Launch a study on ways of promoting wood and coffee exports; liberalize excess to coffee export licenses b. Study possibilities of eliminating import ban on wax prints c. Define and implement a program simplifying the administrative and documentary procedures affecting exports	1989 1989 1989

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
		d. Abolish exemptions enjoyed by the state and state-owned enterprises	1988	d. Increase minimum import duty to 15 percent	Done
				e. Eliminate specific duties	Done
				f. Suspend the turnover tax on goods exclusively used for inputs	Done
				g. Transform specific duties into duties based on imported values	Done
				h. Replace duties based on administratively set import values by temporary surtaxes on invoiced values with the purpose of their eventual removal	1989
<u>2. Public finance</u>					
2.1 Revenues	Improve revenue collection through tax reform and administrative reforms; increase the elasticity of the fiscal system; and make the regional taxation system more rational, improving yields and monitoring	a. Consolidate certain parafiscal charges in the budget	Implementation in 1987	a. Increase the turnover tax to 18 percent	Done
		b. Expand the tax base	1987-89	b. Double the ad valorem excise duty rate	Done
		c. Increase the business license fees	1988	c. Define and initiate a program to strengthen the cadastre and expand real estate taxation	1989
		d. Strengthen OFIDA and the Tax Department	In progress since July 1988	d. Introduce a system of assessed tax rates on SMEs	1989
		e. Set up a system of bonuses for tax inspectors and customs personnel	Decided in 1988	e. Revalue company balance sheets	Done
				f. Strengthen the legal status of OFIDA and restore its exclusive responsibility for import duty collection	1989
				g. Increase the effectiveness of the Tax Department through a substantial increase in its budget, among others for personnel motivation	Done
				h. Double administrative fees	1989
				i. Simplify regional and local tax systems	1989-91
				j. Increase taxation on petroleum products	Done
				k. Put in place procedures for the recovery of petroleum taxes	1989
				l. Issue new schedule for taxes on wages and salaries	1989

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
2.2 Expenditures	Increase the effectiveness of public expenditures and resource allocation	a. Civil service reform, with rationalizing pay and incentive structures	In progress	a. Set up an action program for civil service reform covering 1989-91	Starting 1989
		b. Eliminate fictitious civil servants from payroll	1988	b. Rationalize the total number of persons paid by the state and set rationalization targets	Starting 1989
				c. Retire eligible civil servants	1989
				d. Determine and eliminate fictitious or redundant personnel in other branches of Government	1989
				e. Create a single center for authorizing government expenditures	Done
				f. Establish monthly plans for commitment and payment of government expenditures	1989
				g. Create an export control and monitoring unit in the cabinet of the Prime Minister	1989
3. <u>Public investment and expenditure program</u>	Develop infrastructure for production and services through better use of resources within the established macroeconomic framework, and improve integrated programming of recurrent and investment expenditures	a. Review the three-year public investment program (PIP) in light of development objectives and available resources	Implementation since 1987	a. Adopt and publish the PIP for 1989-91	May 1989
		b. Introduction of a category "projects under discussion" in the PIP	March 1988	b. Bring all public investments into the PIP process	1989
		c. Ongoing review with the World Bank of projects under discussion	Starting March 1988	c. Review investment budget execution procedures	1989
		d. Study to review budgetary nomenclature	1988	d. Continue discussions of projects in the "projects under discussion" category, suspending implementation and further commitments on these projects	1989-91
				e. Integrate current and investment expenditure programming	1989-91
				f. Reduce payments under exceptional procedure	January 1989, to continue

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
4. <u>Public enterprises</u>	Increase their output and reduce state intervention	<p>a. Settle arrears between the state and the PEs</p> <p>b. Ensure external debt service by the enterprises themselves</p> <p>c. Reduce budgetary support to the public enterprise sector</p> <p>d. Classify enterprises in:</p> <ol style="list-style-type: none"> 1. To be liquidated 2. To be privatized 3. To be left in the public sector; apply action plan for category No. 3 	<p>In progress</p> <p>In progress</p> <p>Since July 1988</p> <p>May 1988</p>	<p>a. Clear cross-debts</p> <p>b. Give instructions to OGEDEP to transfer the debt to the enterprises concerned and fix tariffs accordingly</p> <p>c. Draw up a quantified plan for reducing budgetary support</p> <p>d. Institute quarterly price adjustments for water, electricity, and public transport to achieve cost recovery goals in a high inflation situation</p> <p>e. Review the institutional framework for state supervision and control. Create a supervisory unit and appoint manager</p> <p>f. Conduct a study to define a privatization or liquidation program</p>	<p>1989</p> <p>1989</p> <p>1989</p> <p>Partially done</p> <p>Done</p> <p>1989</p>
5. <u>Financial sector</u>					
5.1 <u>Lending policy</u>	Pursue an anti-inflationary policy while supporting private sector revitalization	a. Increase the volume of lending available to the private sector	Since 1987	<p>a. Quarterly lending ceilings established</p> <p>b. Subceiling for monetary financing of the budget deficit established</p>	<p>1989</p> <p>1989</p>
5.2 <u>Financial intermediation</u>	Stimulate the efficiency of the financial system and increase the importance of the financial circuits	<p>a. Strengthen the management of the market-oriented interest rate policy</p> <p>b. Improve operation of the money market</p>	<p>1987 - ongoing</p> <p>1987 - ongoing</p>	<p>a. Raise interest rates by 10 points in January</p> <p>b. Raise interest rates by 15 points in April</p> <p>c. Adjust interest rates on a monthly basis to ensure positive real rates by the end of June 1989</p> <p>d. Open the interbank money market to outside participants and restrict Bank of Zaire intervention</p> <p>e. Strengthen commercial bank supervision and reorganize banks in difficulty</p> <p>f. Solve NIK's institutional and solvency problems</p> <p>g. Revise statutes of the BCEZ</p> <p>h. Abolish restrictions on public enterprises in choosing their commercial bank</p>	<p>Done</p> <p>Done</p> <p>Continue after June 1989</p> <p>1989</p> <p>1990</p> <p>In progress</p> <p>June 1989</p> <p>1989</p>

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
6. <u>Production, investment, and pricing</u>					
6.1 Investment	Harmonize investment incentives with fiscal and price reforms	Strengthening of investment commission procedures	1988	a. Study the possibility of introducing new investment incentives through a debt equity conversion mechanism b. Ratify MIGA treaty (assurance against political risks)	1989 Done
6.2 Pricing	Realize market prices and automatic adjustment of tariffs of public enterprises to long-term marginal costs	Restrict price control to profit margins (with a few exceptions)	1987	a. Adopt planning and automatic adjustment of prices of oil products to take account of world price and exchange rate b. Increase prices at the pump to ensure total cost recovery and a satisfactory contribution to road maintenance and to the general budget c. Increase public transport prices within the framework of a sector rehabilitation policy d. Conduct a study on profit margin liberalization. Change the status of the price control office	Done Done 1989
7. <u>Social aspects of adjustment</u>	Develop strategy to improve efficiency and fairness in the social sectors	a. Set up a Social Dimension of Adjustment working group b. Prepare an adjustment program for the social sectors covering population health, nutrition, employment, status of women, NGO intervention	In progress In progress	a. Setting up of a social adjustment project	1989
8. <u>Agriculture</u>	Improve productivity and increase production	a. Implement emergency program for the repair of rural roads b. Increase seed production c. Develop a national approach to research and extension d. Improve credit mechanisms for agriculture	In progress In progress November 1988 In progress	a. Increase local financial resources for the Feeder Roads Program b. Reorganize central research and extension units; strengthen execution by private agencies	Done Experimental implementation in 1989. Full application starting in 1990

Zaire: Structural Adjustment Facility
Policy Matrix and Implementation Timetable

Field of action	Objectives	Actions 1987-88	Timetable	New measures 1989	Timetable
9. <u>Mining</u>	Improve GECAMINES' output and revitalize the other companies in the mining sector	a. Implement GECAMINES' rehabilitation program b. Launch the Kilo-Moto project with private partners	Ongoing In progress since November 1988	a. Review legislation on concessions and exploration permits b. Work out modalities of GECAMINES' dividend policies that have been adopted	Launch study in 1989 1989
10. <u>Manufacturing companies</u>	Stimulate growth by offering incentives to producers			a. Review company taxation; revalue balance sheets b. Restrict the exchange risk coverage to SMEs and avoid subsidies on foreign loan capital c. Evaluate the Investment Code and Commission System	1989 1989 1989
11. <u>Transportation</u>	Improve efficiency of the transport network and end the fuel shortage in the interior	a. Prepare and implement programs designed to rehabilitate the Office des Routes, RVF, RVM, and OVD b. Reorganize ONATRA c. Program contract signed for SNCZ d. Rebuild fuel stocks in the interior	September 1986 - in progress Plans completed 1988 In progress since June 1988	a. Rehabilitation of OR, RVF, RVM, and OVD on the basis of financial resources available since February 1989 b. Prepare and implement the ONATRA program contract c. Implement program contract for SNCZ	1989-91 1989 1989-91
12. <u>Energy and water</u>	Improve profitability of SNEI and REGIDESO	a. Set up a new tariff schedule based on the principle of long-term marginal cost pricing b. Establish program contract for REGIDESO	June 1986 - in progress Signed in 1988	a. Establishment of a program contract for SNEI b. Implementation of program contract for REGIDESO	1989 In progress since 1988
13. <u>Education</u>	Improve efficiency	Prepare a global education strategy	1988-89	a. Review the education sector budget	1989
14. <u>Population</u>	Develop a national policy	Prepare a national population policy	1988	a. Include demographic variables in the planning process	1989
15. <u>Nutrition</u>	Develop a national nutrition policy			a. Prepare a food security strategy	1989
16. <u>Health</u>	Improve the efficiency and fairness of expenditures in the health sector			a. Prepare a strategy for public and private sector interaction in the area of health b. Review public health expenditures with a view to increasing their share	1989 1989