

**FOR
AGENDA**

EBS/85/74
Supplement 1

CONFIDENTIAL

April 17, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Zaïre - Staff Report for the 1984 Article IV Consultation
and Request for Stand-By Arrangement

The attached supplement prepared by the staff of the World Bank provides additional information to the staff report for the 1984 Article IV consultation with Zaïre and its request for a stand-by arrangement (EBS/85/74, 3/26/85), which has been tentatively scheduled for discussion on Wednesday, April 24, 1985.

Mr. Goreux (ext. 573801) or Mr. de Capitani (IBRD, ext. 575297) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

ZAIRE

Staff Report for the 1984 Article IV Consultation
and Request for Stand-By Arrangement
Supplementary Information

Prepared by the World Bank Staff

April 16, 1985

World Bank Group Activities in Zaire

The Bank Group's activities in Zaire cover three main aspects: (a) helping Zaire to design and implement policy and institutional reforms that affect development; (b) transferring resources through lending operations designed to address the most urgent needs of infrastructure rehabilitation and productivity increases, particularly in agriculture and industry/mining; and (c) assisting Zaire in aid mobilization and coordination.

Bank Group strategy in Zaire is to assist the Government in the implementation of its program of economic adjustment which requires the restoration of basic financial and economic equilibria, while striving to maintain a viable productive system and to allow for medium-term recovery through increased mobilization and more efficient use of resources, including external assistance. Such assistance should, in our view, serve to encourage new productive investments; to increase imports to levels compatible with medium-term growth requirements; to ameliorate the social situation; and to continue improving infrastructure and other essential services.

Specifically, Bank Group objectives are:

- a. to assist the Government in defining and implementing the policies and institutional reforms necessary to establish a sound macroeconomic environment;
- b. to assist in the definition of appropriate sectoral strategies emphasizing economic liberalization (especially for agriculture, mining, manufacturing, energy, and transport) and in the strengthening of the planning, programming and budgeting process with emphasis on the coherence between objectives, financial resources and absorptive capacity;
- c. to induce the Government to implement well-focused action programs to rehabilitate and expand agricultural production, with emphasis on creating incentives for private sector production and on activities that generate or save foreign exchange;

d. to maintain SOFIDE as an effective development finance institution and to help the Government define appropriate medium- and long-term industrial policies, so as to encourage, inter alia, private sector investments (local and external);

e. to continue to support transport projects which focus on maintenance and modernization of the existing network and the strengthening of the management and efficiency of the sector's main organizations and their coordination;

f. to collaborate with the Government in defining priorities for the mining and energy sectors and, more particularly, in reviewing GECAMINES' corporate strategy as well as the financing necessary to implement such strategy; and

g. to assist the Government in improving the management, planning, efficiency and relevance of the education sector and in assessing future manpower needs and related training requirements.

To help achieve these objectives, the Bank Group lending program for FY85-87 consists of an average of 4 operations yearly for a total of about US\$100.0 million equivalent per year. Proposed projects focus on the maintenance and rehabilitation of transport infrastructure, and on the improvement of production in the mining and agricultural sectors. To complement traditional project-based lending, a manufacturing sector SAL is under consideration. It would help strengthen the manufacturing sector, through the adoption of policy measures aimed at encouraging the resumption of private investment and the financing of imported inputs, essential spare parts and equipment. Finally, economic management capabilities would be strengthened through technical assistance to the Ministries of Finance and Planning, and for the improvement of the institutional environment in which public enterprises operate.

Bank Group Portfolio. For 1969 to date, the Association has approved 38 credits totalling about US\$580.0 million for agriculture, transport, development finance company operations, water supply, power, petroleum technical assistance and education projects (Attachment). These operations have attracted a significant amount of cofinancing; between CY75 and 84, every dollar of IDA financing has been associated with an average of US\$0.84 of cofinancing. The Bank Group has also extended grants totalling US\$400,000 as contributions toward the cost of two planning assistance projects in Zaire. In 1975, the IBRD made a loan of US\$100 million for the Gecamines Mining Expansion Project, which was cofinanced by the European Investment Bank and by the Libyan Arab Foreign Bank, and which provided for special repayment arrangements linked to the project's export earnings. The IFC, which has a US\$1.3 million equity participation in the Société Financière de Développement Economique (SOFIDE), approved a US\$4.1 million loan in 1978 for an offshore oil production project, and a US\$230,000 loan in 1982 for studies related to the development of an

aluminium complex at Banana. In 1985, IFC approved (April) a US\$100,000 equity participation in a cotton farming operation, and a US\$6.25 million loan to, and a US\$528,000 equity participation in a textile company (SOTEXKI). It is about to submit for Board approval a US\$15.0 million loan to the "Grands Hotels du Zaire". Since CY 1980 Bank Group net transfers to Zaire have been increasing rapidly from about US\$19 million in CY 1980 to over US\$48 million in CY 1984.

Project implementation has been satisfactory in spite of difficulties resulting from the country's inadequate manpower and management capability and, in recent years, because of the economic crisis. In the last two or three years, release of the required budgetary contributions has been difficult periodically because of budgetary constraints. 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 adequate staff has also been difficult.

Bank Group projects have helped strengthen the management and operations of the country's major parastatals. So far, GECAMINES, ONATRA (the rail and river transport company), SNCZ (the railway company), REGIDESO (the water supply company), and SNEL (the electric utility company) have received World Bank Group financial and technical assistance, in some cases over sustained periods of time. While their performance still needs further improvement, Bank Group projects have helped these companies establish management information systems, ensured regular audits, and financed training programs and technical assistance. Future Bank Group operations would help the parastatals in charge of transport on the river network (RVF), and on the Zaire river estuary (RVM). A new project is also being considered to further rehabilitate GECAMINES, and to finance some of the essential investments needed to implement the company's five year corporate plan. At the request of the IMF, the Bank Group is financing and supervising a study on streamlining and rationalizing the operations of the national airline (Air Zaire). Finally, free standing technical assistance operations have been designed to address management difficulties in key Government agencies such as the Agriculture and the Education Ministries, or to help restructure the petroleum sector.

Besides its lending program, the Bank Group maintains an active dialogue with Zaire through its economic and sector work program. The latest Country Economic Memorandum will be distributed to the Bank's Executive Directors in April 1985. Ongoing studies include: (a) a macro-economic analysis of the parastatal sector, discussed with Government in February 1985, and scheduled for completion in May 1985; (b) an evaluation of the institutional and legal structure of the Inga Free Zone (ZOFI), and of ZOFI's potential role in Zaire's industrial sector strategy; (c) sector reviews for transport, agriculture, mining, and manufacturing; (d) a comprehensive assessment of the energy sector (financed by UNDP); and (e) a population, health and nutrition survey.

Aid coordination and co-financing are particularly important features of Bank Group work in Zaire. Periodic meetings of the Consultative Group (the last was held in December 1983, the next is scheduled toward the end of 1985) provide an opportunity for the international community to focus on macroeconomic developments, the public investment program, and external financing needs. These meetings also allow consultation between donors on the coordination of their assistance. At the sectoral level, meetings have been convened on Transport (1981), Agriculture (1982), Highways (1985) and a meeting is planned for GECAMINES in June 1985. Sectoral meetings allow consultation on the particular problems of a given sector and serve to focus donor activity on the broader needs and issues of the sector; to identify financing sources for proposed projects and to draw up financing plans for specific projects. Moreover, the Follow-up Committee to Consultative Group, established in 1984, allows for ongoing discussion of current issues and sector-related matters. Overall, while aid coordination meetings may not have substantially increased to total volume of external assistance to Zaire, they have served to optimize resource utilization, and to forge a consensus among Zaire and the donor community on the country's main constraints and priorities, and on the policies and institutional reforms necessary to support them.

Beyond the stabilization program and rehabilitation efforts, Zaire's medium-term development would, in the Bank Group's view, require that four key conditions are satisfied: (a) sound and prudent macroeconomic management, with continued emphasis on liberalization and private sector participation; (b) appropriate debt rescheduling; (c) external aid in the amounts, forms and terms appropriate to ensure a net transfer of resources; and (d) increases in local and foreign private investments.

Zaire: Relations with the World Bank Group

(In millions of U. S. dollars)

Amounts outstanding as of February 28, 1985	Disbursed	Undisbursed	Total commitments
<u>Completed projects</u>	<u>358.44</u>		<u>358.44</u>
IBRD	191.58	--	191.58
IDA	166.86	--	166.86
<u>Projects in execution (IDA)</u>	<u>178.47</u>	<u>235.63</u>	<u>414.10</u>
Transportation	80.51	85.99	166.50
Agriculture and rural development	42.81	48.39	91.20
Industry and DFC	25.90	50.10	76.00
Power and utilities	22.44	29.56	52.00
Technical assistance	6.81	21.59	28.40
<u>Total</u>	<u>536.91</u>	<u>235.63</u>	<u>772.54</u>
Of which: IBRD	191.58	--	191.58
IDA	345.33	235.63	580.96
<u>Repayments</u>			
Total			<u>137.80</u>
Of which: IBRD			135.45 ^{1/}
IDA			2.35
<u>Debt outstanding</u>			<u>634.74</u>
Of which: IBRD			56.13
IDA			578.61
<u>IFC net holdings ^{2/}</u>			<u>1.94</u>

Source: World Bank.

^{1/} January 31, 1985 figure.

^{2/} Does not include increases for operations scheduled for approval by IFC's Board in the latter part of FY85, amounting to new commitments of US\$21.25 million in loans, and US\$628,000 in equity participation.