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Report No. P-4544-COB

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN OF US$70 MILLION

TO THE

PEOPLE'S REPUBLIC OF THE CONGO

FOR A

STRUCTURAL ADJUSTMENT PROGRAM

June 24, 1987

CURRENCY EQUIVALENTS

Currency Unit	=	CFA Franc (CFAF) 1/
US$1.00	=	CFAF 314
CFAF 1 million	=	US$3,185

WEIGHTS AND MEASURES

1 meter (m)	=	3.28 feet (ft)
1 square meter (m^2)	=	10.76 square feet (sq ft)
1 kilometer (km)	=	0.62 mile (mi)
1 square kilometer (km^2)	=	0.38 square mile (sq mi)
1 hectare (ha)	=	2.47 acres
1 metric ton (mton)	=	2.205 pounds (lb)
1 hectoliter (hl)	=	26.4 gallons (gal)

FISCAL YEAR

January 1 - December 31

1/ The CFA Franc is tied to the French Franc (FF) in the ratio of FF1 to CFAF 50. The French Franc is currently floating.

THE PEOPLE'S REPUBLIC OF THE CONGO

STRUCTURAL ADJUSTMENT LOAN

LOAN AND PROGRAM SUMMARY

Borrower: The People's Republic of the Congo

Loan Amount: US$70 million equivalent

Terms: Payable over 17 years, including 4 years of grace at the standard variable rate.

Program Description: The proposed loan would support the initiation of a medium-term structural adjustment program aimed at restoring a better balance between the public and private sectors in order to overcome the present severe fiscal and economic imbalances and to foster growth of the non-oil sectors. The first phase of the adjustment program for 1987-88 focuses on: (i) reinforcing controls on public expenditures and elaborating sectoral strategies to guide future policies and investments; (ii) instituting a sound framework for management of the petroleum sector; (iii) price liberalization and incentive policies to encourage competition and private sector development; (iv) enhancing public enterprise (PE) autonomy and establishing greater accountability; (v) starting a program of enterprise rehabilitation and rationalization through privatizations and liquidations; and (vi) devising a program of the PE sector's financial restructuring and measures to instill financial discipline. Through the formulation of sectoral strategies, the program will also advance the preparation of the next phase of reform.

Program Benefits: The policy reforms are expected to begin a long process of adjustment to: (i) improve public sector resource management; (ii) reduce policy distortions and stimulate competition; (iii) encourage private sector development; (iv) enhance parastatal performance and increase financial self-sufficiency; and (v) strengthen the institutional base for sustaining adjustment in the PE sector.

Program Risks: In light of the dramatic economic downturn in 1986 due to the drop in petroleum revenues, the Congo faces formidable challenges which add to the operation's risks. The extent and depth of the required reforms, following years of abundant resources, will necessitate a fundamental reorientation of policies, attitudes and habits. The country's interwoven socio-political structures, the potential lack of private response and the shallowness of non-oil productive sectors combined with weak administrative capacities contribute to the risks that the program may not be fully realized. Much of what the Congo attempts to do will, furthermore, depend on its future returns from petroleum and the support of the financial community. Several elements in the adjustment program, however, reduce these risks. The international financial community has thus far shown a strong commitment to support the Congo in this difficult period, while the petroleum sector, if soundly managed, provides a vital, long term underpinning of the economy. Stringent fiscal measures, especially to cut public investments, have already been taken. Steps at internal consensus-building and strong program management are also critical features incorporated in the program's design. Complementary assistance under the parallel Public Enterprise Institutional Development Project and the ongoing Second Technical Assistance Project will, moreover, strengthen the Government's capability to carry out the program as envisaged.

Financing Plan: IBRD US$70 million equivalent

Estimated Disbursement: The loan would be disbursed in two tranches, each of US$35 million equivalent, the first upon effectiveness and the second after a performance review to be held about six to nine months after effectiveness.

Appraisal Report: This is a combined President's and Appraisal Report. The parallel Public Enterprise Institutional Development Project is presented in the Memorandum of the President, P-4543-COB, dated June 24, 1987.

Map: IBRD 13959R2

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE PEOPLE'S REPUBLIC OF THE CONGO FOR A STRUCTURAL ADJUSTMENT PROGRAM

1. I submit the following report and recommendation on a proposed loan in an amount of US$70 million equivalent to the People's Republic of the Congo to support the Government's Structural Adjustment Program. Interest on the loan would be at the standard variable rate. The loan would be amortized over 17 years including 4 years of grace.

PART I - THE ECONOMY

A. Macroeconomic Context

Background

2. A small, oil-producing country with a per capita income of US$1,020 in 1985, Congo is in the midst of a major economic and financial crisis. It is the typical case of an oil-producing economy which could not resist excessive public spending and borrowing. With heavy debt service commitments coming due, the 1986 collapse in oil prices has exacerbated an already difficult financial situation.

3. Congo has a population of 1.9 million, concentrated in the south, particularly in the cities of Brazzaville and Pointe-Noire. Prior to independence in 1960, Brazzaville was the administrative capital of the French Federation of Equatorial African States. It was also the center for the region's major transport network, including the Pointe-Noire-Brazzaville railroad and a river transport system extending to neighboring countries. As a result, Congo developed into the most prominent service-oriented economy in Africa (60 percent of GDP). The post independence period required the Congo to adjust to its reduced role in the region. Forestry became the most dynamic sector of the economy, contributing about 60 percent of total exports in 1965. In the late 1960s, however, the country chose a development strategy emphasizing government control over major economic activities, giving rise to a large public enterprise sector and a strong bias towards direct state intervention. Oil exploitation started in the 1960s and became a dominant activity in the 1970s with two major oil price increases. In 1985, oil accounted for about half of GDP, 90 percent of exports and nearly 70 percent of budgetary receipts. The resultant oil rent enabled Government for years to subsidize a large part of the population through public employment and free delivery of social services.

4. Since the early 1970s, the pace of economic activity in the Congo has been determined by international oil prices. The two price increases in 1973 and 1979 led to a considerable acceleration of GDP growth, to 9 percent per annum on average in 1974-75 and 14 percent in 1980-82. Each of

these two periods was followed by a contraction of economic activity. While earlier contractions were relatively mild, the recent one is expected to be severe throughout the period 1987-89. The boom-and-bust years have affected not only the oil sector but also the non-oil sectors closely linked to government spending, such as construction and services. Other sectors have, at best, stagnated during the period 1974-85.

5. The Government's oil revenues have been highly volatile. They increased more than five times in 1973-74 and six times during 1979-82. They are now expected to shrink to one-seventh of the peak level, from CFAF 225 billion in 1985 to CFAF 31 billion in 1987. Despite growing oil revenues the Government incurred budget deficits during 1979-84. The expansion in the country's export revenues from US$279 million in 1975 to US$1,220 million in 1985 financed a parallel expansion of imports from US$324 million to US$1,157 million, contributing to a persistent deficit in the current account balance through the 1975-85 period. Relative to GDP, the current account deficit averaged some 12 percent during 1982-85. External public debt doubled from 1977 to 1981, reaching US$1.3 billion (64 percent of GDP) at end-1981 and continued to increase to US$1.8 billion (83 percent of GDP) at end-1985. Debt service as a percentage of exports jumped from 12 percent in 1981 to 26 percent in 1985 and is estimated to have reached 36 percent in 1986 after rescheduling. At end-1985, two thirds of the debt were owed to bilateral creditors (37 percent to Paris Club) and 17 percent each to commercial banks and multilateral organizations.

The Current Crisis

6. High oil revenues encouraged false hopes and wasteful policies. Deficits in the Government's budget and balance of payments during a period of rapidly expanding revenues indicated unfounded optimism about the economy's future. Beginning with the softening oil prices in 1984-85, the Government experienced liquidity difficulties which caused its arrears on foreign debt to exceed CFAF 40 billion by mid-1985 and domestic arrears to reach CFAF 25 billion by the end of 1985. Not anticipating the full extent of the fall in oil prices, the Government was not able to slow its spending fast enough and therefore resorted to using arrears and its remaining access to domestic and foreign capital markets to finance its expenditures through the end of 1985. Fortunately, the drop in revenues was somewhat cushioned by payment mechanisms for petroleum royalties and by the depreciation of the French franc vis-à-vis the US dollar. The result was that oil revenues actually increased marginally to about CFAF 225 million in 1985 from CFAF 212 billion in 1984. This false sense of security only aggravated the situation in 1986 when oil prices received by the Government fell to less than US$7.5 per barrel in July 1986. Oil revenues to Government in 1986 only amounted to CFAF 115 billion, reflecting as well the recent appreciation of the French franc. Estimates for 1987 total no more than CFAF 33 billion, or only 22 percent of 1985 revenues, with public sector revenues in 1987 down by 55 percent from their 1985 levels.

7. The emerging liquidity crisis quickly spilled over to the domestic banking system which, in the early 1980s, had expanded quickly due mainly to buoyant demand from the private sector and public enterprises. Total domestic credit grew at over 30 percent annually from 1980 to 1984 reaching CFAF 195 billion as of the end of 1984. About one-third of this total was attributable to public enterprises many of which were encountering losses. The pace of credit expansion abruptly slowed in 1985 with domestic credit only 2 percent higher than in 1984, totalling CFAF 198 billion at year end. Confronted with sizeable non-performing PE loans, amounting to CFAF 38 billion (equivalent to 120 percent of bank share capital and reserves), the commercial banks relied heavily on advances from the central bank (BEAC) and their foreign correspondents. In 1986, credit demand again stagnated owing to the severe recession, except that by Government which used domestic credit to finance its budgetary deficit. However, faced with little growth in deposits and limits on their recourse to additional advances, the commercial banks now lack the ability to weather the rise in bad debts that is likely to accompany the current recession.

B. Structural Problems

8. Looking beyond the immediate financial crisis, the major challenges for the Congo in the years ahead are to adjust its expenditure pattern to one commensurate with its likely oil revenues and to establish a pattern of sustainable economic growth particularly in the non-oil sectors. This will prove a difficult task, in light of the limitations inherent in the size and configuration of the Congolese economy, the heavy concentration of wealth in the public sector, the strongly engrained history of state intervention, and the deficiencies in the policy framework that have become entrenched over the past years of oil-based prosperity. The major structural problems lie in four areas.

Inefficient Public Resource Management

9. During the oil booms, Government captured directly the ensuing oil rents and used them to finance a public expenditure program as the primary instrument for distributing these rents and for generating growth. Implicit in the Congo's resource problems was the difficulty in managing its petroleum wealth: in principle this wealth should have been preserved as much as possible in the form of savings for productive investment while public consumption should have been kept as close as possible to the level of non-oil revenues, especially since the latter are not entirely independent of petroleum movements. This has not been the case in the past oil boom, with current expenditure exceeding non-oil revenues by almost 60 percent in 1984 at a time when the Congo's oil revenues were peaking.

10 Serious inefficiencies developed in resource allocation, with public investment becoming biased towards infrastructure and construction projects, while directly productive investments, particularly in agriculture, suffered: about one-third of planned investments for the period 1982-86 was allocated to construction and transportation, about 11

percent to administrative investments, mostly new government buildings, and 26 percent to other infrastructure such as energy and communications. This heavy bias toward infrastructure was based on the argument that the inadequacy of existing infrastructure was at the root of the poor past performance of the productive sectors, particularly agriculture. Moreover, perceived socio-political exigencies led to the opening up of the interior through the building of 1,300 km of re-bituminized roads in the northern-most part of the country. While pursuing worthwhile goals, these investments unfortunately were often ill-designed and overly expensive, making their economic justification questionable. Thus, many investments undertaken in this period, such as the ongoing investments for the Etoumbi-Kunda palm oil plantation, the hospital at Brazzaville and the Epena-Impfondo road, now constitute a legacy of misdirected investments.

11. Over the 1980-84 period, current expenditures increased at 32 percent per annum, only part of which was due to the expansion of the civil service. Even though the salary bill increased at a rate of 17 percent annually, its share of total expenditures actually dropped from 57 percent in 1979 to about 34 percent in 1984. Payments for goods and services expanded at more than 45 percent per annum, not counting the growth rate of unpaid bills at the end of each year, due to the growing requirements for material as new ministerial buildings were completed. Goods and services thus went from 10 percent of total current expenditure in 1979 to 19 percent by 1984. Because of the Congo's rising debt, the share of interest in total current expenditures also rose rapidly, going from about 8 percent of the total in 1979 to 18 percent in 1984 and 21 percent in 1985.

12. Another element of the growing expenditure imbalance was the increase in transfers and subsidies which grew from CFAF 11 billion in 1979 to CFAF 37 billion in 1984. Besides subsidies to parastatals, which peaked in 1982 at CFAF 12.5 billion, the major part of this increase was the scholarship bill, an area in which the Government pursued a generous policy of financing every secondary and university student. The corollary of this is the guarantee by the Government to employ all graduates not finding a job elsewhere. The net result was growth in the number of public employees, from 4,000 at Independence in 1960 to 52,000 in 1984, excluding public enterprises and the military. The CFAF 11 billion scholarship and education bill in 1984 was bigger than the value of production of forestry and fisheries combined. This scholarship policy together with automatic employment did little to achieve a match between the skills available and the actual needs of the country since only a small percentage of graduates has the technical education required.

<u>Large and Inefficient Parastatal Sector</u>.

13. Public enterprises, which have been Government's favored instrument for development, grew rapidly during the oil boom in the 1970s and early 1980s. There are now about 90 wholly-owned PEs and mixed enterprises with majority government ownership. In addition to the basic utilities for water (SNDE), electricity (SNE), port, rail and river transport (ATC), post and telecommunications (ONPT), PEs are involved in

virtually all sectors, including urban and air transport, manufacturing, marketing boards, petroleum distribution (Hydro-Congo) and refining (CORAF), forestry, and agriculture. In terms of employment, the PE sector accounts for over 20 percent (35,000) of total modern sector employment (roughly 185,000) with the remainder employed in public administration (70,000) and the private sector (80,000). Seven key enterprises -- the public utilities (SNE, SNDE, ATC, ONPT), Hydro-Congo and CORAF and the sugar refinery (SUCO) -- dominate the sector, representing about half of total revenues, employment and value-added. The 30 largest PEs, furthermore, account for over 90 percent of sector revenue, value-added and employment.

14. The performance of the PE sector has been characterized by low productivity, high losses, rising debt burden and growing illiquidity with a concurrent burden on public finances and the balance of payments and with a negative effect on the country's economic growth. Despite rapid revenue growth, losses (before subsidies) escalated from CFAF 8 billion in 1981 to CFAF 25 billion in 1985. The biggest losses in 1985 were encountered by SUCO (CFAF 3.0 billion), ATC (CFAF 1.9 billion), OFNACOM (CFAF 4.2 billion), CIDOLOU (CFAF 2.0 billion) and SCBO (CFAF 2.3 billion) 1/ . After the peak in 1982, Government subsidies have since been reduced to CFAF 6.8 billion (US$21 million) on average over 1983-85 as a result of the Government's liquidity crisis.

15. The difficulties facing the Congo's PE sector, cited below, have been exacerbated by the availability of oil wealth which permitted these inefficiencies to persist: (a) Size and viability of the sector. Many PEs have been created without adequate analysis of their economic and financial viability and have operated with multiple and ill-defined objectives, inadequate infrastructure, limited markets and unsuitable capital equipment. Furthermore, they have been required to undertake uneconomic investments or provide non-viable services without adequate compensation from the Government; (b) Lack of financial discipline. The lack of timely payment of bills and debts on the part of PEs and the Government has resulted in the build-up of cross-debts which exacerbates the illiquidity crisis in many PEs. Government itself is a heavy debtor to PEs, mainly for public services (water, electricity, telecommunication and fuel) and its net arrears debt owed to PEs was about CFAF 15 billion in 1985 ; (c) Inappropriate macroeconomic policies. The lack of incentives has discouraged PEs from operating in a commercial manner. Artificially low prices for goods and extensive import controls were maintained, despite enterprise losses, while monopoly privileges promoted PE inefficiency and discouraged private operators. Government's policy to provide employment to all graduates in the public sector, combined with the lack of autonomy

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1/ OFNACOM is responsible for import and distribution of consumer goods; CIDOLOU is the cement company and SCBO is a joint venture integrated forestry company.

in personnel matters, has resulted in overstaffing estimated at 30 percent of the total PE labor force, while qualified personnel are often lacking. Generous collective bargaining agreements inflated operating costs while good managers were not adequately rewarded for performance; (d) Institutional weaknesses. While Government tends to intervene excessively in day to day management of PEs, especially through *a priori* controls of expenditures and procurement, it is poorly equipped to set clear targets for PEs, evaluate investments, and monitor performance. Complex institutional arrangements promoted by the Congo's political system impose constraints on PE management by involving the trade union and the political party in operational decisions such as personnel appointments and staff discipline; and (e) Poor enterprise management. PE performance has been impaired by the lack of qualified personnel and of basic accounting and information systems. This has hindered the development of enterprise plans, budgets and financial statements, the proper costing of goods and services, the timely and accurate billing of customers, and proper maintenance systems.

Urban Services Bias

16. Even before Independence, the structure of the Congolese economy was marked by an unusually high share of GDP originating in the service sector, particularly public administration, explained by the fact that Brazzaville served as the administrative capital. Estimates available for 1963 indicate that, at that time, the share of Government in GDP (25 percent) was larger than that of agriculture and forestry combined (23 percent), while trade, transport, communications and other services accounted for 34 percent. This structural bias was further strengthened in the decade that followed: by 1972 the contribution of agriculture and forestry fell to 17 percent while that of services other than Government increased to 42 percent, reflecting a stagnation of agriculture and forestry and a growth of services at a rate of about 6 percent per annum. With the advent of oil production in the 1970s, the concentration in services became even more dramatic as government spending grew, fuelling a parallel expansion of construction and commercial activities. Oil-related services also multiplied, leaving the non-oil productive sectors--especially forestry and agriculture--lagging considerably behind their potential.

17. As a result of this structural bias, the Congo has today one of the highest levels of urbanization in West Africa, estimated at about 45 percent, with a concomitant disparity in urban and rural levels of income. The terms of trade are heavily in favor of the urban areas and the relative price structure favors non-tradeables over tradeables. Agricultural income per capita today is only 15 percent of the national average and, even within this, it is three times as high in the favored southern belt than in the remoter regions of the north. Accompanying this degree of urbanization is a high cost structure, reflecting the service orientation of the economy, the demand push on labor costs caused by public sector spending, and more recently the appreciation of the CFA franc vis-à-vis the US dollar. Wages and salaries are thought to typically exceed those of

Cameroon, but lag behind those of Gabon. Strong demand for construction workers contributed to a reduction of the rural labor force: construction labor costs rose by 48 percent between 1982-84. Moreover, because of the high costs, export opportunities are few and many industries now operating in the Congo are encountering difficulties.

Lack of Private Initiatives and Incentives

18. Development of the Congo's private sector, largely confined to rural subsistence farming (cassava) and small-holders producing coffee and cocoa, on the one hand, and modern commercial services reliant on the markets offered by Government and the petroleum sector, on the other, has been a secondary consideration. In line with the country's political orientation, the private sector has at best been ignored or tolerated. This neglect and erosion of incentives due to distortions in relative prices and the appreciation of the CFA franc have resulted in a lack of dynamism in the productive sectors exaggerating the existing bias towards the service sectors in urban centers. Guaranteed public sector employment, the abundance and generosity of government contracts, and the high domestic cost structure have all contributed to the relative weakness of private initiative in productive activities.

19. Adding to the general level of inefficiencies in the economy, existing administrative controls and regulations have done much to hamper private initiative. In the agricultural sector, where considerable untapped production possibilities exist, the fixing of producer prices at low levels relative to international prices has discouraged farmers. Those that do produce, moreover, were deterred by the existence of inefficient public marketing boards that had monopoly powers. Cheap imports, often supported by official pricing policies to keep consumer food stuffs at low prices in the urban areas, further discouraged local agricultural and livestock production. The existence of inefficient, large-scale public enterprises in agro-processing and plantation-type activities (livestock, chicken, sugar, fishing, palm oil, etc.) which benefit from government subsidies and other advantages reduces the scope for private investment.

20. In the forestry sector, once the Congo's most dynamic sector, greater private activity exists, principally foreign investors in joint ventures with Government. However, even these endeavors suffer from the inefficiency in the parastatal monopolies responsible for marketing output and evacuating timber. Facilities such as permission to buy back a portion of their own output from the state marketing monopoly, OCB, have provided an efficient outlet for private forestry companies at least part of their total sales. All forestry corporations must also endure the high cost of a long and multimodal transport system, managed by the state transport company, ATC, to reach the port at Pointe-Noire. These costs, in part the payment for direct transport services and in part the opportunity cost due to the time needed to evacuate timber, combined with the high value for the CFA franc, place the Congolese forestry industry at a considerable cost disadvantage.

21. Relative to the public enterprise sector, modern industrial enterprise owned by private interests are rare and limited mainly to companies producing textiles, beer, soft drinks and shoes (the last of which is now closed). No estimate of the private sector's share of total industrial value added is available. The total for industry -- both public and private -- remains small at about 10 percent of non-oil GDP. There are, nevertheless, small and medium-scale enterprises (SMEs) in the informal sector. These activities exist largely without direct support from Government or access to credit.

22. Industrial activities in the private sector generally are constrained by deficiencies in the legal system which continues to apply an outdated commercial code; controls on creating enterprises that require prior approval by Government; measures that make recruitment of personnel through the central public manpower agency, ONEMO, mandatory; very generous labor agreements and limits to managers' authority to fire personnel without government approval; and controls on ex-factory prices. The existence of numerous ineffective public monopolies -- computer services, freight forwarding and transit, animal feed, meat import and distribution, flour, cement, petroleum, etc. -- which provide vital inputs needed by private operators only add to the constraints faced by those in the private sector.

C. The Government's Response

23. Motivated by the liquidity crisis confronted in mid-1985, the Government approved an adjustment program of its own design in September 1985 to address both its financial situation and the economy's structural deficiencies. This program was, unfortunately, rapidly overtaken by the even more dramatic fall in petroleum prices in early 1986 and did not have an opportunity to take effect before more stringent measures became necessary. As its financial position rapidly deteriorated in 1986, the Government moved to stabilize its financial situation and to strengthen its adjustment initiatives. These efforts were supported by an IMF Standby which started at the end of August, 1986. Reductions of the overall budget deficit were achieved through substantial cuts in capital expenditures, from CFAF 162 billion in 1985 to CFAF 66 billion in 1986, combined with a reduction in current expenditures of 11 percent to CFAF 207 billion. Resolution of the external debt overhang received utmost priority, with immediate relief provided by international creditors: (i) at a meeting of the Paris Club on July 18, 1986, bilateral creditors agreed to reschedule 95 percent of principal and interest falling due up to March 31, 1988, including arrears, over ten years with four years of grace; and (ii) on October 16, 1986, the Congolese Government and the London Club Steering Committee agreed on a rescheduling arrangement covering 100 percent of principal payments due from January 1, 1986 to December 31, 1988.

Stabilization Efforts

24. The IMF Standby backs these creditor agreements and provides the underpinning for the Congo's medium-term adjustment program. Approved on

July 15, 1986, the 20-month program emphasizes restrictive demand management policies combined with measures aimed at increasing supply responses in the non-oil sectors and reform of the Congo's large, inefficient parastatal sector as well as fiscal and other measures. Non-oil budget receipts were to be increased through reducing exemptions from customs duties and domestic taxes, adding taxes on certain imports, and introducing comprehensive tax reform. Other measures were taken in the area of pricing, monopolies, public enterprises, and recruitment policies. As of end 1986, there were slippages in the implementation of some elements of the program, notably budgetary and current account deficits and credit which exceeded program targets. Nevertheless, significant adjustments were made in 1986 and these efforts are being pursued in 1987. Under the Standby, the Government will continue to restrain demand, in particular, by bringing public investment expenditures down to CFAF 33.5 billion and freezing the public sector wage bill at CFAF 79.2 billion.

<u>Preparing for Adjustment</u>

25. With these stabilization arrangements in place, the Government has now shifted its attention to addressing the more fundamental questions of long-term adjustment. A major contributing factor in the preparation of the new adjustment program was the creation of a high-level Steering Group mandated by the President to chart the course of the Congo's economic recovery. This group is comprised of the Prime Minister, the Ministers of Finance and Plan, and two chief advisors to the President and is supported at the technical level by an <u>ad-hoc</u> Secretariat of senior officials. The Bank-financed First Technical Assistance Project (Ln 2285-COB), followed recently by the Second Technical Assistance Project (Ln 2753-COB), have provided the logistical support and the outside expertise and advice needed for the work of this committee. This assistance will continue for the implementation phase. As a result, preparation and initial reforms were undertaken in many areas in 1985-86: sectoral studies were carried out to identify opportunities for diversification outside of the oil sector; detailed studies were undertaken of the forestry sector; strategic reviews were carried out of 80 public enterprises as the basis for decisions on the fate of these enterprises and to propose measures for their restructuring; a review was done on the situation of monopolies in the Congo; general procurement regulations were reviewed; PE cross-debt studies were done; and a start was made on updating debt management records.

26. On the PE side, Government efforts at reform predate the 1985-86 liquidity crisis, as Government had five years earlier recognized the high cost to the economy of its inefficient PE sector. At that time, a process of financial restructuring was undertaken, involving a settlement of enterprise debts and the infusion of fresh working capital. However, these measures provided only a respite which, not being accompanied by fundamental changes, was quickly dissipated. More profound reforms were subsequently initiated with the support of technical advisors under the Bank's First Technical Assistance Project. The ten most important PEs were targeted for changes in their level of managerial autonomy, coupled with the introduction of performance contracts ("contrats de programme") and

reinforcement of oversight functions through the National Management Center (CENAGES) and the Prime Minister's Office. Government also created a new agency, the National Accounting Commission (CNC), to audit PE accounts and to develop accounting norms and reporting standards, as well as develop local auditing capabilities. Gains were also made on the development of a PE data base. These early measures have since been complemented with the preparation of a comprehensive PE restructuring program which the Government approved at the end of December 1986.

D. Assessment and Prospects

27. Despite the progress achieved in stabilizing the economy since early 1986, the task of restructuring the Congolese economy has just begun. This will prove a long and difficult effort. Some non-oil sectors (construction, transportation, and services) directly linked to the oil-related prosperity now suffer from the sharp contraction of public expenditures. So long as oil revenues remain depressed, it will be difficult for those sectors to bounce back. Other non-oil sectors (agriculture and forestry) have experienced long neglect in an adverse environment. While fiscal stabilization is expected to shift emphasis from public sector to private initiative, much more is needed to stimulate the development of productive activities, especially in agriculture, forestry, and related industries. Moreover, the regulatory framework established during almost two decades of direct state involvement must be dismantled and replaced by policies to provide appropriate incentives for the private sector.

28. Liberalization must now be pursued in earnest. So far, gross inefficiencies in the trade of coffee, cocoa, and basic consumer goods have been removed by eliminating monopoly powers granted to state-marketing boards. Producer prices for cocoa, coffee, and other agricultural commodities have been increased. Further adjustments are still needed to push the reforms forward, building upon what has already been achieved and to redress the relative prices of tradeable and non-tradeable goods in favor of the former.

29. Yet the development of the tradeable goods sectors is constrained at present as a result of the recent appreciation of the CFA franc vis-à-vis the dollar. While the ongoing fiscal stabilization program is expected to bring about a relative decline in labor remuneration, this would be only a partial solution to the overvaluation problem. In order to restore competitiveness of its products in the domestic and international markets, the Congo must reorient its trade and labor policies so as to reduce the domestic cost of products and thereby improve the real exchange rate while shifting government investment policies and improving incentives towards the production of tradeables.

30. These latter considerations are at the heart of the medium-term adjustment program for the Congo. The challenge is greatest in the areas of production and trade where policies to redress the rural-urban terms of trade and to improve the relative price of tradeables versus non-tradeables

are critical for the resumption of sustained growth and for rural urban disparities to reduce over the medium-term. Moreover, the extent of the external debt overhang is bound to hamper efforts as scarce resources, even with additional rescheduling, are diverted to meet debt service. This, in turn, will test the will of Government as measures are put in place and results follow slowly. Thus, there is a compounded challenge which will mean that the structural adjustment program must be supported by a medium-term financial strategy. Cognizant of these difficulties, the international financial community will need to support the Congo during the adjustment process. The program which follows incorporates the measures required to meet this twin challenge.

PART II - THE STRUCTURAL ADJUSTMENT PROGRAM

A. Objectives and Approach

31. The aim of the Congo's medium-term adjustment program is to adopt a policy framework to: (i) reestablish macro-economic equilibria; (ii) lay the foundation for sustained growth with particular emphasis on enhancing opportunities in the rural sector; (iii) diversify productive activities especially in agriculture; and (iv) restore international creditworthiness. This must be done within the context of the Congo's medium-term financial prospects. Specifically, the program would aim to:

(i) reform the policy environment in order to stimulate private sector initiatives, especially in agriculture and related activities, increase the role of market forces in the allocation of resources, and direct government support to extension services and infrastructure maintenance;

(ii) retrench the public sector towards those areas in which it has a comparative advantage and shift productive activities and employment generation to the private sector;

(iii) ensure that public sector expenditures are in line with resources while concurrently promoting greater efficiency of public sector intervention; and

(iv) utilize oil revenues, first, to alleviate the excessive burden of the public debt; second, to improve the efficiency of existing infrastructure; and third, to create a reserve for future generations.

32. The changes implicit in attaining these goals are profound and will undoubtedly require a protracted period of time to be fully realized. A phased approach is therefore required. The Government has identified as the focus of this first phase of adjustment a number of priorities. First, it must follow its stabilization measures with a medium-term framework for guiding public resource management. The second main priority is to restructure the PE sector to reduce its size and financial burden on the

State. This would entail concerted action in those key parastatals that provide vital public services. The third priority is to remove the constraining factors to private sector activities, since the private sector must take up the slack in the economy resulting from the public sector's retrenchment. The Government must also adopt contingency measures to ensure that any future windfall in oil revenues is used wisely and provide a framework for future development of the petroleum sector. Finally, since this first phase will only be the beginning of a long process of adjustment, the strategy includes preparation of additional measures to extend and intensify the process, especially at the sectoral level.

B. The Adjustment Program (1987-88)

33. Going beyond its first efforts at stabilization and adjustment in 1985 and 1986, the Government proposes a number of complementary measures that will, together with its stabilization program, constitute a comprehensive medium-term program of policy reform. The first phase of this program is embodied in the Government's Letter of Development Policy 1987-1988 (Annex III), the key features of which are summarized below.

1. Public Sector Resource Management

34. An essential feature of the Congo's adjustment program is to realign public expenditures with its likely resources, which are not projected to return to the boom levels of the past. Even if that were to be the case over the medium-term, the difficulty in anticipating such a reoccurrence combined with the weight of the Congo's outstanding debt burden are such that a financially conservative approach aimed at restoring Congo's creditworthiness over the medium-term is the only prudent option. In addition, greater care must be taken to avoid investment mistakes and misallocation of resources which frequently occurred in the past.

35. Macroeconomic Framework. To this end, the Government will prepare a medium-term economic framework (1988-92) by September 1987. These projections will provide the background for the preparation of a three-year "esquisses financières" (draft financing plan), by September 1987, and a three-year rolling investment plan by October 1987 covering 1988-90, the first year of which would be the investment budget for 1988. In turn, these will form the basis for the 1988 "Loi de Finances", including the programmed authorizations for public investment, to be approved before December 1987. In order to reinforce its macroeconomic and financial coordination, the Government will ensure that adequate funding and appropriate skill levels will be available in the Projection and Programming Directorates of the Ministry of Plan with the support of the ongoing Second Technical Assistance Project. Finally to ensure that the structural adjustment program remain fully on track, the Government will assign clear responsibilities to the concerned units in the Ministries of Plan and Finance, as described in its Letter of Development Policy, and will ensure overall coordination under the Steering Group which is charged with overseeing the Congo's macroeconomic adjustment effort.

36. Investments. Within the context of its macroeconomic framework, the Congo will limit the public investment budget to CFAF 33.5 billion in 1987 and direct two-thirds of expenditures in future years to productive activities with 25 percent to agriculture in order to ensure that this sector does not encounter a decline in its relative share of public investment. Infrastructure investments will emphasize rehabilitation and maintenance of existing infrastructure, especially roads and the breakwater at Pointe-Noire. The Government realizes that the present flexibility of its public investment program over the next year is limited by existing commitments to several large, unjustified investments that are still not complete, particularly in the case of the hospital in Brazzaville and the Epena-Impfondo road. During this transition period, the Government is committed to completing these projects by 1988, within agreed financial envelopes. Moreover, with respect to the oil palm plantation at Etoumbi-Kunda, the Government has stopped physical works completely, suspended payment on related promissory notes and engaged an independent auditor to evaluate the technical and financial results to date. A strategy will then be prepared for the development of the oil palm sector by December 1987.

37. Current Expenditures and Revenues. The Government's objective is to limit progressively current expenditures to the level of non-oil revenues. As compared to 47 percent in 1985 and 58 percent in 1986, targets of meeting 70 percent of current expenditures with the non-oil revenue in 1987 and 80 percent in 1988 have been set. To increase non-oil revenue generation, Government intends to launch an intensive effort at tax and customs duty collection starting July 1987. It also intends to raise taxes on domestic turnover, duty on certain imports, and levy new taxes on cement, electricity, and petroleum windfall profits as part of its stabilization effort as agreed with the Fund. More broadly based reform of taxation will be instituted as of January 1988, based on studies already completed.

38. Civil Service Reform. Government intends to reduce personnel costs as a share of non-oil revenues, from 70 percent in 1985-86 to 68 percent in 1987 with the objective of reaching 63 percent by 1990. Net recruitment has already dropped by 40 percent in 1986 and promotions and organization structures have been frozen. Government now plans to freeze the size of the civil service at the level of June 1987 and to limit additional personnel expenditures to no more than CFAF 1 for each CFAF 1 saved. By September 1987, restrictions on voluntary departures from the civil service will also be lifted and Government will apply measures for early retirement. By December 1987, an audit of civil servants payroll records and scholarships will be undertaken in order to take actions to eliminate fraudulent payments. Before October 1987, a plan will be prepared and resources mobilized to carry out a review of personnel in the civil service to rationalize the number of posts and their level of qualifications; implementation of this plan will start in January 1988 with a selected number of ministries. Several other specific measures are proposed to improve personnel management, for implementation between September 1987 and early 1988, including proposals for incentives for

voluntary departure, creation of an interest subsidy scheme for those leaving the public sector, procedures to reduce job rotation within the civil service, preparation of a five-year plan on the number of students to be enrolled in courses leading to public employment, fixing of ceilings on personnel benefits, etc., as set out in the Letter of Development Policy.

39. Debt Management. Sound debt management is a prerequisite for restoring creditworthiness. To this end, Government will improve its monitoring of external debt, keep current on its debt service within the terms of new rescheduling for the period 1988-91 that it will seek with the Paris Club and London Club creditors in 1988, and take action to avoid further deterioration in the structure of its debt. Preparation for the next round of rescheduling will be completed by March 1988. As agreed with the Fund, new debt will be curbed, restricting loans that do not have a substantial grant element and terms of less than 12 years. There would be no borrowing on terms of less than six years; short-term credits of less than one year would be obtained for trade financing purposes only and will not be used to finance investments. Borrowings related to petroleum production would be exempt from these restrictions. Government's recourse to the domestic banking system in 1987 will be limited to CFAF 8 billion, including CFAF 6.5 billion to reduce domestic arrears. The issuance of guarantees by Government will continue to be governed by the policy adopted in September 1986 that restricts guarantees to support capital expenditures only, requires approval by the Minister of Finance, and matches loan terms to the nature of the investment. Guarantees are furthermore to be included in Government's overall financing plan. Government will also pursue improvements to the administration of debt information in order to comply with the World Bank's debt reporting requirements under the Debtor Reporting System and will make timely submission of standard debt reports covering both direct government and public enterprise debt.

2. Petroleum Resource Management

40. The continuing single most important feature of the Congo's economy is the petroleum sector. Accounting for 46 percent of GDP in 1985, this sector is expected to continue to dominate the economy even with diversification efforts, its share of GDP only dropping to 38 percent by 1998. Based on Bank projections for oil prices, value-added in the oil sector is expected to remain steady over the medium term, its relative weight in the economy and exports dropping gradually. Besides the extreme vulnerability to petroleum price movements, the pace at which oil reserves are depleted and the level of investment directed at exploration remain decisive factors in the Government's long-term development strategy. From a technical point of view, Congo has oil reserves to produce at the present levels for at least the next decade. However, since the rate of production is largely determined by the prevailing and expected level of oil prices, extra effort at promotion is needed in a time of depressed prices to see that investment interest is maintained.

41. Petroleum Development. The Government has begun the implementation of an oil policy to increase the number of prospecting

companies, and ultimately, the number of oil operators. Under the adjustment program, Government will extend this process by reviewing by March 1988 its mining laws ("code minier") as the framework for the fiscal and legal arrangements as leases expire and new ones are negotiated with private petroleum operators. Other measures will be taken to stimulate exploration activities in the "Cuvet region, first, by updating aeromagnometric surveys and, second, by having these results reviewed by an exploration specialist by December 1987.

42. Domestic Refining and Marketing. While dwarfed in comparison with the export market for crude oil, the Congo's domestic petroleum market ensures the supply and distribution of refined products locally. Two key parastatal corporations exist in this sector -- Hydro-Congo which has the monopoly of distribution and CORAF, a mixed enterprise, which is responsible for refining. To improve domestic distribution, Hydro-Congo's monopoly on retail distribution has already been abandoned. CORAF's operating costs will be reviewed before November 1988, at which time the present contract expires with a view to revising those arrangements which are now based on a cost-plus formula. In the meantime, efforts will be directed under CORAF's action plan to reduce costs (para 61). In addition, given the obvious need to generate public revenues and considering that retail petroleum prices have been kept unchanged while crude oil prices dropped sharply since 1985, a clear and transparent price structure on refined products will be adopted by March 1988. The share of sales taxes in that price structure will be increased and any windfall profits accruing to Hydro-Congo and CORAF will be taxed.

43. Petroleum Reserve Fund. The final feature of the Government's policy towards the petroleum sector is to create a petroleum reserve fund, as a special budgetary account to absorb any excess petroleum revenues over and above that anticipated in the "esquisses financières" and "Loi de Finances". These funds will be used in descending order of priority to pay off any arrears, reduce outstanding debt, and finance economically justified investments, unless an overriding argument in managing the Congo's external debt points towards not reducing existing debt levels. These excess petroleum revenues, nevertheless, will not be used for public consumption. A specific proposal for the operation of the reserve fund will be made no later than December 1987 and it will come into effect by July 1988.

3. Public Enterprise Reform

44. The Government's PE reform program is the beginning of a long process of deregulating and dismantling the intricate controls and inefficient structures that now exist in the public sector while instilling a sense of responsibility and accountability on the part of PE managers. The rationalization of the existing stock of enterprises is essential to reduce the sector to more manageable limits while ensuring that the provision of vital public services is improved. Within this framework, the adjustment program seeks, first, to apply immediate restraint measures to the sector and, second, to proceed in redressing the operations of seven

priority enterprises which provide vital public services and represent a significant weight in Government's holdings. The parallel Public Enterprise Institutional Development project will assist Government to implement the various reform cited below.

45. Sector Rationalization. Based on diagnostic studies and extensive consultation with all groups concerned -- PE management, trade unions, the political party, and the supervising ministries -- Government's portfolio of enterprises has been classified into four categories as shown in Annex IV and summarized below:

(a) Enterprises to be Rehabilitated. Seven strategic enterprises (SNE, SNDE, ATC, ONPT, SUCO, Hydro-Congo and CORAF) are to remain in majority or full government ownership and will undergo major rehabilitation programs to restore their viability. Three others (LINACONGO (air transport), CIDOLOU (cement), and SFAC (wood processing)) will undergo rehabilitation at a later stage.

(b) Enterprises to Operate in a Commercial Environment. Thirty-five less significant enterprises that are currently or potentially profitable will keep their present government ownership but will operate under competitive conditions. This means that: (a) pricing, procurement and staffing procedures will be revised to grant PEs more autonomy; (b) all operating and investment subsidies will be eliminated; and (c) measures will be taken to reduce staff and improve productivity. The diagnostic studies for these enterprises proposed the specific steps needed to restructure their operations in order for these enterprises to become financially viable.

(c) Enterprises to be Privatized. Four enterprises will be completely sold off, twelve enterprises will be offered for majority ownership to the private sector and nine enterprises will be managed by private interests who will bear the operating risk even though ownership will remain public (through management contracts or leasing). Privatization will be conducted on a best effort basis; if, after all possibilities have been exhausted and no private investor has been found, these PEs will be liquidated. Government expects to offer majority equity participation in OFNACOM, IAD, COPEMAR and SCBO, minority interest in CIDOLOU, and 100 percent of UAB, SOCOME and SIA? to the private sector by December 1987.

(d) Enterprises to be Liquidated. Eight PEs that are both non-essential and non-viable will be liquidated, while one will be integrated into the public administration. These enterprises are to cease activities and liquidators for at least four of the eight enterprises will be named as of June 1987.

The fate of six remaining enterprises is pending and decisions will be taken by December 1987.

46. Financial Restructuring. A study of cross-debts accrued among the 25 main PEs 2/ as of the end of 1983 has been completed. As an extension of this process, Government is now carrying out a study of PE debts expanded to include forty PEs, covering their debts with the State, suppliers and banks accrued as of the end of 1985. These results will be available by September 1987, and will form the basis for preparing a plan to settle the priority debts of PEs to be liquidated and privatized and key PEs to be rehabilitated. This plan will be adopted and put into effect by December 1987.

47. Financial Discipline. In order to avoid the recurrence of high indebtedness, Government intends to institute measures so that greater transparency of financial transactions will be put into place and more financial autonomy and responsibility will be granted to PEs. In particular, to ensure proper use of public resources in the PE sector, since the Government either provides financing or guarantees debts to PEs, the process of incorporating the annual PE investment program, as part of the overall public investment program, will be continued. Moreover, assets financed by the State and currently used by PEs will be formally transferred by July 1988 to the enterprises' balance sheets according to terms and schedules agreed upon between the concerned parties. In line with this transfer, investment planning and responsibility for servicing any debts will rest in the hands of the PEs. To strengthen ex-post controls, all PEs to be rehabilitated will be obliged to submit financial statements for audit within six months after the end of the fiscal year, starting with the 1987 accounts. For the 1986 accounts, all audits will be done by December 1987. CNC's ongoing PE audit program will be continued, with twenty PEs being audited each year.

48. The Government will also rationalize its consumption of public services (water, electricity, and telephone). First, in preparing its annual current budget, Government will ensure that adequate allocations are budgeted each year for these services starting in 1988. A system of billings, based progressively on actual consumption by Government and local administration instead of a flat rate, will be introduced at the same time with the objective of billing the actual cost by 1989. The free consumption allowed staff, Government officials, and others will be limited as of the end of 1987 to a reduced number of beneficiaries subject to a maximum ceiling per person. Furthermore, those free services provided at Government's request will be incorporated in the budget provision paid by Government starting in 1989. The suspension of services for delinquent clients in the public sector beyond 120 days will be enforced.

2/ ATC, ONPT, SNE, HYDRO-CONGO, CNPS, CCA, LINA-CONGO, SNDE, ARC, CIDOLOU, SUCO, SNEB, SONATRAB, OCB, OFNACOM, OGB, PLASCO, SOVERCO, SCBO, SOPROGI, SOCOPHAR, UTS, SOTEXCO, OCC, MAB.

49. Restructuring the Banking System. Given the critical financial state of the banking system because of non-performing PE loans and the general downturn in the economy, Government has already taken steps to tighten credit controls. This effort is being continued through a banking study, to be completed by October 1987, that will propose an action plan to restructure the sector by December 1987. This plan will include: (a) new banking regulations (credit ceilings, refinancing procedures, guarantee requirements, controls); (b) a debt settlement plan (rescheduling, write-off) for debts owed to the domestic banks by PEs targeted for liquidation, privatization or rehabilitation; (c) recapitalization and/or restructuring of selected banks; and (d) steps to improve internal credit procedures and management. These measures are to be implemented, starting in 1988, in collaboration with the existing private partners to obtain their support in recapitalizing and rehabilitating the banking system. By December 1987, Government will furthermore review the credit ceilings for each PE.

50. Staff Reduction and Personnel Management. While continuing the freeze on personnel expenses, each PE to be rehabilitated will carry out a review of its staff by the end of 1987 and on this basis reduce staff as needed in 1988-89. In addition, about 1600 layoffs of redundant personnel in the remaining PEs will take place in 1987-88, as part of the liquidation, privatization or restructuring of those enterprises. Government will finance the severance payment of laid-off personnel in case PEs have insufficient funds to do so. To complement these measures, the Government will introduce, as of June 1988, new personnel statutes and personnel management practices making a clear distinction between PEs and the civil service, clarifying the status of PE employees seconded to the civil service (and vice versa), emphasizing merit and performance criteria and granting PE managers increased autonomy in the hiring and firing of personnel. A CCCE financed study is already underway to revise compensation systems in PEs with further assistance provided to each key PE to improve its personnel management.

51. Legal and Institutional Framework. As a prerequisite for the sector's rationalization, appropriate legislation will be approved by June 1987 to allow implementation of the divestiture program. Legislative action pertaining to management contracts and leasing will be adopted by December 1987. Next, by the end of 1988, Government will carry out a major review of the legal texts governing relations between the State and PEs and the role and responsibilities of various controls and oversight agencies in order to promote greater PE autonomy and accountability. This exercise will involve, inter alia: (i) changing as appropriate the existing statutes of PEs and mixed enterprises; (ii) rationalizing the role and composition of the boards of directors, with the general principle that supervisory ministers will not chair these boards; and (iii) appointing PE managers as chairmen of all three enterprise management committees (operations, discipline and personnel). Based on specific proposals to be made by June 1987 for adoption by December 1987, management autonomy concerning procurement will also be increased by raising the current ceiling for contracts to be awarded by PEs instead of the Government's central

procurement agency, by having PE management sign contracts themselves and by letting PEs award directly supply and operational contracts.

4. Rehabilitation of Key PEs

52. In addition to the general PE reforms presented above, the seven PEs to be rehabilitated in this first phase (para 45(a)) will implement separate rehabilitation programs, aimed at making needed structural and operational improvements as part of the overall adjustment program. Some rehabilitation activities have already started with donor financing -- CCCE is financing activities within SNE, ATC, ONPT, and SUCO; ADB and EIB are financing SNDE; French bilateral assistance is provided to ATC; and, with Bank-financed PPFs, support was provided for in ONPT and SNDE. In addition, ongoing Bank-financed projects for ATC and Hydro-Congo provided them with assistance. These actions will be continued and will include, inter alia, measures for divestiture of non-viable activities, organizational reviews, billing and recovery improvements and strengthening of the financial and accounting services. Government will also ensure that each enterprise will adopt new tariff structures and levels based on economic considerations (long-run marginal costs) as well as to achieve financial self-sufficiency on the part of the enterprises. Staffing levels will be reduced in each enterprise based on studies to be carried out. The main components of these rehabilitation plans have been incorporated in action plans, agreed between Government and each enterprise and reflected in annual financial agreements to be signed between Government and each of the seven key PEs by December of each year. In the first year, however, four will be signed by December 1987 and three by June 1988. Assistance for implementation will be provided under the parallel PE Institutional Development Project as well as under other donor-financed projects.

53. ATC. ATC's operations comprising river transport, rail and port services, are an essential part of the country's service-based economy and improvements in its financial and operational performance are of the highest priority. Cross-subsidization among passenger and freight services as well as among transport branches, inadequate tariffs and poor collection of receivables from other public enterprises and the State have hampered ATC's attempts to improve. Management has equally suffered, resulting in excessive staff, high operating costs and diffused decision-making.

54. Measures to restructure ATC's financial position began in 1985 with the conversion of government debt to equity, short and medium-term debt rescheduling in 1986-88, a 10 percent tariff increase in January 1987 and operating cost reductions at the end of 1986 including about 280 staff layoffs, salary and benefit cuts and other cost-cutting measures. These are now starting to take effect with the target of achieving a working ratio of 75 percent. To lay the basis for further improvement, a reorganization study was also started in 1986. These efforts will be extended under ATC's action plan with: (i) a staff reduction plan by December 1987; (ii) preparation of specific measures by December 1987 to reduce receivables from the equivalent of six to three months of revenue over a three-year period; (iii) introduction of new decentralized

accounting, information and personnel management systems in 1987-89; (iv) a financial audit of river transport services by March 1988; and (v) a tariff study by October 1988 and introduction of the new structure by December 1988. Moreover, the current reorganization study will be completed by March 1988 which will lead to other future institutional changes. As part of this, ATC will review its operations with a view to privatize selected activities, prepare medium-term financial projections and set out a plan for achieving financial equilibrium among ATC's different branches.

55. ONPT. Extremely poor service quality and poor financial management have prevented the National Post and Telecommunications Office (ONPT), one of the largest and most important parastatals in the country, from making a significant economic contribution. Heavily overstaffed and with low staff morale, ONPT is now deeply in debt and does not have the financial or human resources to arrest its decline. Its recovery is, furthermore, constrained in several important ways: (i) management is inefficient and support systems poorly developed; (ii) accounting is weak and incomplete; and (iii) operating equipment has seriously deteriorated.

56. To overcome these constraints, the Government has already put in place some reforms and, with support from the Bank and other donors, notably CCCE, others are underway. However, much still remains to be done. A review of the ongoing rehabilitation program is underway and an updated program will be ready by December 1987, with specific measures to introduce decentralized financial management and commercial accounting, improve personnel management, and institute improved systems for billing, stock management, work order and maintenance. ONPT will also: (i) update its 1985 and 1986 balance sheets by March 1988, based on forthcoming audit recommendations; (ii) introduce decentralized financial management and commercial accounting systems in 1988-89; (iii) carry out a tariff study and examine the ways to establish financial equilibrium among ONPT's different services by March 1988; and (iv) introduce new stock management, work-order procedures, and maintenance procedures by January 1988. These measures will set the stage for subsequently restructuring ONPT, with its likely separation into three units (telecommunications, postal services, and national savings bank).

57. SNDE. SNDE, the water distribution company, is in need of major physical, managerial and financial rehabilitation. Existing facilities and networks are badly deteriorated and water losses are estimated at 40 percent. Half of installed meters are out of order, billing is late and collection is not vigorously pursued, with the result that accounts receivables represent the equivalent of about 20 months of billing. A general lack of know-how and hence unsound managerial procedures result in the absence of discipline, sound planning, and financial controls.

58. To restore efficiency operations, SNDE will concentrate its investment program, financed mainly by ADB and EIB, on rehabilitating the Brazzaville and Pointe-Noire networks to reduce water losses to 25 percent. Additional managerial and operational measures incorporated in SNDE's action plan are: (i) improving bill collection by carrying out a customer

inventory and computerizing customer management by June 1988; (ii) carrying out a tariff study by December 1987 as a basis to increase revenues so that they may adequately cover operation and maintenance expenses, debt service and make a reasonable contribution to investments; (iii) evaluating personnel and preparing a manpower plan by December 1987; (iv) strengthening its internal audit unit by December 1987; (v) establishing appropriate operations and maintenance standards by March 1988; and (vi) revising its subcontracting relationship with its subsidiary civil works company by December 1987.

59. SNE. Responsible for electricity service in major centers, SNE's performance has improved markedly in recent months thanks to rehabilitation measures initiated in 1985-86: a customer inventory in Brazzaville which increased billing rates and revenues dramatically, the computerization of accounting systems and other financial management improvements. This rehabilitation effort will be continued, with the support of CCCE, through: (i) implementation of a customer inventory in Pointe-Noire by December 1988; (ii) development of new customer management procedures by December 1987; (iii) elaboration of a manpower plan by December 1987; (iv) completion of a tariff study by December 1987 which will lead to a new tariff structure in 1988; (v) rehabilitation of the Moukoukoulou and Djoué plants; and (vi) the switch to 20 kv transmission lines in the Brazzaville and Pointe-Noire networks. The investment program will continue to stress physical rehabilitation, 20 kv transmission and distribution extension where justified. SNE will also develop a strategy for exploitation of the interconnected transmission network by March 1988.

60. SNE's complex relationships with its supervising ministry need to be rationalized since there is a marked lack of coordination on sectoral developments and investment. The Ministry of Energy and Mines (MME) has taken over the planning, financing and execution of all new major generation and transmission projects, SNE being only the operating agency. To clarify SNE's responsibilities, the Government will carry out a thorough review of SNE's legal, financial and institutional base by December 1987 so as to: (i) establish a comprehensive legislative framework ("cahier des clauses et conditions générales") for the power sector; (ii) define the roles of the MME and SNE in investment planning and financing; and (iii) set clear financial objectives for SNE and, in particular, transfer existing production and transmission assets to SNE's balance sheet with the concurrent obligation for SNE to finance them.

61. CORAF. As a mixed enterprise with 40 percent private ownership, CORAF operates with little direct government interference. However, the cost of its oil refining operations is high due to low throughput, unsuitability of local crude, marketing difficulties and excessive expatriate assistance and financial charges. As compared to imports, CORAF's annual production costs are about US$15 million or some 30-40 percent higher than the cost of equivalent imports. To decrease costs and increase efficiency, CORAF will: (i) reduce expatriate staff by 15 percent in December 1987 and a further 20 percent in July 1988; (ii) convert production to a light crude better adapted to CORAF's refinery and market

profile by June 1988; (iii) reduce financial charges and prepare a debt settlement plan with Hydro-Congo by June 1988. Following these measures, CORAF's operating costs will be reexamined by November 1988 when the marketing and leasing arrangements between CORAF and Hydro-Congo next expire.

62. Hydro-Congo. Hydro-Congo, the petroleum product distribution company, has been implementing a rehabilitation plan since 1983, under which it has leased its service stations, subcontracted transport in the Brazzaville area, and set up new computerized systems for general and cost accounting and billing. However, Hydro-Congo's financial and operational performance remains poor because of high client receivables and overstaffing. To intensify its rehabilitation efforts, Hydro-Congo will now take measures to: (i) complete divestiture of all remaining retail outlets and transport activities by December 1987; (ii) review its staffing needs before the end of 1987 and thereafter cut staff by a minimum of 30 percent; (iii) reduce product losses to one percent before December 1988; (iv) cut transport expenses by 50 percent before December 1988; and (v) extend the responsibility of the internal audit unit to monitor the exploration and production activities performed by its associated operators by March 1988.

63. SUCO. The financial performance of SUCO, the sugar plantation and refinery, has rapidly deteriorated over the last few years. Excessive production, with stocks equivalent to over one-year of total domestic consumption, has been aggravated by continued imports of refined sugar. Imports are currently more attractive because retail margins on imported sugar are larger than on domestic sugar and because the quality of imported sugar is much higher. As a result of high production costs and poor marketing, SUCO's losses amounted to CFAF 3 billion in 1985 and its indebtedness has risen to CFAF 9 billion, with corresponding financial charges of CFAF 1.2 billion, in 1986. As a short-term measure, Government intends to keep restrictions on imports (para 67) while SUCO reduces the present level of stocks and lowers costs. While SUCO's costs will remain high as compared to efficient international producers, there is considerable margin to make economies. This, combined with appropriate tariff protection, should allow SUCO to sell its products in the domestic market and fulfil its quota to the EEC.

64. A stringent cost reduction and rehabilitation plan has therefore been adopted for 1987-89 to restore SUCO's viability. This action plan will involve the measures to: (i) limit production to 30,000 tons in 1987 to permit absorption of the existing stocks and thereafter to 40,000 tons annually; (ii) enter into a management and technical assistance contract that includes incentive payments by September 1987; (iii) cut staff and implement other cost-cutting measures in 1988 based on details to be proposed by December 1987; and (iv) prepare a financial restructuring plan including debt rescheduling and recapitalization by December 1987.

5. Incentive Policies and Private Sector Promotion

65. As a corollary to efforts directly aimed at improving the efficiency of the public sector, a major thrust of the Government's adjustment program is to increase incentives to the private sector. At the same time, these policy changes would enhance the competitive environment in which the remaining PEs would operate, thereby also increasing their efficiency.

66. Price Controls. The first principal measures concern price controls which the Government is committed to liberalize progressively. The list of products subject to prices fixed by Government decree ("taxation") has already been reduced from 38 to 11 products of basic necessity and 9 services as of October 1986. The list of products will be further reduced to 9 products by March 1988. The current system of approval of the ex-factory and retail margins prices ("homologation") for other products locally produced, and the control of intermediation margins ("régime de marges commerciales") for imported products will be progressively eliminated based on a grouping of products into luxury items, intermediate goods and basic necessities to be determined by December 1987. The controls on margins and ex-factory prices for luxury goods will be abolished by March 1988 as the start of liberalizing these controls.

67. Trade Liberalization. To complement these measures, the Government will review by March 1988 the existing quantitative restrictions that apply only to imports competing with locally produced items (bottled water, batteries, shoes, soap and plastic foam) with the view to replacing these restrictions by tariffs. An exception could be made for certain products (sugar and cement) that require further study and a longer timetable for implementation to permit local producers to adjust. To address the broader issues of tariffs, the Government expects to raise the question of tariff reform at the next UDEAC meeting. As of December 1987, exports will no longer require prior authorization while the requirement for a priori import licenses will be abolished and replaced by a system of ex-post declaration to aid in the statistical monitoring of external trade transactions by January 1987.

68. Monopolies. The array of existing monopolies granted to PEs will be reduced over time. Several key monopolies have already been eliminated, notably for OCV (food crop marketing) and OCC (coffee and cocoa marketing), while OFNACOM's import monopoly was reduced to four products (rice, salt, salted fish and tomato concentrate) in July 1986. The monopoly of OCI (computer services) will be eliminated by December 1987. The status of remaining monopolies will be reviewed and a plan prepared for reducing the number of monopolies before March 1988. In the meantime, OCB's monopoly on forestry exports has been made more flexible: companies now may be granted an exemption by the Ministry of Forestry.

69. Labor Mobility. Several factors affecting the private sector's flexibility in employing and utilizing labor will be changed. By September 1987, Government's monopoly on activities in the liberal professions (for

example, legal and medical services) will be abandoned. By January 1988, a restructuring plan for ONEMO, the manpower agency, will be adopted in order to redefine ONEMO's function as far as the private sector is concerned. While ONEMO may be helpful in the public sector to place redundant labor, it has been constraining for private enterprises which should be allowed to recruit from whatever source.

70. Private Investment Promotion. Reflecting Government's intent to encourage greater private participation, Government has already taken measures to improve the administrative and regulatory environment for small and medium scale enterprises (SMEs). This includes relaxed procedures to establish a business, access to public sector procurement and simplification of the tax system. By December 1987, Government will propose new measures to better adapt existing institutions such as the chamber of commerce and commercial banks to provide credit and advisory services to SMEs. Moreover, based on a review already been carried out, initial proposals to harmonize and improve the various legal texts and regulations will be made by August 1987. Finally, the reduced requirements and simplified procedures for obtaining a business license that now apply to SMEs will be extended to all applicants and the tax on profits will be reduced from 49 percent to 45 percent by December 1987.

6. Key Sectoral Policies

71. Within its macroeconomic adjustment program, the Government will pave the way for improved human capital, diversification into non-oil productive activities, especially agriculture and forestry, and reduction of transport bottlenecks, through the elaboration of sectoral strategies in these areas. For the moment, the Government considers that the changes in the overall policy environment would, on the long-term, lead to positive supply responses in the non-tradeable sectors (for example, trade, construction and services) and is therefore focussing its direct attention on the structural deficiencies of agriculture and forestry, as key sectors which have suffered from a long period of neglect and mismanagement and are badly affected by the erosion of the Congo's international competitiveness. It will also focus attention on education and transport as two other areas warranting immediate reform.

72. Each of these sectors has its own unique problems. In the case of education, the main problem is to establish priorities on how to best use the scarce human and financial resources available for the sector in order to achieve a better balance between primary and secondary education, strengthen vocational training and address the retraining needs of redundant labor. In the transport sector, the key issues are to redirect available resources to rehabilitation and maintenance, encourage cost recovery in transport services, and ensure the economic justification of all transport investments at the same time as increasing efficiency of the existing network. The agriculture sector is faced with a complex set of issues related to pricing, research, extension, credit, marketing, land use, rural infrastructure and labor and land availability that will take a long time to sort out. In the meantime, Government intends to continue to

increase returns to agriculture producers and to begin by focussing its efforts, on a pilot basis, on extension services and by concentrating on crops with proven returns such as banana, plantain, cassava, and other food crops for domestic consumption. At the same time, it will examine the long-term viability of coffee and cocoa. Confronted with declining market shares and high costs relative to Asian producers, the forestry sector is facing serious financial difficulties, which give rise to the need to restructure many of the sector's companies. Government support to producers is needed to lessen the financial burden imposed by OCB, the marketing agency, as a first step in reviving the forestry sector.

73. The Government has only started the process of elaborating sound development strategies in these areas, the general thrust of which are cited in the Letter of Development Policy. A number of studies have been carried out that offer suggestions and recommendations on the steps to take in restoring the dynamism of agriculture and forestry, overcoming bottlenecks in transport, and improving the effectiveness of the educational system. These studies, supplemented with additional analysis as required with support provided under the parallel technical assistance projects, can thus constitute the basis for preparing the needed strategies. Time must be taken, nevertheless, to analyze critically the various recommendations, achieve a consensus on the actions to be taken, and shape them into coherent sectoral strategies. This would be done by March 1988 in the case of agriculture, by June 1988 for transport and forestry, and by October 1988 for education. By the end of 1988, Government expects to have action plans ready to implement as part of the next phase of its structural adjustment effort.

PART III - THE PROPOSED LOAN

A. Loan History

74. The proposed loan will support the Congo's structural adjustment program, the elaboration of which has been assisted by the First Bank-financed Technical Assistance Project and more recently by the Second Technical Assistance Project. Public enterprise reform is at the core of the Congo's adjustment effort and the Bank has focussed much of its recent attention on selected enterprises as well as helping Government to develop its overall PE reform program. Specifically on the PE sector, a general review was carried out in May 1985 and a public enterprise investment review in May 1986, which complemented past Bank experience in selected enterprises, notably water supply (SNDE), electricity (SNE), transport (ATC), telecommunications (ONPT) and petroleum (Hydro-Congo). Missions in October 1986 and February 1987 took the dialogue further into the details of the PE reform program. During this period, the Bank was also active on the macro-policy front, working extensively on the public investment programs for both 1986 and 1987, in consultation with the Fund, and on developing a medium-term economic framework as the basis for the Congo's structural adjustment program.

75. The structural adjustment program was appraised in March 1987, following the broad agreement with the Bank on the Congo's medium-term economic outlook reached in November 1986 and the updated agreement with the Fund on its stabilization program in March 1987. Negotiations were held in Washington in May 1987; the Congolese delegation was headed by His Excellency Mr. I. Ossetoumba Lekoundzou, Minister of Finance and Budget. Supplementary loan data are provided in Annex V. The parallel PE Institutional Development Project (Memorandum to the President, dated ------) was prepared, appraised and negotiated concurrently.

B. Relationship between the Proposed Operation and Policy Reforms

76. The proposed operation would complement the Congo's economic stabilization measures already taken and initiate a medium term structural adjustment of the economy, starting with a major emphasis on the macroeconomic framework, petroleum resource management, the PE sector and private sector development as well as sector policies. Government has provided the Bank with a Letter of Development Policy which describes the specific measures that have been or will be taken during this first phase of the adjustment program. These measures are summarized in Annex VI. The loan would ease the Congo's financial strain during the adjustment period, not only with respect to external capital requirements, but also by increasing budgetary resources.

C. Effects of Adjustment

77. The Congo is in the midst of creating the consensus needed for a major reorientation in order to change attitudes, habits, institutions and policies. The desired impact is to achieve, over the longer term, growth with greater equity, particularly between rural and urban populations, through adjustment. While oil remains the pillar of the Congolese economy, the adjustment process must of necessity aim at maximizing the growth of the non-oil productive sectors. With appropriate policies and incentives, the agriculture and forestry sectors are expected to make a come-back to their pre-oil levels of output. This implies that bottlenecks such as rural roads will be addressed and a redirection of the unemployed urban workforce, previously engaged in construction, will take place. A revival of agriculture and forestry could also stimulate non-oil manufacturing, especially in related light industries such as food, wood processing and light consumer-goods. A prudent use of oil resources in the post-stabilization phase and a realistic role for the public sector are essential for this revival to take place and be sustained over the medium-term. In essence, the effect will be, *inter alia*, to separate the automatic growth of the public sector from any future windfall profits of the oil sector.

78. It will take a considerable period of time for the adjustment process to take effect. According to the scenario presented in Annex VII, which is based on relatively conservative assumptions on future oil prices

(the base-case scenario), 3/ the economy slides along a negative growth path during 1986-87, stabilizes at about the same level during 1988-89, and then begins to grow in 1990. The net result is that by 1995 GDP reaches the level attained in 1984 in real terms which, given population growth of about 3 percent per annum, implies a fall in real per capita GDP of about one-third during 1984-94. By the mid-1990s, the Congo is expected to have made the necessary adjustments for achieving sustained economic growth at a rate somewhat above population growth, and can start making up for previously lost ground.

79. With adjustment, the structure of the economy is expected to change somewhat. Assuming that structural deficiencies can be gradually overcome and the competitiveness of the Congo's non-oil exports restored, the share of agriculture and forestry in non-oil GDP would expand from 15 to 18 percent, the share of non-oil industry from 11 to 12 percent, and the sharé of other sectors would decline from 68 to 65 percent between 1986-1998. Growth in agriculture and forestry is particularly significant because of its potential contribution to increasing exports (timber, cocoa, coffee) and reducing food imports. Timber production amounted to about 600,000 cubic meters in 1985 compared to an estimated potential of about 2.0 million cubic meters. Cocoa and coffee production have stagnated over the last five years at around 2,000 and 2,500 tons respectively. Substantial expansion is possible so long as labor remains available and the incentives system encourages private initiative. A figure of 10,000 tons for each crop seems feasible over the longer term. Notwithstanding diversification efforts, the Congo would remain an oil economy with the share of oil in GDP only declining from 46 percent in 1985 to 38 percent in 1998.

80. This scenario remains extremely vulnerable to changes in international petroleum prices. A scenario based on lower oil prices assumes prices 20 percent below those presented in the above base-case. Under this scenario, the lower oil prices lead to changes in oil production, government revenues, and oil investments and result in slower GDP growth with declines persisting through the period up to 1990. It would prolong the period needed to regain the same level of per capita income as in 1984. If this lower oil price scenario were to hold, there would be significantly higher debt service, medium and long term debt to GDP, and fiscal deficit to GDP ratios. The capital account becomes

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3/ The assumptions underlying the base-case scenario are as follows: the exchange rate is postulated constant at CFAF 310 to the US dollar. Oil prices follow EPD projections: US$18 per barrel in 1990, US$23 per barrel in 1994 and US$33 per barrel in 1998. The second debt rescheduling is postulated for 1988-90: 6 years of grace, 10 years payback for the Paris Club, and 3 years grace, 9 years payback for the London Club, 8 percent and 9 percent for the Paris and London Clubs respectively.

unsustainable starting in 1987 as the gapfil reaches levels that cannot be financed in the current environment. Any marginal creditworthiness disappears.

81. Moreover, if adjustment were not to take place, even with the base-case for petroleum prices, the continuation of past policies would lead to an untenable financial and balance of payments situation for the Congo. This situation would degenerate so rapidly in 1987 and 1988 that no credible projection of economic performance can be devised as the basis for comparison. Extraordinary measures such as a moratorium on existing debt service would be the only recourse for the Congo to pursue if it were not to adjust. Otherwise, half of foreign exchange earnings from petroleum would be consumed by debt service and imports would to fall to half to two-thirds of their 1984 level. Government resources would furthermore be severely constrained and would have to be directed almost entirely to public debt service, requiring the elimination of the public investment program and reducing current expenditures to about 30 percent of 1984-85 levels. The resulting impact on the economy would be devastating.

82. The financial requirements of the scenario using the base-case oil assumptions (after the 1986 rescheduling and excluding private non-guaranteed debt) imply gross foreign borrowing requirements of approximately US$1.6 billion or about US$260 million per annum over the 1987-1992 period. Given the Congo's marginal creditworthiness, it is assumed that an important share of the gross disbursements would be financed by IBRD and official concessional sources, as shown below. Starting with the proposed loan, an IBRD lending program oriented towards policy-based and fast-disbursing operations is envisaged, with the share of IBRD in the Congo's total outstanding public external debt reaching 26 percent by 1991 up from only 3 percent in 1986. The remaining financing gap of about US$600 million over the period, or approximately US$150 million per annum, left after these disbursements would be met mainly by a second rescheduling in the Paris and London Clubs in 1988 and an injection of about US$35 million of fresh money.

Gross Official Disbursements by Type of Lender: 1987-1992
(In Percentage of Total)

	1987	1988	1989	1990	1991	1992
IBRD	3.13	7.86	14.84	15.70	25.80	20.70
Concessional DAC	8.75	9.18	10.44	12.13	20.06	20.38
Concessional Other	18.93	11.45	10.65	11.80	4.52	4.74
Other Non-Concess.						
Multi.	5.23	8.78	5.21	4.27	0.00	0.00
o/w ADB	4.42	8.26	4.82	4.15	NA	NA
Suppliers Credit	43.68	24.25	26.45	29.48	28.37	33.36
Private Guaranteed	20.28	38.48	32.41	26.62	21.26	20.83
Total	100.00	100.00	100.00	100.00	100.00	100.00

83. Given the modest prospects for recovery in oil prices, much prudence is called for in managing the Government's external debt. With no easy or short run solution to this problem, it is imperative that the Congo negotiate the second set of reschedulings to lessen the burden on the external accounts. Without these reschedulings, Congo is expected to incur unsustainable debt service payments beginning in 1988. Reschedulings will enable the Government to cope with lower export revenues, with the debt service ratio dropping to about 14-18 percent in 1988-89 (instead of 30-36 percent) and would help it face the repayment of currently rescheduled debt coming due in the late 1980s and early 1990s. Restoring creditworthiness in the face of existing debt profile, as well as the capital inflows required to sustain the structural adjustment scenario, remains a basic area of concern. This concern implies that the Congo must remain on a narrow adjustment path for at least the next decade and that a concerted action on the part of the international financial community is necessary to ease the burden of adjustment. This would allow for greater flexibility in negotiating the reschedulings which are, at this point in time, the *sine qua non* of restoring creditworthiness.

D. Benefits and Risks

84. The proposed adjustment operation is one of the cornerstones of the Bank's strategy to assist the Congo to undertake vital economic reforms. While difficult to implement, these reforms are essential to reestablish the creditworthiness of the country and lay the foundations for a sustainable pattern of economic growth. It is anticipated that ultimately a more efficient use of public resources will result, that the non-oil productive sector will be stimulated, and that a more appropriate balance between the public and private sectors will be achieved. The particular benefits to accrue from the PE adjustment measures are the lessening of the financial burden on Government and the domestic banking system, the increased transparency of the Government's financial relations with PEs, rationalization of resource allocation by Government to PEs, and the freeing of resources for more productive uses. PEs remaining in the sector will be made more efficient through rehabilitation efforts, cost cutting measures and labor reduction programs. The proposed measures would also reorient the expectations of graduates away from secure employment opportunities in the public sector. Efforts at streamlining the administrative procedures for private sector development and at reducing distortions that impede private activities would assist in improving the general investment climate and building investor confidence.

85. This first structural adjustment operation intervenes in a very difficult period for the Congo, in light of the contraction of the economy due to the fall in petroleum prices, compounded by the years of economic mismanagement that have severely undermined the economy's resilience. Given the social consequences of the reforms, described in Section E, officials are understandably fearful of major shifts in political direction and are seeking ways to internalize the adjustment process and to gain the support of the general public through press campaigns and public forums. The possible lack of response by the private sector and the shallowness of non-oil productive sectors combined with the severity of the economic

crisis and the Congo's weak administrative capacity to elaborate and implement reforms contribute to the risk that the program may not be fully realized. The program's success will furthermore be dependent on international petroleum prices and the strength of the US dollar; the support of the international financial community is also critical throughout the adjustment period.

86. Several elements, however, reduce these risks. The international financial community has thus far shown a strong commitment to support the Congo in this difficult period, while the petroleum sector, if soundly managed, provides a vital long-term underpinning of the economy. The adjustment program design also stresses internal consensus and sound program management, and the active participation of PEs and labor at the planning stage, combined with their involvement in implementation mitigates against strident opposition. Complementary assistance to help Government implement its adjustment program and rehabilitate key PEs, as provided under the parallel Public Enterprise Institutional Development Project, the ongoing Second Technical Assistance Project and other donor-financed projects, will strengthen the institutional capability to carry out the program as envisaged. It should nevertheless be stressed that future petroleum prices remain a critical factor beyond the Congo's control.

E. Social Impacts

87. The Congo's medium-term adjustment program would eventually allow a gradual improvement in living standards starting in the 1990s which, in the absence of the program, would be curtailed significantly as a result of reduced availability of external capital and constrained imports. Prospects for rapid and significant increases in per capita income, nevertheless, remain poor as compared to the earlier period. It will take most of the next decade to resolve the substantial debt overhang which presently mortgages the Congo's future. The adjustment process, as outlined above, will inevitably entail some social costs as adjustments are made to meet the requirements of the new economic structure. Mitigating these costs are policies to benefit those less favored among the country's population, particularly in the rural areas, and policies to improve the efficiency of public expenditures in order to ensure that basic social services are provided to the poor on as wide a coverage as permitted by the resource constraints. In particular, restructuring of the public expenditure program would result in a significant reduction of transfers and subsidies, through changes in the costly scholarship program and subsidies to PEs, and a relative decline in personnel wage expenditures. The impact of these measures on the country's poorest segments is expected to be limited as the main beneficiaries have so far been the higher income groups in urban areas. In addition, through more rigorous planning and programming to be instituted under the SAL, priority will be given in allocating available resources, albeit at much lower levels than in the past, to safeguard basic social services, more vulnerable segments of the population. The renewed emphasis on rural development and agriculture in the public investment program and pricing policies would, moreover, benefit lower income groups outside of the Congo's urban centers, with increases in

producer prices and the liberalization of foodcrop marketing designed to increase farmer incomes and redress the rural-urban terms of trade.

88. The main burden of the adjustment program will be felt by the urban population, which as noted earlier has depended directly on public sector employment and high government spending to sustain its disproportionately high level of income. This situation was reversed in 1986 and will continue to deteriorate slightly up to 1990 as fiscal restraint on the part of Government continues. Compared to the alternative of no adjustment, however, the depth of the contraction in urban levels should be manageable.

89. A few select urban groups will be most directly affected by the immediate impact of the adjustment program, namely: (1) new graduates expecting public sector employment and students currently enjoying generous overseas scholarships; and (2) employees of public enterprises to be made redundant in the sector's restructuring. In the case of the first group, their socio-economic position, age and lack of dependents plus access to support from their extended families should mitigate serious hardships. In the case of laid-off PE employees, compensatory actions will be taken to provide severance allowances to sustain living standards for a period of time (two to four years based on existing collective bargaining agreements). Expectations are that policies to improve the economic environment for private sector activities, especially in urban trade, would lessen the negative impacts on employment. Emphasis will be placed on providing appropriate financial incentives to facilitate their absorption in the private sector. In order to ease the transition to the private sector, Government intends to establish an interest subsidy scheme for people leaving the civil service and new high school and university graduates to enable them to use commercial credit to start up activities. More generally, the Government will facilitate the establishment of certain liberal professions in the private sector and other types of small-scale enterprises through its promoting efforts to create employment.

90. In the long term, the social costs of structural adjustment are likely to be outweighed by the benefits in terms of growth and efficiency. The distribution of income should shift in the direction of the rural sector and engender the supply responses in agriculture and forestry necessary to support the target GDP growth rate. By contrast, the costs of adjustment in the urban areas should be tempered by the cushioning effects of the program and, in the final analysis, the necessary price to pay for the major restructuring effort needed to redress the Congo's economy. In order to assess the full effect of the program starting in 1987, the Government will monitor the social dimensions of its adjustment program through a UNDP-financed study executed by the World Bank with the aim of: (a) developing and maintaining adequate data bases on the social impacts of structural adjustment; (b) carrying out economic and social studies on the implications of this adjustment; and (c) strengthening the institutional capacity to identify, appraise and evaluate additional programs to assist individuals make the transition.

F. Financing

91. The proposed Loan of US$70 million equivalent would finance about 12 percent of the Congo's merchandise imports in the period June 1987 to September 1988 and meet about 33 percent of the country's gross external capital requirement for the same period. The loan amount would cover 20 percent of the Government's gross external financing requirements in the Congo's 1987 budget year and 22 percent in 1988.

G. Disbursement, Administration and Procurement

92. Tranche Release. The proposed loan will be disbursed in two tranches of US$35 million each and is expected to be fully disbursed within 12 months of loan effectiveness. Prior action by Government has been taken in the following areas: (i) suspension of physical works for the Etoumbi-Kunda palm oil plantation; (ii) freeze on the size of the civil service and personnel expenditures; (iii) agreement on the limits for new borrowings; (iv) abolition of Hydro-Congo's monopoly on retail distribution of refined petroleum products; (v) appointment of liquidators for at least four of eight public enterprises; (vi) creation of appropriate legal framework for liquidation and privatization of PEs; (vii) proposals for new procurement procedures for PEs; and (viii) agreement on action programs for seven key enterprises. The first tranche will be available upon loan effectiveness. The special condition of loan effectiveness is that Government has achieved satisfactory progress in the preparation of its macro-economic framework (1988-92).

93. The second tranche will become available about six to nine months later. Disbursement of the second tranche will be contingent upon satisfactory progress made by the Government in carrying out the structural adjustment program, in particular the following actions would have been taken: (i) completion of the 1988-90 "esquisses financières" and adoption of the 1988 "Loi de Finances"; (ii) preparation of oil palm sector strategy; (iii) progress in keeping net recruitment at zero and adhering to the rule of CFAF 1 spent for CFAF 1 saving in personnel expenditures; (iv) progress in revising its Mining Code; (v) implementation of a new price structure for refined petroleum products; (vi) implementation of PE divestiture program as agreed; (vii) progress in implementing of a plan to settle debts as of 1985 of selected PEs; (viii) agreement on a banking sector restructuring plan; (ix) progress in reducing staff in non-key PEs and agreement on staff reduction plans for the seven key PEs; (x) progress in implementing action programs for these key PEs; (xi) implementation of measures to liberalize trade and prices including reduction of products subject to fixed prices, abolition of the system of control of ex-factory prices and price margins for luxury goods, replacement of quantitative restrictions with tariffs, and elimination of the requirement for import licenses and export authorization; (xii) abolition of the monopoly of OCI and preparation of plan to reduce the number of remaining monopolies; and (xiii) preparation of restructuring plan for ONEMO. Progress in implementing the program will be reviewed by the Bank about six months after loan effectiveness.

94. Monitoring and Auditing. In 1985, the Government established an inter-ministerial Steering Group ("Groupe de Pilotage") chaired by the Prime Minister to supervise the preparation and implementation of its economic adjustment program. The Steering Group, which will be expanded to include representatives of key sectoral ministers, will retain the lead in finalizing and implementing the structural adjustment program with the support of the ad-hoc Secretariat composed of high level officials. Specifically on PE questions, a small technical unit will be created in the Prime Minister's Office to provide support to the Steering Group. Following disbursement of the first tranche of the loan, the Steering Group will submit to the Bank a report evaluating progress made in implementation. This report will serve as a basis for the release of the second tranche. The Steering Group will submit to the Bank a final report on the program's implementation upon full disbursement of the loan. An audit report, conforming to internationally accepted standards and prepared by auditors approved by the Bank, will be submitted within six months after the close of each fiscal year.

95. Technical Assistance. A parallel PE Institutional Development Project will provide the support needed to help Government to: (i) implement the PE reform program; (ii) restructure and improve management of key PEs; and (iii) formulate further necessary macroeconomic and sectoral adjustment measures. Details of this project are provided in the accompanying Memorandum to the President (P-4543-COB dated June__, 1987). Other support aimed at providing key policy advice to Government would continue to be provided under the Second Technical Assistance Project.

96. Disbursement. The loan will reimburse the foreign exchange cost of eligible imports (including all imports except luxury goods, defense items, and refined oil products) on the basis of evidence that they have been paid for and imported after loan signing, with provision for retroactive financing of up to US$10 million for expenditures made after April 1, 1987. Disbursement would be facilitated by the establishment of a Special Account in the central bank (BEAC) into which upon loan effectiveness US$15 million equivalent would be disbursed. This account would be replenished up to the tranche limit, based on statement of expenditures (SOEs) prepared by the Ministry of Finance and aggregated in amounts of not less than US$1 million equivalent and on evidence that the funds had been used for imports permitted under the loan. The nature and the origin of goods as well as the payment date will be indicated on the SOE and all relevant supporting documents (invoices, import certificates and evidence of payment) will be maintained for review by supervision missions and auditors. Expenditures for goods procured under invoices for US$10,000 equivalent or less would not be eligible for financing out of the loan proceeds. The local currency counterpart funds generated by the loan will be devoted to financing general development expenditure in 1987 and 1988.

97. Procurement. Both private and public sector imports would be eligible for financing. Imports by private entities would be in accordance with normal commercial practices, which are acceptable. For public sector imports, procurement would be made through international competitive

bidding in accordance with IBRD guidelines for contracts of US$1.5 million equivalent or more while contracts for the procurement of goods estimated to cost less than US$1.5 million equivalent each would be awarded on the basis of the normal procurement procedures of the purchaser which are satisfactory to the Bank.

PART IV - BANK GROUP OPERATIONS AND STRATEGY

98. Total Bank Group commitments in the Congo as of March 31, 1987 amount to US$189.4 million: five loans and credits totalling US$151.4 million have been fully disbursed. Two loans amounting to US$16 million are now being implemented; and two credits for US$22 million are nearly fully disbursed. Past operations have been designed mainly to assist the country's efforts to improve its basic transport infrastructure, better exploit its natural resources and upgrade the educational system. The largest share of past commitments (54 percent) went to finance rail, river and road transport projects, followed by mining and petroleum projects (19 percent). The realignment of the Congo-ocean railway under the Second Railway Project and the River Transport Project were both designed to increase the efficiency and capacity of transport services along the country's primary transport corridor. The Petroleum Sector Technical Assistance Project was designed to improve sector management and increase national benefits from oil exploitation. The Third Highway Project aimed at facilitating agricultural output by improving public road maintenance with special emphasis on feeder roads. The Wood Processing Project approved in FY83, was mainly designed to diversify exports and promote regional development. A Macroeconomic Technical Assistance Project was approved in May 1983 to help Government manage its external debt and domestic public finances and prepare adjustments to its five-year development strategy.

99. Most of the past projects have suffered from insufficient attention to the socio-economic environment and, in some cases, poor implementation. The Second Railway Project cost three times as much as anticipated and did not bring about all expected benefits. The River Transport Project was implemented satisfactorily but did not address the broader issue of the relationship between the Government and ATC. The Third Highway Project achieved its objectives of constructing and maintaining low-cost roads, but was undermined by unsound Government policies on new construction. The Education Project was complex and difficult to manage. The Wood Processing Project encountered considerable financial difficulties due to the high production costs and taxes imposed on exports, combined with long delays in the transport of logs to port and poor performance of the state monopoly responsible for timber exports. The two Technical Assistance Projects (macroeconomic management and petroleum), intended to help the Government put in place economic adjustment policies and increase petroleum exploitation, eventually achieved this objective but after some delay.

100. The sharp deterioration in the position of the Government in 1984 further affected implementation of all projects. Accumulation of arrears led to a suspension of disbursements in September 1984. Disbursements were

resumed in February 1985 but this prolonged period of suspension brought the relationship between the Congo and the Bank to an all time low. During that period it became evident that a new approach was called for. The Bank proposed to the Government a program of assistance emphasizing the rehabilitation of the public enterprise sector, the establishment of favorable conditions for the promotion of private initiative, particularly in agriculture, and the stabilization of oil revenues over the long term.

101. The major goal for Bank assistance is to help the Congo reestablish its economic viability and creditworthiness over the medium term. This in turn hinges heavily upon the ability of the non-oil sectors to sustain growth and increase exports and the petroleum sector to maintain output at levels not too far below those obtained in recent years. It is also dependent on the determination of the Congolese authorities to implement the stabilization program as agreed with the IMF. The Second Technical Assistance Project was approved in August 1986, to help the Government design a program of policy reform, primarily by assisting it in formulating a non-oil growth strategy and an oil development policy. The proposed program of Bank assistance would support economic adjustment through the proposed Structural Adjustment Loan and the parallel PE Institutional Development Project.

102. IFC made its first loan to the Congo in April 1981. The US$3.5 million loan went to finance part of a US$15.6 million project to modernize the existing veneer plant of Placongo and to expand its logging capacity. However, in March 1982, IFC suspended its commitment to the company because of a serious deterioration in its financial position. IFC also approved an equity participation in a promotional company, Société d'Etudes de la Cellulose du Congo, which studied the feasibility of establishing a pulp mill in the Congo. A US$1.5 million loan to Congolaise Industrielle des Bois (CIB) was approved to help expand the company's logging operations, and construct, equip, and place in operation a sawmill, and related services. Due to an unexpected shortfall of CIB's internal cash generation in the past two years, IFC extended a complementary loan of US$0.7 million in 1986 to assist in CIB's financial restructuring efforts. IFC has also approved a loan of US$0.2 million and an equity participation of US$1.6 million equivalent in Congolaise de Bois Imprégnés to help construct a utility pole plant to process eucalyptus trees.

PART V - COLLABORATION WITH THE IMF AND OTHER DONORS

103. There has been close collaboration between the Bank and the IMF in preparing the stabilization and structural adjustment programs since early 1986 when the Bank was asked to review Congo's public investment program, including PE investments, as part of the preparation of the Fund's support to the Congo. The Standby arrangement signed in July 1986 included several measures that were jointly formulated by Fund and Bank staff, addressing the PE sector (price liberalization, tariff increases, wage bill reductions, abolition of monopolies) and public resource management (civil service freeze, fiscal reform). Subsequently, overlapping Bank and Fund missions liaised closely on recent Standby reviews and the formulation of

the structural adjustment program. In particular, the 1987 public investment program reviewed by the Bank and agreed upon with Government was an essential element on the latest Standby review.

104. Coordination with other international donors involved in the financing of the PE sector and the Congo's adjustment effort has been very close. The French Government, through the Treasury, CCCE and FAC, mounted its own "prêt d'ajustement structurel" in 1986 in the amount of CFAF 13 billion (US$43 million). A similar operation is currently a major factor in meeting the Congo's financial requirements for 1987. As another financier of the Congo's adjustment program, with a proposed loan of CFAF 10 billion (US$30 million), AfDB joined the Bank appraisal mission in May 1987 and participated in the negotiations of this loan in May 1987. In order to coordinate its support to selected public enterprises, CCCE also participated in discussions on the PE aspects of the program. Finally, CCCE, AfDB, EIB and French bilateral aid were closely consulted during the design of the parallel PE Institutional Development Project, in particular to coordinate assistance for the rehabilitation of key enterprises. CCCE is furthermore providing cofinancing for the parallel project in the amount of about US$1.2 million equivalent.

PART VI - RECOMMENDATION

105. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and I recommend that the Executive Directors approve the proposed loan.

Barber B. Conable
President

June , 1987
Washington, DC.

PEOPLE'S REPUBLIC OF THE CONGO

STRUCTURAL ADJUSTMENT LOAN

KEY MACROECONOMIC INDICATORS

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	1973	1980	1984	1985p	1986e	1965-73	1973-80	1980-84	1985p	1986e
Gross Domestic Product c.p.	100.0	100.0	100.0	100.0	100.0	100.0	7.0	4.7	11.3	-3.5	..
Net Indirect Taxes	14.0	10.7	16.1	..	..	..	..	..	..	..	..
Agriculture	19.1	15.7	11.7	7.4	8.0	..	4.1	2.1	-3.0	0.3	..
Industry	18.9	22.1	46.6	56.9	54.0	..	9.3	8.5	15.1	-4.2	..
(of which Manufacturing)	..	..	7.5	5.5	5.9	..	..	..	8.3	4.9	..
Services	61.9	62.2	41.7	35.7	38.1	..	6.7	2.2	10.1	-3.3	..
Resource Balance	-17.1	-11.8	21.4	29.4	23.8	..	..	..	..	..	..
Exports of GNFS	36.0	31.6	53.4	57.6	52.9	..	15.0	7.0	12.1	-2.8	..
Imports of GNFS	53.1	43.4	32.0	28.2	29.1	..	7.8	-1.7	8.9	-1.6	..
Total Expenditures	117.1	111.8	100.1	89.3	97.0	..	5.0	-0.4	9.5	-2.9	..
Total Consumption	94.7	79.8	58.6	53.6	55.6	..	3.2	2.3	11.1	-0.2	..
Private Consumption	80.5	62.3	41.0	38.8	39.4	..	2.2	1.6	12.6	-1.5	..
General Government	14.2	17.5	17.6	14.8	16.1	..	7.4	3.7	6.6	3.9	..
Gross Domestic Investment	22.4	32.0	35.6	30.4	30.0	..	9.3	-4.9	7.0	-8.1	..
Fixed Investment	..	..	32.9	28.9	28.8	..	..	..	..	..	..
Changes in Stock	..	..	2.8	1.5	1.2	..	..	..	..	..	..
Gross Domestic Saving	5.3	20.2	41.4	46.4	44.4	..	..	0.1	15.7	-25.5	..
Net Factor Income	-2.7	-5.6	-7.1	-5.8	-5.9	-7.3	..	..	..	..	..
Net Current Transfers	..	..	-0.1	-0.1	-0.5	..	..	..	..	..	..
Gross National Saving	..	..	34.2	40.5	38.1	..	..	..	17.1	-29.8	..
In billions of CFA francs (at constant 1980 prices)	1965	1973	1980	1984	1985p	1986e					
Gross Domestic Product	133	230	360	566	546	..	7.0	4.7	11.3	-3.5	..
Capacity to Import	60	149	216	378	322	..	8.6	2.4	14.7	-14.8	..
Terms of Trade Adjustment	25	18	0	35	-10	..	..	..	..	..	..
Gross Domestic Income	163	249	360	601	537	..	4.5	2.0	12.9	-10.7	..
Gross National Product	133	217	338	534	518	..	6.9	4.2	11.6	-3.8	..
Gross National Income	158	235	335	569	505	..	4.8	1.4	13.3	-11.2	..

C. Price Indices	(1980 = 100)						Inflation Rates (% p.a.)				
	1980	1982	1983	1984	1985p	1986e	1965-73	1973-80	1980-84	1985p	1986e
Consumer Prices (IFS 64)	100.0	132.0	142.3	160.3	170.1	..	3.4	10.5	12.1	6.1	..
Wholesale Prices (IFS 63)	100.0	130.3	140.8	160.7	171.8	..	3.4	12.2	12.3	6.6	..
Implicit GDP Deflator	100.0	139.5	150.1	169.8	177.9	..	4.4	9.2	13.6	5.1	..
Implicit Expenditures Deflator	100.0	131.2	144.3	159.9	181.4	..	5.9	12.9	11.9	13.5	..

D. Other Indicators	1965-73	1973-80	1980-85p
Growth Rates (% p.a.):			
Population	2.6	3.0	3.1
Labor Force	..	..	..
Gross National Income p.c.	1.7	-1.6	5.5
Private Consumption p.c.	-0.4	-1.1	5.8
Import Elasticity:			
Imports (G+NFS) / GDP (mp)	1.1	-0.4	0.6
Marginal Savings Rates:			
Gross National Saving	.	..	48.0
Gross Domestic Saving	44.7	104.0	51.0
ICOR (period averages):	..	..	..

Share of Total Labor Force in:	1965	1973	1980	1985p
Agriculture				
Industry				
Services				
Total				

Notes:

e = estimated data
p = preliminary data

E. Merchandise Exports	Volume Index (1980 = 100): 1980	1982	1983	1984	1985p	1986e	Value at Current Prices (millions US$): 1980	1982	1983	1984	1985p	1986e
Commodity 1	100.0	66.8	64.5	69.0	..	..	6.9	3.5	2.4	3.5	3.3	2.5
Commodity 2	100.0	57.0	53.2	51.3	..	..	14.3	5.1	4.0	5.2	5.3	7.4
Commodity 3	100.0	130.4	143.2	161.5	..	..	734.7	1082.0	1080.4	1172.0	995.2	466.6
Commodity 4	100.0	68.0	63.3	0.0	..	..	106.6	68.0	51.6	60.0	56.6	66.3
Manufactures	100.0	..	..	..	..	..	8.7	13.9	12.0	12.1	11.2	16.4
Other Exports	100.0	82.2	87.2	893.1	..	..	48.4	60.7	97.5	145.3	50.6	56.5
Total Merchandise Exports FOB	100.0	87.5	84.5	114.7	..	..	919.6	1283.2	1248.0	1398.0	1122.2	615.7
F. Merchandise Imports												
Food	100.0	127.3	116.8	131.0	..	..	77.7	102.4	95.9	93.7	112.2	87.1
POL and Other Energy	100.0	123.6	74.9	16.2	..	..	57.7	61.9	33.2	6.7	18.5	5.1
Other Imports							533.2	713.0	656.6	658.8	643.6	361.2
Other Consumer Goods	100.0	124.9	130.9	138.7	..	..	17.1	20.0	18.6	17.9	35.0	91.2
Other Intermediate Goods	100.0	259.6	267.2	227.6	..	..	90.8	160.7	141.3	[illegible]	93.4	150.0
Capital Goods	100.0	248.5	210.0	206.7	..	..	107.4	261.6	166.1	160.7	182.5	120.0
Total Merchandise Imports CIF	100.0	145.9	115.1	80.1	..	..	668.6	877.2	783.7	759.2	774 3	453.4

G. Terms of Trade (1980 = 100)	1980	1982	1983	1984	1985p	1986e
Merch. Exports Price Index	100.0	97.7	90.3	89.2	86.2	54.5
Merch. Imports Price Index	100.0	96.9	93.9	92.0	91.4	94.4
Merchandise Terms of Trade	100.0	100.8	96.2	96.9	94.4	57.7

Notes:

e = estimated data
p = preliminary data

H. Balance of Payments	US$ millions (at current prices): 1980	1982	1983	1984	1985p	1986e
Exports of Goods and NFS	1023	1174	1202	1345	1224	846
Merchandise (FOB)	911	1109	1114	1265	1142	735
Non-Factor Services	112	65	88	80	82	111
Imports of Goods and NFS	1258	1423	1376	1110	1150	959
Merchandise (FOB)	545	713	649	617	616	453
Non-Factor Services	713	710	727	493	534	506
Resource Balance	-235	-249	-174	235	74	-113
Net Factor Income	-164	-170	-174	-200	-234	-147
(interest per DRS)	41	70	84	80	107	.
Net Current Transfers	-1	-18	-4	-3	3	1
(workers remittances)	1	0	0	0	0	..
Current Account Balance	-400	-437	-352	32	-157	-259
Long-Term Capital Inflow	249	452	182	-51	..	..
Direct Investment	40	35	56	35	0	..
Official Capital Grants	0	0	0	0	0	..
Net LT Loans (DRS data)	189	335	165	112	53	..
Other LT inflows (Net)	20	82	-40	-197	..	..
Total Other Items (Net)	-189	-16	143	-160	..	..
Net Short-term Capital	-69	-248	84	-226	..	..
Capital Flows N.E.I.	0	0	0	0	0	0
Errors and Omissions	-120	233	59	66	0	..
Changes in Net Reserves	-74	96	94	283	1	..
Net Credit from IMF	-9	0	0	0	0	..
Other Reserve Changes						
(- indicates increase)	-66	96	94	283	1	..
As shares of GDP:						
Resource Balance	11	-16	-12	5	-0	-10
Interest Payments	2	3	4	4	5	..
Current Account Balance	1	-25	-20	-3	-9	..
Memorandum Items:						
Internat'l Reserves (mil. US$)	86	37	7	4	4	..
Reserves incl. Gold (mil. US$)	93	42	12	8	4	..
Official X-Rate (LCU's/US$)	211.30	328.62	381.07	436.96	449.26	347.00
Index Real Eff. X-R Base 1980	100.00	99.59	97.49	100.45	102.78	..
GDP (millions of current US$)	1706	2165	2008	2194	2162	2137

I. Budget (specify level)	Shares of GDP (%) 1980	1982	1983	1984	1985p	1986e	Growth Rates (% p.a.) 1980 - 83	1984	1985	1986e
Current Receipts	30.1	35.4	34.1	34.6	34.5	30.7	36.3	21.6	1.0	-34.9
Current Expenditures	21.7	19.8	20.6	19.2	21.8	26.8	28.4	11.9	15.0	-10.2
Current Budget Balance	8.4	15.6	13.5	15.4	12.7	3.9	55.0	32.8	-15.5	-77.2
Capital Receipts	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	18.6	27.9	21.6	17.4	16.7	9.2	56.0	-3.6	-2.5	-59.6
Overall Deficit	-10.4	-12.2	-11.6	-3.5	-6.4	-6.0	..	81.0	6.1	195.2
Official Capital Grants	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	8.0	9.0	4.5	0.9	2.3	-13.6	6.2	-77.2	167.1	-542.0
Domestic Non-Bank Financing	..	..	..	..	..	..	..	..	..	..
Domestic Bank Financing	-0.8	3.9	-0.3	1.4	0.6	1.4	..	-215.1	-56.9	66.1

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 1980	1982	1983	1984	1985p	1986e	Debt Outstanding & Disbursed (US$ mil.) 1980	1982	1983	1984	1985p	1986e
Public & Publicly Guaranteed LT	169	335	166	112	53	..	1117	1461	1519	1559	1760	..
Official Creditors	65	148	31	30	28	..	720	882	860	866	944	..
Multilateral	9	85	28	18	19	..	114	257	264	268	310	..
of which IBRD	-2	1	1	5	10	..	39	42	44	48	58	..
of which IDA	1	12	9	5	3	..	22	49	58	62	66	..
Bilateral	55	63	3	12	9	..	606	625	596	598	634	..
Private Creditors	124	187	134	82	25	..	396	579	659	693	817	..
Suppliers	-1	-11	-15	28	38	..	138	89	68	89	146	..
Financial Markets	125	198	149	54	-13	..	258	490	591	605	671	..
Private Non-Guaranteed LT	..	..	..	..	..	..	..	..	..	..	..	..
Total LT	169	335	166	112	53	..	1117	1461	1519	1559	1760	..
IMF Net Credit	-7	0	0	0	0	..	6	0	0	0	0	..
Net Short-Term Capital	-69	-248	84	-226	..	..	243	184	166	177	660	..
Total including IMF & Net ST	113	86	250	-114	..	..	1366	1645	1685	1736	2420	..

Bank and IDA Ratios	1980	1982	1983	1984	1985p	1986e
Share of Total Long-Term DOD						
1. IBRD as % of Total	3.5	2.9	2.9	3.1	3.3	..
2. IDA as % of Total	2.0	3.4	3.8	4.0	3.7	..
3. IBRD+IDA as % of Total	5.5	6.3	6.7	7.1	7.0	..
Share of Total LT Debt Services						
1. IBRD as % of Total	8.7	2.5	1.7	1.2	2.2	..
2. IDA as % of Total	0.2	0.2	0.2	0.3	0.3	..
3. IBRD+IDA as % of Total	8.9	2.7	1.9	1.5	2.5	..
DOD-to-Exports Ratios						
1. Long-Term Debt/Exports	111.3	123.6	125.8	115.4	150.1	..
2. IMF Credit/Exports	0.6	0.0	0.0	0.0	0.0	..
3. Short-Term Debt/Exports	23.6	15.6	13.8	13.1	56.3	..
4. LT+IMF+ST DOD/Exports	135.6	139.2	139.6	128.5	206.3	..
DOD-to-GDP Ratios						
1. Long-Term Debt/GDP	65.5	67.5	72.4	71.1	81.4	..
2. IMF Credit/GDP	0.4	0.0	0.0	0.0	0.0	..
3. Short-Term Debt/GDP	14.3	8.5	7.9	8.1	30.5	..
4. LT+IMF+ST DOD/GDP	80.1	76.0	80.3	79.2	111.9	..
Debt Service/Exports						
1. Public & Guaranteed LT	9.0	15.5	22.0	19.1	27.5	..
2. Private Non-Guranateed LT	..	..	..	..	..	..
3. Total LT Debt Service	9.0	15.5	22.0	19.1	27.5	..
4. IMF Repurchases + Serv Chgs.						
5. Interest Only on ST Debt						
6. Total (LT+IMF+ST Int.)						

Notes:

e = estimated data
p = preliminary data

THE STATUS OF BANK GROUP OPERATIONS IN THE PEOPLE'S REPUBLIC OF THE CONGO

A. Statement of Bank Loans and IDA Credits (as of March 31, 1987)

L/C No.	Year	Borrower	Purpose	Bank	IDA	Undisbursed
				Amount (US$ million) (net of cancellations) 1/		
Five Loans and nine Credits disbursed				99.70	51.69	
971 COB	1980	Congo	Petroleum		5.00	0.30
1179 COB 2/	1982	Congo	River Transport.		17.00	2.46
2298 COB	1983	Congo	Wood Process.	12.00		3.92
2753 COB	1987	Congo	Tech. Assist. II	4.00		3.89
	Total			115.70	73.69	10.57
	of which repaid			39.10	1.10	
	Total held by Bank and IDA			76.60	72.59	
	Total undisbursed			7.81	2.76	10.57

1/ Prior to exchange adjustments.

2/ Credit 1179-COB is denominated in SDRs and is shown in US$ equivalent based on the exchange rate in effet at time of negotiations.

THE PEOPLE'S REPUBLIC OF THE CONGO

STRUCTURAL ADJUSTMENT LOAN

B. STATEMENT OF IFC INVESTMENTS
(as of 09/30/86)

Investment No.	Fiscal Year	Obligor	Type of Business	Loan	Equity	Total
				------US$ million-----		
-	1981	SECC	Promotion Company	-	0.2	-
733-COB	1984	C.I.B.SA	Logging & Sawmill	1.7	-	1.7
846-COB	1986	C.I.B.SA	Logging & Sawmill	0.8	-	0.8
880-COB	1986	Congolaise des Bois Impregnes	Utility Poles	1.6	0.2	1.8
			TOTAL Commitments	4.1	0.4	4.5
			TOTAL Commitments now held by IFC	4.1	0.4	4.5
			TOTAL UNDISBURSED	-	-	1.8

June 15, 1987

PEOPLE'S REPUBLIC OF THE CONGO

STATEMENT OF DEVELOPMENT POLICY

INTRODUCTION

1. Early in the 1980s, the Government undertook to lay the foundation for lasting economic growth, taking into consideration the rapid rise in oil export earnings and the corresponding growth of budget receipts. A major objective was to eliminate the chief obstacles to economic development, beginning with shortcomings in the existing economic and social infrastructure. Broadly reflecting that priority, the 82-86 Plan therefore witnessed the launching of major projects financed both with domestic resources and heavy external borrowing.

2. The deterioration of the international situation did not permit us to accomplish this goal. Contrary to our initial objective, we have had to face increasing economic difficulties. The plunge in oil prices and our inability to slow down the Government's operating and investment expenditures at the same rate as the decrease in available national resources have been the cause of important internal and external imbalances in the Congolese economy.

3. As events bore out the pessimistic international outlook, and the debt burden and deficits of the public and semi-public sectors increased, the Government instituted a series of austerity measures. In June 1985, it adopted a Structural Adjustment Program aimed at strengthening public finances, rehabilitating public enterprises and reviving the economy. This program soon proved insufficient because of the sudden drop in oil prices and the weakening of the dollar. In July 1986, the Government negotiated a standby arrangement with the IMF designed to stabilize the public financial and monetary situation, restore the balance of payments and start restructuring the economy. That arrangement has enabled the Congo to reschedule its debt to the member countries of the Paris Club and commercial banks. The Government has also obtained an exceptional loan from France, as well as a commercial bank loan that has not yet been withdrawn.

4. It has become clear that the seriousness of the Congo's current financial crisis requires a radical realignment of the Government's economic policy, particularly with an eye to the new domestic and external situation, from a medium-term perspective. Accordingly, the Government has decided to institute a medium-term structural adjustment program to be carried out in the period 1987-88, for which it has requested technical and financial support from the World Bank.

THE STRUCTURAL ADJUSTMENT PROGRAM

OBJECTIVES

5. The objectives of the structural adjustment program are to: (a) reestablish overall financial equilibrium independently of the vagaries of the oil market; (b) lay the foundations for self-sustaining economic growth over the medium-term, with strong emphasis on development of the non-oil sectors; and (c) restore the country's credit-worthiness. These goals are to be achieved mainly by: changing the balance between the roles that the public and private sectors play in the economy; reforming incentive policy in order to stimulate private sector initiatives in agriculture and forestry and encourage small and medium-scale enterprises; and bringing public sector expenditure into line with available financial resources, while at the same time ensuring that Government intervention in the economy becomes more effective. Oil resources will be used mainly to lessen the debt burden and improve the effectiveness of existing infrastructures.

6. In that connection, the Government has concurrently undertaken to carry out its stabilization program with the IMF and to implement a program of specific actions in the years 1987-88 involving: (a) management of the economy, (b) incentive policies aimed at the private sector, (c) the public enterprises, (d) the civil service, (e) sectoral policies.

I - MACROECONOMIC MANAGEMENT

7. The development strategy outlined above will be completed by September 1987 by a medium-term framework containing economic and financial projections, integrating sectoral growth objectives and taking into account financial constraints. A three-year (1988-90) financing plan ("esquisses financieres") will be derived from the medium term framework in September 1987, to serve as a guide for preparing the budget and investment program.

8. The Government will seek to enhance the effectiveness of this endeavor by introducing a medium-term rolling public investment plan covering the Central Government and public enterprise sector projects in progress, as well as those started up in the first year of the PIP, and their incidence in future years. The first of those documents, covering the years 1988-90, will be approved by the Government in October 1987. The Government will introduce a system of program authorizations allowing for the signing of the financial contracts or agreements relating to investment expenditures contained in the Public Investment Program, for amounts not to exceed the figures specified in such authorizations. These program authorizations, which will be provided for in the Loi de Finances, will be accompanied by an estimate of the annual financial tranches required for the project. The annual allocation of payments will be performed in a manner consistent with the program authorizations and project timetables.

9. The Loi de Finances, at once an instrument of financial discipline and a means of implementing Government policy, will be prepared each year in accordance with the medium-term framework, the "esquisses

financieres" and the public investment program. The Loi de Finances of 1988 will be ready in November 1987. Its legislative and regulatory provisions will be reviewed between now and December 1987, in order to prevent the State from becoming liable for any contract that exceeds budgetary authorizations and to ensure complete consistency with the measures mentioned in paragraph 8.

(b) Macroeconomic and Financial Coordination

10. In order to assure the success of the structural adjustment program and the satisfactory formulation of the above-mentioned instruments, the administrative role of the agencies concerned will be strengthened, with particular reference to coordination between the Ministry of Planning and Economics and the Ministry of Finance and Budget.

11. The Ministry of Planning and Economics will be charged with preparing the "esquisses financieres" 1988-90 in cooperation with the Ministry of Finance and Budget. In support of this process, the Government will make available the necessary means to enable it to integrate macroeconomic and sectoral policies with existing financial constraints.

12. The Ministry of Planning and Economics will prepare the public investment program and associated projects. It will ensure that commitments for expenditures under each of the projects are consistent with available resources and external debt as an input in the preparation of the Loi de Finances, which will be finalized by the Ministry of Finance and Budget.

13. The Ministry of Finance and Budget will participate in the preparation of the "esquisses financieres" in cooperation with the Ministry of Planning. It will also ensure that the draft Loi de Finances is consistent with macroeconomic and financial projections.

14. In view of the large number of participants, the Government will provide the high-level coordination and monitoring necessary to assure the success of the structural adjustment program. Such coordination of the economic, financial, commercial and monetary policies will continue to be carried out at the highest level by the Groupe de Pilotage chaired by the Prime Minister and assisted by the ad hoc secretariat instituted by decree No. 85/1423 of December 7, 1985.

(c) Public Investment

15. Existing financial constraints require both the compression of investment outlays and improvement of their effectiveness. Starting in 1988, their overall programming and respective annual budgets will be in compliance with the following principles and criteria:

- integrating public enterprise investments into the public investment program;

- earmarking a substantial and growing share of investment outlays for the productive sectors and those sectors that directly support production (the proportion of the Budget for Investment by the Central Government and by State Enterprises allocated to these sectors will increase from 50% in 1987 to 66% in 1988 and 1989);

- bringing the contents of the sectoral programs into line with the development strategy, extending preferences to activities that support production and reserving direct action by the State to cases meeting the required conditions: proven viability of the project, priority within the program, insufficient private initiative. The State focuses its attention more on the restructuring of enterprises deemed vital;

- continuing the effort to control investment outlays. New projects will have to conform strictly to macroeconomic and sectoral objectives, and reflect emphasis on the need to stimulate the economy and preserve existing assets. The choice of projects must be based on adequately supervised feasibility studies which demonstrate the project's economic rate of return in a satisfactory manner.

16. As regards the 1987 public investment program, the total investment package represents an appreciable reduction from former years and the allocations for 1987 represent an improvement in terms of the priorities accorded to the productive sectors and to the maintenance of existing infrastructure. Nevertheless, the Government has decided:

(i) To assign special priority to maintaining the country's key infrastructures, and in this context to raise the appropriation for road maintenance to CFAF 1.2 billion from the 0.7 billion initially earmarked, and to free the necessary funds to ensure proper maintenance of the breakwater of the harbor of Pointe-Noire.

(ii) To reduce the amount allocated for the Epena-Impfondo road from CFAF 6 billion to 5.5 billion in order to increase the appropriations earmarked for road maintenance; in addition, the Government will obtain a firm undertaking from the contractor to complete the project within the budget of CFAF 12 billion between January 1, 1987, and year-end 1988.

(iii) Concerning Etumbi-Kunda, the Government will implement the measures set forth in the statement of March 25, 1987 signed with the World Bank. This statement calls for an independent consultant to audit the implementation of the project with operational recommendations. In the light of those recommendations, the Government, in consultation with the World Bank, will adopt a revised strategy to ensure the medium- and long-term viability of the palm-oil sector (December 1987).

17. The Government confirms that all the projects to be completed in 1988 will be completed as planned and without cost overruns, including the Epena-Impfondo project in the amount of CFAF 6.5 billion for 1988 and the CHU from Brazzaville, and in compliance with the limit of CFAF 20 billion for the whole project. The 1988 investment budget will therefore be the

last to reflect the implementation of the major projects undertaken under the 1982-1986 five-year plan after a number of those projects were discontinued or reduced in size. The draft investment budget will be available in November 1987.

(d) Management of the Public Debt

18. After an initial rescheduling of the external debt under the auspices of the Paris and London Clubs in 1986, the management of the public debt will be based on a medium-term financial strategy and stringent control of commitments undertaken by the State.

- Given the burden of servicing the debt and the sharp drop in oil revenues, the Government will approach the Paris Club in 1988 and the London Club in 1989 to request new reschedulings for the years 1988-91 and 1989-91, respectively.

- During the period, the Government will not accumulate external arrears.

- During the period, the Government will limit non-concessional loan commitments or guarantees with maturities of less than 12 years. Non-concessional loans with maturities of one to less than six years will not be contracted. Short-term (less than one year) loans will be taken out under normal commercial circumstances. These conditions do not, however, cover loan guarantees for the development of oil production.

- As regards the control of loans guaranteed by the State, an executive order was issued in September 1986 defining the procedures for granting guarantees, including those designed to verify their compliance with the Loi de Finances.

- With respect to management of the Caisse Congolaise d'Amortissement the Government will strengthen its internal and external debt accounting systems and institute a management training program.

(e) Management of Public Finances

19. A fundamental objective of the structural adjustment program relative to public finance is to bring operating expenses and non-oil revenues into balance by 1991. The Government has already adopted a set of fiscal and budgetary measures and will take additional measures aimed at achieving 70% fulfillment of that objective in 1987 and 80% in 1988.

20. To that end the Government will adopt, by June 1987, the conclusions of the studies conducted in 1985 and 1986 on a comprehensive tax reform with a view to its implementation beginning January 1988. Given the foreseeable negative immediate impact on government revenues because of the reduction of certain tax rates designed to encourage private productive

economic activity, it will deploy, from the second half of 1987, a contingent equipped to combat tax and customs fraud, for which it is negotiating support from the French agency FAC.

(f) Management of Oil Surpluses - Reserve Funds

21. To ensure that oil surpluses contribute to the economic security and well-being of present and future generations, the Government will adopt specific provisions for the use of oil surpluses. The surpluses will be earmarked, in order of priority, for the settlement of internal arrears, the reduction of the outstanding external debt, and finally for the financing of investments of proven economic feasibility, and for the establishment of a petroleum reserve fund. The definition and magnitude of those surpluses, and the mechanism for utilizing or placing them, will be the subject of a detailed analysis in 1987 and will be appropriately detailed and the relevant mechanisms established before July 1988.

II - STIMULATION OF PRIVATE SECTOR ACTIVITIES

22. The Government has adopted a policy aimed at encouraging the development of the non-oil productive sectors. In that connection, it attaches particular importance to the promotion of private initiative and investment.

(a) Pricing Policy

23. Under the standby arrangement entered into with the International Monetary Fund in July 1986, the Government is committed to rendering its pricing and marketing policy progressively more flexible.

24. The list of price-controlled products has been reduced from 38 products to 11 regarded as basic necessities (decree 86/998 of October 15, 1986). Between now and March 1988, the Government will reduce this list from 11 to 9 items. The price-controlled products do not receive any direct or indirect subsidy.

25. The system of prices for other local commodities has been made more flexible. The formerly controlled prices are, under decree 86/1014 of November 3, 1986, subjected to official approval ("regime d'homologation"). The prices of commodities subject to this system are applied after the producers have submitted documentation justifying the proposed price to the appropriate Government agency. In the case of locally manufactured items competing with imported goods not subject to the system of margins, "homologation" will be abolished.

26. Controlled prices for services (8) have been raised considerably in 1986 and 1987, in conjunction with the IMF standby arrangement. The purpose of these price increases was to put the finances of the enterprises concerned on a sound footing.

27. The review of tariffs for these services is part of the program for public enterprise reform being carried out by the Government with the support of the World Bank; the Government's objective is to establish a tariff rationalization method, that takes into account the long-term marginal cost.

28. The Government is currently holding discussions with private importers on the margin rates applicable to imports subject to the margin control system. Between now and December 1987, the Government will group imports into three categories: basic necessities, intermediary items, luxury items and others. Between now and March 1988, the luxury items will be excluded from the margin control system.

29. The marketing of agricultural commodities and prices paid to producers were liberalized in 1986. Prices of goods purchased from public marketing boards are fixed by the Government, however, in order to guarantee fair prices to the producers.

30. At the end of 1987 the Government, together with the private entrepreneurs, will assess the new marketing and producer price system instituted in 1986, to evaluate its effects and explore the possibility of further liberalization.

(b) Foreign Trade Policy

31. The Government follows an open trade policy. However, an import twining procedure ("procedure de jumelage") applies to products imported from UDEAC member countries, i.e. mineral water, batteries, footwear, soap and foams. The Government intends to replace this procedure with an appropriate customs tariff by March 1988. It will request that this item be placed on the agenda for consideration in the next meeting of UDEAC.

32. The granting of import licenses does not give rise to any restriction or quota other than for reasons of public safety or health. These licenses are used for statistical purposes to improve customs control. However, a study on the replacement of the license system by a declarative system will be completed by October 1987 for introduction in 1988. Export authorizations will be replaced by December 1987 by export declarations (except for some items such as precious metals and elements of the nation's capital wealth).

(c) Marketing Policy

33. The trading authorities' monopoly on foodstuffs (OCV) and coffee and cacao (OCC) was abolished in 1986. The Government is currently studying the redefinition of the role of those authorities and measures for the encouragement of private marketing efforts. Appropriate measures based on that study will be taken starting January 1988.

34. The products subjected to the OFNACOM import monopoly have been reduced in number to four by executive 6298 of July 4, 1986 (rice, tomato

concentrate, salt fish, salt), from the previous ten. Maintaining a monopoly on those commodities essentially reflects the desire to preserve the financial equilibrium of OFNACOM and its marketing missions within the national territory. The monopoly of the Office Congolais d'Informatique (Congolese Data Processing Authority) will be abolished by December 1987. The exemptions from the OCB monopoly granted to major producers were broadened in early 1986 to small Congolese producers. From August 1987, such exemptions will be granted by the Ministry charged with responsibility for forestry and wood products and no longer by OCB. The situation of the other monopolies will continue to be studied. A plan to reduce the number of existing monopolies will be discussed with the IBRD between now and March 1988.

(d) The Promotion of Private Investments and the SMEs

35. The Government intends to actively promote domestic investment and direct foreign investment. In particular, it attaches great importance to the development of private small and medium enterprises, whose role in the economic development process was confirmed by the Congolese Labor Party at its Third Congress of July 1984. Policy coordination with representatives of the private sector and the various social partners will be bolstered in order to:

- complete and specify before year-end 1987 the measures designed to improve the legislative and regulatory framework, adapt it to the needs of specific sectors and make it more flexible in order to encourage entrepreneurs and investors;

- define and establish in 1988 the procedures and agencies to be employed for continuing coordination between the State and the social partners.

Tax reform, currently under consideration, will be introduced in 1988. It is being designed to take account of the specific conditions of each sector. In order to lessen the tax burden to a level more likely to provide incentives, the Government will propose in the Loi de Finances 1988 that the corporate tax rate be reduced by four points, from 49 to 45%. Accompanying measures will be taken to fight tax evasion, in order to avoid any loss of State revenues despite the lower rates.

36. Law 010/86 of July 31, 1986 provides for the designation PME (SME) to refer to Petites et Moyennes Entreprises (Small and Medium Enterprises). Enterprises that qualify for that designation are entitled under said law to tax and custom privileges, special treatment regarding government contracts and automatic issuance of a merchant card. Between now and the end of 1987 this law will be harmonized with several other provisions:

- Law 50/83 of April 4, 1983 regulating access to the status of merchant will be reviewed in the course of 1987 in order to bring it into line with the principles of the investment code and the spirit of Law 19/86, and to establish a simplified procedure.

- The various provisions regulating access to the status of contractor and investments will be thoroughly revised to ensure consistency and clarity (Investment Code, decree regulating contracts, Law 50/83 and Law 010/86).

A study of the above will be carried out and its provisional conclusions will be adopted by August 1987.

37. A consultation will be held with the various social partners regarding labor legislation. In particular, the responsibilities of the National Employment and Labor Authority (Office National de l'Emploi et de la Main d'Oeuvre) will be reformulated for the purpose of facilitating adjustments between the labor supply and demand markets. To accomplish this, the Government will complete the available studies and prepare an acceptable restructuring plan by January 1988.

38. The Government has furthermore created SME support structures: a guarantee and support fund to facilitate access to credit, a national SME development agency and a national small business agency for technical and management support. The Government will determine in the course of 1987 the measures to enhance the operations of those support structures and make them more effective. Those measures will take effect early in 1988.

39. The Government also intends to promote domestic and direct foreign investment. To that end, incentives will be created to enable government employees to switch to business careers (by offering leaves of absence, for instance) and to facilitate access to credit by local businesses. Contacts will be developed with professional organizations abroad.

(e) Restructuring of the Banking Sector

40. Again with a view to stimulate economic activity, the Government has as objective to restructure the banking sector in order to permit banks to play their role of financial intermediaries for the benefit of the economic agents who are their clients. To this effect, the following actions will be adopted:

- A study of the sector (in progress) will be completed by October 1987, and on that basis, a program for the revitalization and reorganization of the banks will be launched in 1988.

41. A plan for the settlement (through rescheduling, deferral and special arrangement) of the debts of public enterprises owed to local commercial banks will be drawn up no later than December 1987, for implementation in 1988.

42. The procedures for granting and managing credits (ceilings, processes, follow-up) will be reviewed between now and December 31, 1987. Banking regulations will be reviewed and gaps filled in order to ensure greater discipline in the sector (no later than December 1987).

III - PUBLIC ENTERPRISE REFORM

43. The Government considers restructuring of its public enterprise sector to be one of the cornerstones of the current phase of the structural adjustment program.

44. The 97 Congolese enterprises that are entirely or partly state-owned and make up the public enterprise sector have long been an important part of our development strategy. However, their performance has proved disappointing, and the situation has continued to deteriorate in spite of our past efforts to revitalize the sector. Given the severe financial constraints currently facing the Congo, we can no longer tolerate the poor performance of the sector and the resulting accumulation of substantial losses. We are determined to make major changes that will rationalize and restructure this sector and thus achieve renewed growth. Such rationalization will be consistent with the Government's strategy for establishing a new balance between the roles of the State and the private sector in the economy.

45. The public enterprise reform program has two main objectives: to reduce immediately the sector's financial adverse impact on the economy, and to improve the efficiency of those enterprises which, for strategic reasons, we have chosen to retain in the public sector. These objectives will be achieved through the array of measures described below, which are tailored to the capacity of our institutions, the available financial resources and the socio-economic impact of the reform.

46. The strategy seeks to: (1) alter the regulatory and institutional environment in which the sector operates; (2) cut back and rationalize the direct financial support from the Government; (3) encourage initiatives in each public enterprise aimed at increasing revenues and cutting costs; and (4) carry out the program of divestiture by the State. The key enterprises (SNE, SNDE, ATC, ONPT, HYDRO-CONGO, CORAF, SUCO, CIDOLOU, LINA-CONGO; SCBO, SFAC and the units of the rationalized fats-and-oils subsector: SANGHAPALM, RNPC, HUILKA), which represent about 55% of the value added of the sector in 1985 and the major efforts and restructuring, in collaboration with international donors, especially CCCE, ADB, EIB and IBRD. As regards the other PEs, however, only limited resources will be available over the medium term.

The Government has adopted the following principles to guide the reform: (1) greater autonomy and accountability in public-enterprise management, (2) separation between the roles assumed by the State as entity responsible for overall economic guidance and owner or consumer of goods and services produced by the public enterprises, and (3) separation of the enterprises' sometimes contradictory social and economic objectives.

47. Our public enterprise reform program includes a wide range of actions of which some were initiated several years ago. In 1980, the Government took steps to bring more independent management to the ten most important public enterprises -- the so-called pilot enterprises -- and restructure their finances. This was followed by the preparation of performance contracts, the creation of a central coordination unit in the Prime Minister's Office, the establishment of centralized procedures for monitoring public enterprises at CENAGES and the setting up of the Commissariat National aux Comptes (CNC).

The structural adjustment program adopted by the Government in 1985 continued the effort to improve the performance of public enterprises by introducing measures designed to instill greater discipline in the sector. At the same time, the Government conducted studies on cross-debts and overstaffing in public enterprises as well as strategic audits of most public enterprises, thus laying the groundwork for a more complete institutional and financial reform.

These early efforts were recently strengthened within the framework of the IMF-supported stabilization program approved in 1986. As stated in our Letter of Intent, we raised the tariffs of some enterprises, cut the wage bill in six key enterprises by 5%, abolished certain marketing monopolies (OCC, OCV), restricted OFNACOM's monopoly as well as the Government's direct financial support of public enterprises to CFAF 15 billion in 1986 and made our price-control system more flexible for all enterprises, including public ones.

On the basis of the reforms introduced in 1986, the Government is now ready to launch a wide-ranging public enterprise reform program. Based on existing studies and following the strategy described below, we intend to implement an action plan that will be broken down into a number of key components for the period 1987-1990.

(a) Rationalization of the Sector

48. On the basis of strategic audits or individual reviews for 80 PEs, a large program for rationalization of the sector will be implemented. Given the breadth of the program, the Government's effort will focus on the following enterprises according to the timetable indicated below:

- Establishment of the legal framework for liquidation and appointment of the first liquidators by June 1987;

- Liquidation of the eight enterprises in the course of 1987 and search for partners, starting in 1987, for the eleven enterprises in which equity participation is to be offered, beginning with OFNACOM, IAD, CIDOLOU, COPEMAR and SCBO. The search for investors in conjunction with these divestitures will be kept flexible by examining the widest possible range of alternatives for participation (legal form, scope of participation, magnitude, status of partners);

- Complete divestiture from UAB, SOCOME and SIAP in 1987;

- Incorporation of OCF into the administration in 1987;

- Rehabilitation of the 14 key enterprises, starting with SNE, SNDE, ATC, ONPT, HC, CORAF, CIDOLOU and SUCO, according to the timetable defined for each one of them before the end of the first half of 1987; then LINA-CONGO, SCBO, SFAC, SANGHAPALM, RNPC and HUILKA, according to the timetable drawn up by June 30, 1988.

49. The few non-key enterprises remaining in the State sector will be contained: subsidies will be limited to amounts compatible with the State's financial objectives, staff will be cut, extension investments will be halted. Their rehabilitation will be reviewed and then implemented no later than 1990.

(b) Financial Restructuring

50. In order to provide a sound financial basis for the reform and the sector rationalization, it is necessary to settle the debts of those PEs selected for partial or complete divestiture, and to finance the rehabilitation of those PEs to be rehabilitated. The Government will settle between now and December 1987 the cross-debts among public enterprises that had fallen due by the end of 1983. The Government is committed to:

- establishing a plan for settlement of cross-debts among the 14 priority enterprises by December 1987 and implementing it by June 30, 1988;

- finalizing a debt settlement plan by December 1987 on that basis assuming the residual costs of the liquidation and divestiture program in 1988.

(c) Financial Discipline

51. Financial relations between the PEs and other economic agents i.e. the State, the banks, the private commercial partners and the other PEs are to be subject to strict standards of financial discipline defining the respective obligations and rights of the parties concerned and ensuring greater financial transparency among the various economic agents. Various measures have already been instituted in this regard, such as the adoption of onlending principles and of a code of conduct for the settlement of debts between the State and PEs. Those steps will be supplemented by the following actions:

- annual agreement (1987-1990) on the investment program of each priority PE, whatever the mode of financing used, and on the amount and conditions of possible financial support from the State;

- agreement regarding the transfer under appropriate conditions to the PEs of assets financed by the State and operated by the PEs. This will be done before July 1988;

- requirement that each priority PE submit final financial statements no later than six months after the end of each fiscal year, starting with the 1987 fiscal year;

- limitation of the role of State comptrollers and corresponding improvement of internal audit systems starting in 1988 in selected enterprises;

- review of and agreement on local credit ceilings for each of the PEs remaining in the public sector as of 1987;

- immediate authorization to PEs to suspend service or delivery in case of non-payment of bills within 120 days;

- increase of budgetary allocations for consumption of water, electricity and telecommunications by Government agencies and local governments beginning in 1988 (cf. paragraph 12); introduction in 1989 of billing based on actual consumption; and introduction in 1988 of a program to reduce and control consumption;

- establishment of ceilings for gratuities in 1988 and integration of the gratuities granted by the Government in the annual budget starting in 1989;

- continuation of the external audit program (20 PEs per year) by the CNC.

(d) Rehabilitation of the Eight Key Enterprises

52. A rehabilitation program including reorganization, cost and investment reduction, and improved management will be launched for SNE, SNDE, ATC, ONPT, HYDRO-CONGO, CORAF, CIDOLOU and SUCO by June 1987. Relevant measures for each enterprise are specified in the attached outlines. On the basis of the rehabilitation programs, financial contracts defining the reciprocal financial obligations between the State and each key enterprise will be signed (four in December 1987, three in July 1988 at least, and prior to those dates in all cases debt settlement).

(e) Staff Reduction and Personnel Management

53. As part of the program to privatize some public enterprises and to rehabilitate others, layoffs are to be expected in the period 1987-90 and will be carried out as follows:

- each key enterprise will continue to apply in 1987 the wage restraints introduced in 1986 and prepare a staff reduction plan no later than December 31, 1987, for implementation in 1988 and 1989;

- a progressive reduction of personnel of the non-key enterprises totaling 1,600 employees will start in 1987.

54. Regarding personnel management practices, the Government will study the remuneration systems in public enterprises during the second half of 1987 and will on that basis introduce, in 1988, new personnel statutes containing merit promotion and salary-increase provisions. Each key enterprise will implement an improved personnel-management program beginning in 1988. In addition, regulations for the secondment of personnel between public enterprises and the civil service will be adopted in 1987.

(f) Training

55. To improve PE performance, CENAGES will launch a management training program by December 1987. In addition, the Government will prepare a technical and professional training strategy before the end of 1987 and launch it in 1988.

(g) Legal and Institutional Framework

56. In the interest of PE sector rationalization and to improve enterprise performance, the Government will:

- establish the legal framework necessary for divestiture by the State, prepare regulations governing the liquidation and transfer of assets to the balance sheets of the PWs in connection with their liquidation by September 30, 1987 and revise the legislation pertaining to operating contracts, leasing, management contracts, and other matters by December 31, 1987;

- rewrite the existing legal texts between now and December 1988 in order to rationalize relations between the State and the PEs and give PE management more responsibility. Specifically, more autonomy will be granted to PE managers by rationalizing the size, composition and chairmanship of the boards of directors;

- redefine in 1988 the roles and relationships of the various PE control, monitoring and advisory agencies and strengthen their technical capacity to perform their tasks.

IV. THE CIVIL SERVICE

57. In 1985, the Government undertook a program aimed at stabilizing the number of civil servants and slowing the growth of overall wage costs. In that connection, it took the following major steps in 1986:

- limited recruiting from an average of 4,500 new employees in previous years to 2,687;

- accelerated attrition by lowering the retirement age to 55, scrutinizing government payrolls and eliminating improper salary payments and removing certain obstacles to voluntary separation, all of which resulted in the net hiring of 368 employees in 1986 as against some 4,000 in previous years;

- suspended the financial effects caused by advancement and promotion, and froze organization charts;

These combined measures brought down the growth of overall wage costs from a past annual rate of 13-15% to 4.2% for 1986.

58. In 1987 it intends to stabilize the size of the civil service force and initiate additional analyses. The bulk of the initial measures to terminate civil servants began to make themselves felt in 1986 and will be completed in 1987. Some 4,000 mid-level or senior professional and management officials are currently unemployed and can expect little else until the economic adjustment now in progress opens up other employment opportunities. This will, however, be a slow process. The comprehensive fiscal reform will at first tend to reduce non-oil revenues, increasing them only at a later stage. The Government nonetheless intends to pursue its policy of reducing the ratio of wage costs to non-oil receipts by at least one percentage point in 1988 and 1989, then 2% the following year, in order to achieve in 1990 a ratio of 63% as against 74.2% in 1985, 73.5% in 1986, and 68% in 1987.

In addition to suspending pay raises in connection with advancement and promotion and freezing organization charts, despite low salary levels, the Government will implement a number of measures simultaneously directed at boosting non-oil revenues, suspending unjustified expenditures, reducing staff and improving productivity, as follows:

Measures and Timetable Concerning the Management of State Personnel

Objective: Reduce the ratio of wage costs to non-oil revenue from 68% in 1987 to 67% in 1988, 66% in 1989, and then more than 2 points per year from 1990 to reach 63% in 1990.

- In 1987, limit public sector employment, both in terms of numbers and cost to a maximum of one entry equal to one separation, so as to achieve zero sum in both numbers and cost.

- Systematically check, throughout 1987 and until December 1988, the authenticity of the diplomas of all civil servants.

- Before June 1987, stop improper remuneration of trainees in France.

- Before June 1987, account for trainees outside of France and stop improper remunerations before October 1987.

- Define before September 1987 a five-year schedule limiting the number of places offered by schools engaged in training for the civil service exclusively, in order to reduce over time, the pressure on public recruiting.

- By the same date, implement the early retirement system adopted in 1986.

- Before September 1987, establish a permanent unit to monitor public employees at the Ministry of Finance and Budget, in liaison with the control unit within the Ministry of Labor.

- By the same date, remove the last legal obstacles to voluntary separation.

- Before October 1987, adopt a package of measures to provide incentives for voluntary separation form the civil service.

- Before October 1987, organize the means to conduct a detailed analysis of jobs by function, region and place of assignment, in order to detect and locate staff redundancies as well as shortages, and begin said analysis by January 1988.

- Before December 1987, complete the study of an early retirement system and adopt its provisions by January 1988.

- Audit the procedures of the Payroll Office in order to detect, before December 1987, those permitting payment of wages, benefits and other forms of compensation to employees not or no longer entitled to them, and replace such procedures before January 1988 with others more likely to guard against all types of abuse and fraud.

- Before December 1987, examine the potential impact on public and private employment and the economy in general of an authorization to engage in private exercise of certain occupations that are at present exclusively public.

- Before January 1988, revise the general statute of the civil service in order to allow transfers of employees only after three years at the same post.

- Before January 1988, create a fund for rebates on loans to help Government employees who separate voluntarily from the civil service as well as graduating high school and university students, establish themselves in the private sector.

- Before January 1988, establish a system to help decide and statistically control wage-related expenditures in order to combat possible new forms of fraud.

- Before April 1988, study and set ceilings on most benefits in kind attaching to certain functions in the form of fixed monthly allowances.

- Adopt and implement before April 1988 measures authorizing the private exercise of certain occupations that are at present exclusively public.

- Systematically control, before June 1988, the general and special statutes with respect to advancement and eliminate non-regulatory incentives.

- Complete before July 1988, and apply the conclusions of before October 1988, an analysis of civil service jobs and the detection of surpluses and insufficiencies.

- Before July 1988, revise the general statutes and the special statutes or other provisions relevant thereto, for the purpose of:

. abolishing all clauses conducive to concentrating civil servants in Brazzaville and Pointe-Noire to the detriment of the interior of the country;
. linking promotions to service in the interior of the country for certain groups such as teachers, health workers, and agricultural experts;
. limiting nonproductive procedures such as certification of routine documents;
. attuning rules on separation and retirement to the job market;
. ensuring that recruitment be based on competition.

V. SECTORAL POLICIES

A. Education Sector

59. The development of human resources is one of the Government's main concerns in its effort to achieve economic growth and diversification in the medium term.

60. The educational system suffers from a number of imbalances.

- The number of students has risen steeply in the last ten years.

- But that growth has been accompanied by a decline in the quality of education and stems as much from the rising repeater rate and the increasing length of studies as from demographic trends.

- General studies account for most of the education explosion. Technical and specialized training represents only 9% of teaching personnel and only 13% of the students are pursuing scientific and technical courses.

- The education budget has increased substantially over the last ten years. Outlays for operating the system have risen from 10.5 billion to 45 billion between 1975 and 1985. But the amount invested in the educational system has remained at about 2-3 billion per year, and spending on education as a share of the national budget has decreased. The imbalance in the allocation of credits within the educational system has increased (thus scholarships at the secondary and higher levels, valued at CFAF 10 billion in 1985, correspond to two-thirds of the basic education budget, which covers 85% of those in school).

61. On the basis of those findings the Government intends to formulate a program for the reorganization of the educational system by October 1988.

- A clear priority will be assigned to basic education, particularly the lower elementary grades. The aim is to make teaching at the basic level more effective by improving teacher training, school equipment, teaching materials, etc. The effort on behalf of basic education will have to be reflected in its share of the budget.

- Since overall budgetary constraints prevent any significant increase in the educational budget as a whole, the shift in emphasis will imply a change in the secondary and higher education budget. In order to minimize any adverse impact on secondary and higher education, existing provisions as regards efficiency will be strictly enforced, especially those pertaining to the number of repeaters.

- Technical and vocational education will also receive special attention. The medium-term (horizon 1992) objective is for technical and vocational education to absorb 15% of the school population instead of the present 9%.

62. A number of measures will be taken to that end:

- Establishment of all-purpose colleges or high schools where general education sections would exist alongside technical ones, in order to optimize the utilization of existing equipment and teachers of general subjects;

- Creation of curricula in currently nonexistent or under-represented areas, e.g. industrial services and especially in agriculture;

- Introduction of short, very practical courses.

Generally speaking, in conformity with the technical and vocational curriculum, the current system leading to diplomas such as the Bac Technique will be reorganized for the benefit of programs aimed at producing employable graduates more quickly and efficiently.

63. On-the-job technical training or apprenticeships will be encouraged by setting up and standardizing apprenticeships under master craftsmen. Provisions designed to promote the introduction of productive work at school will be more systematically applied, especially in rural areas.

As regards vocational training, a twofold approach will be used to help young people not in school and employed individuals. Under this approach:

- Basic vocational training will be provided for the 10,000 young people with qualifications below F6 who arrive on the labor market each year. Such training should be as decentralized as possible and focus primarily on agriculture.

- A system of continuing training and rapid retraining of the various categories of personnel will be established for the purpose of limiting the social consequences of the public enterprise reform. This system will be studied rapidly and implemented in accordance with sectoral priorities and with close coordination between enterprises, labor unions and the technical ministries.

- ONEMO will help to further this continuing training system, but will not be given a monopoly over it. The participation of employers and professional organizations will be developed. Incentives will be offered to that end, especially by revising the regulations governing deductions for training costs (currently limited to 2/3 of the total).

64. Improvement of teacher training will be another priority of the Government. This effort will entail retraining of teachers currently employed in order to upgrade their general cultural background and their teaching skills. In addition, internal organization measures will be taken to optimize the utilization of teaching personnel.

65. Policy regarding study grants is currently under review in both its qualitative and quantitative aspects:

- In order to lighten the burden of study grants on the national budget, they will be limited to a total of CFAF 6 billion in 1987 and 1989, which is 60% of 1986 expenditures. A number of steps have been taken in this regard: institution of a competition for university scholarships, and more stringent controls with respect to disbursement. These steps will apply to 1987 and 1988.

- In qualitative terms, the aim is to redirect the granting of scholarships to key areas and to improve the planning underlying such grants, bearing in mind the needs defined in consultation with the users of the educational system and the National Commission on Human Resources.

66. The full range of measures designed to improve the functioning of the educational system will cost too much to be financed entirely through the national budget. Increased participation in financing the cost of education will therefore be sought from the users. Such participation can take several forms:

- participation of parents of pupils receiving basic education in school construction;

- the sharing of management of certain technical and vocational curricula with employers or professional associations, etc.

67. The Government will strengthen educational planning services. Consultation among all users of the educational and vocational training system will be developed under the auspices of the National Commission on Human Resources.

B. Agricultural Sector

68. The main thrust of the agricultural development strategy was described in the report entitled "Bilan agro-alimentaire et definition des grandes options d'une nouvelle politique agricole pour les prochaines annees" which was presented to the Central Committee of the Congolese Labor Party at its fifth session of November 1986. This new policy will be fully spelled out at the meeting of the National Council on Agriculture which the Government intends to convene before the end of 1987. Agricultural development strategy will be aimed primarily at the gradual elimination of the major obstacles to growth in agricultural output, both for export and for domestic consumption, and it will pursue this aim by:

- an appropriate prices and tariffs policy;

- a shift in emphasis by the State to further production, with specific reference to rural production (rehabilitation and upkeep of rural roads, reorientation of research and extension to respond to the specific needs of the peasants and credits), with direct State intervention subordinated to certain conditions (proven viability of the project, priority of the project in the program, insufficient private initiative);

- continued streamlining of agricultural support agencies (OVC, OCC, etc.);

- incentives to urban dwellers to reconvert to agricultural endeavors and incentives for the use of urban savings in agriculture;

- pursuit of measures to improve marketing.

Coffee-cacao

69. In an effort to boost output, the Government in May raised producer prices substantially: 23-28%, according to quality, for cacao, 100% for hulled arabica, 45% for cherry coffee. The Government further abolished the OCC marketing monopoly. A number of other steps were either pursued or taken rapidly, including:

- starting in 1988, through the coffee-cacao authority, encouragement for the establishment of semi-industrial plantations of 25 ha average size owned by private individuals, and an effort to find means of carrying out this program;

- continuation of the OCC/ADB extension program;

- encouragement, beginning in the 1987 crop year, to planters to market green coffee.

Before the end of 1987 the Government will study:

- marketing improvements in conjunction with the liberalization of marketing, with the co clusions of this study to be issued in 1988;

- the outlook for the coffee-cacao subsector, including an analysis of constraints (agronomic, human resources, etc.) and economic incentives to develop it;

- measures involving pricing policy, the objective being to keep producer prices at a profitable level while taking international prices into account.

Food Crops

70. The Government has set the goal of food self-sufficiency by the year 2000. The current deficit is very important. Should the present trend continue (if not worsen), food imports could soar from CFAF 70 billion in 1985 to 120 billion in the year 2000, to 220 billion in the year 2010. Such a course would be unsustainable for the country. In pursuit of its strategy the Government will identify before the end of 1987 the measures referred to in the report cited in paragraph 68 above and, in 1988, begin to implement an action plan to develop food crops and market gardening.

The main priorities of that plan of action will be:

- improvement of marketing, storage facilities, means of transport and credit to private operators to supplement the abolition of OCV's marketing monopoly in 1986, in connection with which measures will be defined by March 1988 on the basis of the study now in progress;

- upgrading of service roads, to be included in the public investment program;

- cutting losses of products following the harvest;

- encouraging the processing of products by, among other things, disseminating information about equipment (solar dryers, corn huskers, "foufou" mills, peanut shellers, palm-oil extraction units, rice processing factories);

- encouraging operators to use better packaging.

Customs tariff policy will be studied in the course of 1987 in order to define measures to avoid profitable speculation. These measures will be instituted gradually beginning in 1988.

71. All those measures and actions will be bolstered by institutional reforms involving:

- research and development: its scope will cover research now in progress for the purpose of improving crops by means of better soil management through crop rotation, combining crop-growing with cattle-raising, the use of fertilizer, mechanization, etc.;

- extension: the Government wishes to remedy the inadequacy and weakness of current regional extension services. The aim is to improve the extension system by bringing the extension worker and the producer together so that technical advice can be made more relevant to needs. The approach to bringing this about will be based on the training and visits system defined as part of the pilot operation financed by the World Bank. Extension efforts should be simple, inexpensive and effective. Producers, especially small farmers, should be drawn into the process of determining needs and defining and executing programs so as to reduce costly supervision. Progress already made in this area, mainly thanks to FAO projects (ovine extension projects, coffee-cacao project, etc.), will be preserved and developed.

Finally, the Government will ensure that a real link is maintained between training, research and extension. Contact among the regional research stations must be strengthened.

- Agricultural credit: the Government is committed to creating an agricultural credit facility after a detailed study that should be completed well before the end of 1987.

- Agricultural administration: continuation of the measures designed to simplify the organization chart and make it more effective.

Animal Husbandry

72. Poultry

The Government has decided to develop poultry production to counter the national meat shortages. The Government will encourage farmers and private producers to produce poultry, particularly around urban centers such as Brazzaville, Pointe-Noire, Loubomo, Nkayi and Owando, using local resources as much as possible (construction materials, animal feed) in order to keep production costs down and to sell at competitive prices. To that end, the Government will attempt to overcome the principal constraints currently hindering the development of poultry farming (in areas of feed, marketing, import duty policy).

73. Livestock

The Government initiated a cattle-production and ranching program in the early 1970s. During the 1982-1986 five-year plan that program was supplemented by a sheep-production program in rural areas with the assistance of FAO. These programs have increased the numbers of livestock without, however, ending the national shortage of red meat (more than 5,000 tons). Within the framework of the forest and savanna agriculture development effort, this policy will seek to develop the association of crop-development and livestock-production. Accordingly, the Government will once again foster the production of cattle and small ruminants, in rural areas, with the State intervening only as a source of support (for training, credit, veterinary products).

C. Wood Products

74. After crude oil, wood products represent the most important exports of the People's Republic of the Congo (approximately CFAF 20 billion). Output has stabilized at about 550,000 m3 of veneers and 60,000 m3 of sawnwood, but potential output is appreciably higher.

75. The Government has undertaken a number of actions and measures to improve the forestry situation:

- In 1985 a credit of CFAF 6 billion, initiated by the BNDC, was extended to all forestry producers (mixed, private and State).

- Decree 85/778 of June 4, 1985 established a sectoral commission to set purchase prices. The commission's first action was to set the OCB mark-up at 1,500 F/m3 compared to 8-12,000 F previously.

- Since 1986 several economic and fiscal incentives have been granted to the forestry sector, to supplement those under the Investment Code:

  . exemption from taxes and import duties of equipment related to forestry;

  . tax rates reduced to 5% for heavy equipment and spare parts;

  . exemption from TCA and TIT (value added taxes) on transport.

The densities assumed by ATC in calculating transport rates have been modified in favor of the forestry sector. All these measures will be retained. The value of the incentives granted amounts to 3-5% of the gross revenue of the enterprises.

76. The Government intends to continue actions designed to develop production. The output target is 1 million m3 around 1990-1992. A number of steps will be taken in that regard:

- With respect to State-owned enterprises and mixed companies: SNEB and SONATRAB will be merged in the first half of 1987, shares of SCBO and CETRAB stock will be offered to third parties, OCF will be integrated into the administration, SFAC and the Congolaise des Bois Impregnes (Congolese impregnated wood company) will be expanded.

- The reorganization of OCB will be continued in order to transform it into a flexible marketing support organization, the OCB agency in Brussels will be closed, exceptions to the OCB monopoly will be granted to private Congolese forestry developers.

- The tax incentives policy will be continued.

- A sectoral program will be elaborated encompassing:

. actions designed to improve the transport system, which remains one of the bottlenecks in moving wood out of the northern part of the country, by June 1988;

. assistance to small Congolese producers (credit, technical support, etc.);

. actions to promote the exploitation of Congolese forest, especially in terms of seeking partners and new markets;

. revision of the forestry code in 1987;

. implementation of a rational forestry development policy (inventories of South Congo, North Congo).

D. Petroleum Sector

77. The Government's sectoral policy concerning petroleum is designed to increase State revenues.

78. Exploration and production.

In order to encourage investment and to maximize petroleum resources, the Government will implement the following measures:

(i) Review the Mining Code to adapt it to current exploration and production conditions; modify the tax and economic conditions of future contracts by March 1988.

(ii) Continue the promotion of the exploration of the Basin by having a promotion/specialist prepare the technical documents and by organizing presentation sessions by December 1987.

(iii) Improve technical and financial follow-up of the projects undertaken by the companies, by establishing adequate means for data processing and analysis by December 1988.

Refining. The Government has instituted a program to cut CORAF's production costs (cf. attached descriptions of PE rehabilitation) in order to bring them into line with international prices. The results of that program will be examined with the IBRD in November 1988 in order to take appropriate measures.

Distribution and marketing. Between now and March 1988, the Government will review the price structure of petroleum products with a view to setting the purchase, storage, transport and retail prices and establishing adequate profit margins for the corporation.

E. Transport

79. The Government will prepare by June 1988 a strategy for the transport sector.

ANNEX: Rehabilitation Measures for Key Public Enterprises

SNE

Ongoing rehabilitation efforts will be continued through a plan of action providing for:

- A customer inventory in Pointe-Noire in 1988;

- Development of new customer management procedures by December 1987;

- Updating of the staffing plan by December 1987, and implementation in 1988 of new structures and modern personnel management methods;

- A tariff study, to be completed by December 1987;

- Definition and implementation of a system for operating the interconnected network by March 1988.

The investment program will have to continue to emphasize the physical rehabilitation of the means of production, namely the power plants of Moukoukoulou and Djoue, the 20 kV transport and, where justified, the extension of distribution.

The Government will adopt, between now and December 1987, an electricity code ("cahier des clauses et conditions generales") specifying the respective roles of the Ministry of Mining and Energy and of SNE with respect to investment, planning and implementation.

SNDE

The rehabilitation of SNDE will be initiated by applying the following measures:

- Giving priority, with respect to investments, to the rehabilitation of the Brazzaville and Pointe-Noire networks;

- Carrying out, by December 1988, an inventory of customers in Brazzaville and Pointe-Noire and improving billing and collection with a computerized customer management system;

- Conducting a tariff study in 1987;

- Strengthening the internal audit system in 1987;

- Introducing in 1987 a program designed to improve:
  - financial and accounting management,
  - maintenance of facilities and supplies;

- Ensuring transparency of contractual relations with the projects corporation in which SNDE is a stockholder (SOCOTHRY).

HYDRO-CONGO

- Since 1980, the Government has undertaken, on the basis of an assessment and various studies (organization manual, tariff study, plans of action of the top managers, audits of accounts), a series of actions designed to rehabilitate the corporation in the areas of management, exploration and production.

- As part of this rehabilitation plan, which has been pursued with increased vigor since June 1985 and provides for expatriate technical support, the following measures have been decided and are being, or will be, implemented:

  . phasing out of retail and transport activities;

  . staff reduction, by means of a hiring freeze and non-replacement of retired and deceased employees;

  . reduction of leakage from 3% to 1% by December 1988;

  . reduction of intermediary consumption by raising charges for the private use of wagons, contracting out road transport and other appropriate measures;

  . internal audit of research and production activities by March 1988.

CORAF

In November 1988, CORAF will take the following steps to cut costs and improve efficiency:

- Expatriate personnel will be reduced by 15% in December 1987 and again by 20% in July 1988.

- Production will be improved between now and June 1988 by switching to a light crude better suited to the configuration of the refinery and the market profile.

- Financial burdens will be reduced and a debt settlement plan with HYDRO-CONGO will be prepared by June 1988.

- CORAF accounts will continue to be audited each year.

SUCO

The Government has adopted a rehabilitation plan for SUCO covering the 1987-1989 period which includes the following measures:

- cutting production down to 30,000 tons in 1987 and 40,000 tons in 1988 and 1989, and limiting investments within this production limit;

- signing a technical and commercial assistance contract with an operator granted effective management responsibilities;

- deep cuts in operational costs (personnel, operating methods, recentering of the supply function, means of production, inter alia);

- adjustment of sugar tariffs upon presentation of annual documentation in December for application from the beginning of the following year;

- implementation of a financial restructuring plan;

- annual audit of the accounts.

ONPT

Based on a study currently in progress, ONPT will update its rehabilitation plan by December 1987, with three major objectives:

- improvement of management tools in conjunction with decentralization of responsibility;

- increase in resources and restraints on spending;

- improvement in quality of services.

The following steps will be taken to achieve those objectives:

- update the agency balance sheet for 1985 and 1986 by March 1988;

- introduce commercial and industrial accounting and decentralized financial and accounting management in the various sectors of activity;

- increase revenues through improved billing and collection;

- improve the use of assets and services by introducing management systems that have already been prepared such as the maintenance plan and the plan for the management of inventories and of work orders for telecommunications;

- improve personnel management.

Special attention will be directed to the problem posed by the financial restructuring of ONPT, and appropriate ways must be found to improve the situation of the financial services (CNE, CCP).

The tariff adjustments that will accompany the implementation of the financial restructuring plan will be examined by March 1988 in conjunction with this restructuring.

The institutional problems posed by possible modification for ONPT's legal structures will be reviewed at a later stage.

ATC

ATC today undertakes, in a changed economic context, a rehabilitation plan based on three objectives:

- optimize the utilization of the substantial investments already made;

- ensure better control over expenditures and seek higher revenues;

- improve the quality of ATC services and management by adopting the principle of management autonomy and accountability for each of the sections.

To achieve those objectives, the following priority actions will be taken immediately:

- implementation of a decentralized accounting and financial management system;

- implementation of a decentralized personnel management system;

- reinforcement of the ability of the director general's office to coordinate, direct and ensure the implementation of those specific actions.

The following operations will be conducted concurrently with those actions:

- study of a staff reduction plan between now and December 1987;

- completion by December 1987 of a phased three-year plan to reduce claims in an amount equivalent to 6 to 3 months of revenues;

- completion of a financial audit of the river transport services by March 1988;

- completion of a study of tariff structures by October 1988 and approval of new structures in December 1988;

- completion by March 1988 of the reorganization study started in 1986.

Additional work should focus on the following tasks:

. redefinition of ATC missions and consideration of possible divestiture from certain activities;

. preparation of medium-term financial projections taking into account the effect of cost-cutting measures, retargeting of activities and marketing policy;

. review, based on these financial projections, of the question of the financial cross subsidization between the sections most appropriate to decentralized management of the various sections, and, if warranted, proposals for additional measures;

. proposals for possible institutional modifications necessitated by actions carried out under the rehabilitation plan.

Annex IV

THE PEOPLE'S REPUBLIC OF THE CONGO

Classification of Public Enterprises

A. ENTERPRISES TO REMAIN IN THE PE SECTOR		B. ENTERPRISES TO BE DIVESTED		C. UNDECIDED
Enterprises to be Rehabilitated	Policy Environment 2/	Majority Private Interest	Liquidations	
Key PEs ONPT (Telecom) SNE (Power) SNDE (Water) ATC (Transport) HydroCongo (petroleum products) CORAF (Refinery) SUCO (Sugar) which will have private management Others to be Rehabilitated at a later stage LINA CONGO (Airline) CIDOLOU (cement) 1/ SFAC (Wood)	MAB (Flour) RNPT (Public Works) OCT (Tobacco Board) 3/ OCV (food crops) OCC (Coffee and Cocoa) 3/ OCB (Wood) SONATRAB (Wood) SIDETRA (Wood) SNEB (Wood) SOCOMAB (Wood transit) SEP (Agricultural studies) STAFRUIT (Fruit) Ferme de Kombé UAIC (Wood) PLASCO (Plastic) SOVERCO (Glass) LAPCO (Pharmaceuticals) SOCOPHAR (Pharmacy) LNSP (Laboratory) ONACI (Film) ONIVEG (Meal retail) INC (Printing) ONLP (Bookstores) UBC (Chalk) ARC (Insurance) ANAC (Aeronautic Board) CSPPAF (Stabilization) Pompes Funébres SOMECO (Construction) STPN (Transport) Ferme de Makoua SAPM (Agriculture) SOCOREM (Mining) SOPROGI (Housing) OCI (Computer)	100% Divested UAB (Animal Feed) SIAP (Paper) Ferme Laitiére SOCOME (Furniture) Over 50% privatized OFNACOM (Retail) HUILKA (Veg. Oil) SOTEXCO (Textile) UTS (Textile) SOCAVILOU (Chicken) CETRAB (Wood) COPEMAR (Fishing) SOCOTRA (Transit) IAD (Record) Ferme de Loubomo Ferme d Owando SCBO (Wood) Privatization of Management SUCO (Sugar) CAIEM (Manioc) 6 Hotels SANGHAPALM-RNPC (Palm)	SOCALIA (Agriculture) Yaourterie CRETH (Housing) STL (Transport) OCMC (Retail) SOPROTHEL (Tourism) Atlantic Palace tion) OCF (Wood) 3/ SONACEM (Retail)	SONAVI (Chicken CHACONA (Ship repair SOCALIB (Wood) OGB (Ranch) Ferme de Mbe Mantecombe (Cassava)
Total Turnover 4/ (CFAF million) 100,000 5/	50,000	20,500	3,300	2,600
Total Staff 4/ 14,800 5/	7,400	7,000	700	600

1/ Minority private capital
2/ These enterprises will be: (a) operated in a competitive environment including the abolition of monopolies and and special privileges, and the witholding of all subsidies; and (b) restructured with staff reductions and spinning off of activities.
3/ Some or all activities will be integrated into the administration.
4/ 1985 figures.
5/ Does not include SUCO figures, which are included in the privatization of management category.

Source: Groupe de Pilotage, March 1987

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THE PEOPLE'S REPUBLIC OF THE CONGO

STRUCTURAL ADJUSTMENT LOAN

SUPPLEMENTARY DATA SHEET

Section I - Timetable of Key Events

(a)	Time taken to prepare the program:	One year
(b)	Appraisal mission:	March/May 1987
(c)	Completion of negotiations:	May 1987
(d)	Planned date of effectiveness:	September 1987

Section II - Special Bank Implementation Actions

Prior to March 31, 1988, or other agreed date, the Bank will review the Government's progress in implementing the structural adjustment program.

Section III - Special Conditions

Effectiveness of the loan, which will permit use of the first tranche of US$35 million equivalent, is subject to:

(a) satisfactory progress in the preparation of the macro-economic framework for 1988-92.

Release of the second tranche of US$35 million equivalent of the credit will be contingent upon satisfactory progress made by the Government in carrying out the adjustment program; in particular the following actions will have been taken:

(a) preparation of the "esquisses financières" (1988-90) and adoption of the 1988 "Loi de Finances" including programmed authorizations for public investments;

(b) preparation of oil palm sector strategy;

(c) progress in maintaining net recruitment of the civil service at zero and adhering to rule of CFAF 1 saving for CFAF 1 expenditure;

(d) progress in revising the mining code;

(e) implementation of new price structure for refined petroleum products;

(f) implementation of PE divestiture program as agreed;

(g) progress in implementation of a plan to settle debts as of 1985 for selected PEs;

(h) agreement on a banking sector restructuring plan;

(i) progress in reducing staff in non-key PEs and agreement on staff reduction plans for the seven key PEs;

(j) progress in implementing action programs for these key PEs;

(k) liberalization of price and trade control through reduction of products subject to fixed prices; abolition of system of control of ex-factory prices and price margins for luxury goods; replacement of quantitative restrictions with tariffs; and elimination of the requirement for import licenses and export authorizations;

(l) abolition of OCI's monopoly and preparation of plan to reduce the number of remaining monopolies; and

(m) preparation of a plan to restructure ONEMO.

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
I. Public Sector				
Resource Management				
Improve efficiency of public resource allocation and utilization.	- Public Expenditures (Macro-framework, investments, current expenditure and revenue)	- 1986 and 1987 Investment Plans reduced and revised according to new priorities.	- Prepare medium-term economic framework by September 1987.	- Effectiveness
			- Prepare "esquisses financieres" (macro-financing plan) for 1988-90 by September 1987.	- Second tranche
		- Agreements on Epena-Impfondo road, Brazzaville hospital, and Étoumbi-Kunda oil palm plantation.	- Introduce three-year rolling investment program (1988-90) by October 1987.	
		- Recurrent expenditures reduced by 11 percent.	- Adopt 1988 "Loi de finances" included programmed authorization for public investments by December 1987.	- Second tranche
		- Variety of new taxes imposed 1986/87. - Physical works on Etoumbi/Kunda stopped.	- Prepare oil-palm strategy by December 1987.	- Second tranche
			- Limit current expenditures as share of non-oil revenues: 70 percent in 1987; 80 percent in 1988.	
			- Improve tax and duty collection starting June 1987.	
			- Institute fiscal reforms in January 1988.	
			- Improve macro-economic coordination	
	- Civil Service Reform	- New recruitment reduced by 40 percent in 1986; net recruitment limited to less than 400 persons.	- Prepare plan to review civil service by October 1987 and begin implementation in January 1988.	
			- Maintain limit on expenditures for new recruitment (CFAF 1 for 1) in 1987 and 1988.	- Second tranche
		- Size of civil service (one departure for one entry) and personnel expenditures frozen as of June 1987.	- Carry out audit of personnel payroll records by January 1988.	
			- Limit public sector salary expenditures to 68 percent of non/oil revenues 1987 and 67 percent in 1988.	
			- Reduce scholarship expenditure to 60% of 1986 levels.	
			- Carry out number of other steps to rationalize size of civil service and to improve personnel management (1987-88).	

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
	- External Debt Management	- Rescheduling agreed at Paris and London Clubs. - Improvement to debt records by CCA. - Procedures for approving guarantees. - Limits set on new borrowings.	- Make preparations to reschedule debt for 1988. - Continue improvements to CCA's debt management and debt reporting.	
II. Petroleum Resource Management Optimize oil resources, use, and reduce local supply costs.	- Petroleum Development		- Prepare promotional package for exploration of the "Cuvette" region by December 1987.	
			- Review and begin revising mining code by March 1988.	- Second tranche
	- Domestic Refinery and Marketing	- Special tax on windfall profit. - Hydro Congo's retail distribution monopoly abolished.	- Establish new price structure on refined petroleum products by March 1988. - Review CORAF's operating costs with a view to revising by November 1988.	- Second tranche
	- Petroleum Reserve Fund		- Prepare guidelines before December 1987 and create petroleum reserve fund by July 1988.	

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
III. Public Enterprise Reform				
Reduce burden of PE sector on the economy, increase PE accountability and autonomy.	- Sector Rationalization	- Strategic studies of 80 enterprises. - Classification of PEs into 4 categories. - Liquidators appointed for at least 4 of 8 enterprises.	- Implement divestiture program according to agreed timetable. - Decide fate of remaining 8 enterprises by December 1987.	- Second tranche
	- Financial restructuring and discipline.	- Cross debt study and settlement plan for 15 PEs for debts accrued by end 1988. - Settlement of SNE's debts. - Adoption of lending guidelines and agreement of effects of rescheduling between Government and PEs. - Agreement on PE investments for 1986 and 1987. - Program of audits by CNC of 20 PEs.	- Oblige priority PEs to submit financial accounts for audit as of 1987. - Prepare plan to settle priority debts and implement in 1988. - Transfer of assets to PE balance sheets by July 1988. - Progressively increase budgetary allocations for Government consumption of PE services to full costs starting in 1988 - Set ceiling for free services in 1988 budget.	- Second tranche
	- Banking sector restructuring	- Diagnostic study underway. - Internal audits of selected banks. - Payment of interest of PE debts to UCB.	- Complete diagnostic study by October 1987. - Prepare restructuring action plan by December 1987. - Review credit ceilings for PEs by December 1987.	- Second tranche
	- Staff reduction and personnel management	- Study of compensation system underway. - Identification of reduction staff in 23 non-key PEs. - Suspension of collective labor agreements for 1988.	- Reduce staff in non-key PEs and PEs to be liquidated or privatized in 19897-88. - Preparation and approval of staff reduction plans in key PEs by December 1987. - Introduce new personnel statutes by June 1988.	- Second tranche - Second tranche

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
	- Legal and institutional framework	- Approval of new statutes for 10 pilot enterprises. - Review of procurement regulations and organization of central procurement agency. - Legal structure for liquidation and privatization set up. - New procurement procedures proposed.	- Adopt legislation for management contracts and leases by December 1987. - Adopt new procurement procedures by December 1987. - Redefine PE statutes, Government relations, and oversight structures by December 1988.	
IV. Public Enterprise Rehabilitation Improve performance of key public enterprises	- Staff reductions, tariff increases, institutional/financial/technical reorganization as follows for each key enterprise	- PE action plans agreed; in addition, steps cited below:	- Satisfactory progress on these programs as follows:	- Second tranche
	(a) ATC	- Cost saving measures in 1986 and debt-equity conversion. - Reorganization study started. - Tariff increase of 10%. - Reduction of personnel expenses by 6%.	- Prepare action to reduce receivables from 6 to 3 months of revenue by December 1987. - Complete reorganization study by March 1988. - Implement decentralized management procedures and accounting (1987-88). - Carry out financial audit of river transport by March 1988. - Prepare study of privatizing activities by June 1988. - Prepare new tariff structure by October 1988 and adopt by December 1988. - Prepare staff reduction plan in 1987 and implement in 1988.	

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
	(b) ONPT	- Preparation of rehabilitation plan. - Tariff increase of 20%. - Reduction of personnel expenses by 5%.	- Update rehabilitation plan by December 1987. - Carry out a tariff study by March 1988. - Carry out staffing review by December 1987. - Update balance sheet for 1985/88 by March 1988. - Adopt plan to improve stock management, work orders and maintenance procedures by January 1988. - Introduce decentralized financial management and commercial accounting. - Study financial solution of ONPT's services. - Study restructuring of OPT and possibility to split into separate entities by December 1988.	
	(c) SNDE	- Reorganization study completed. - Tariff increase of 7.5%. - Reduction of personnel expenses by 5%.	- Reorient investment to rehabilitation of existing urban networks. - Review staffing by December 1987. - Revise subcontracting relationship with SOCOTHRY by December 1987. - Establish operations and maintenance standards by March 1988. - Carry out customer inventory and improve customer management by December 1988. - Carry out tariff study by December 1987. - Strengthen internal audit functions by December 1987.	

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
	(d) SNE	- Customer inventory in Brazzaville. - Tariff increase of 7.5%. - Reduction of personnel expenses by 5%.	- Prepare manpower plan by December 1987. - Adopt new customer management procedures by December 1987. - Carry out tariff study by December 1987. - Review institutional context and responsibilities of MME/SNE by December 1987. - Carry out customer inventory in Pointe Noire by December 1988. - Develop strategy for exploitation of the interconnected network by March 1988.	
	(e) Hydro-Congo	- Leasing of retail and transport activities. - Computerized general and cost accounting.	- Complete divestiture of retail and transport activity by December 1987. - Adopt staff reduction plan by December 1987. - Adopt measures to reduce product losses to 1% by December 1988. - Cut transport costs in 1988.	
	(f) CORAF		- Implement production efficiency measures by June 1988. - Reduce expatriate staff by 15% by December 1987 and another 20% by July 1988. - Prepare financial restructuring plan by June 1988. - Review operating costs by November 1988.	
	(g) SUCO	- Increase in price of sugar by 20% in 1988 and 10% in eary 1987.	- Sign management and technical assistance contract by September 1987. - Prepare cost-cutting plan by December 1987. - Prepare financial restructuring plan by December 1987. - Limit production to 30,000 tons in 1987 and 40,000 tons threreafter.	

Structural Adjustment Program

Objective	Policy Area	Actions Already Taken	Nature of Actions to be Taken	Conditionality
V. Incentive Policies and Promotion of the Private Sector.				
Increase incentives to productive activities; increase allocational efficiency and competition and enhance role of private sector.	- Price controls	- List of products with fixed prices reduced from 38 to 20 (11 excluding public services). - Liberalization of profit margins.	- Reduce list of products subject to fixed prices to 9 by March 1988.	- Second tranche
			- Abolish current system of margin control and ex-factory control for luxury goods by March 1988.	- Second tranche
	- Trade liberalization		- Replace import quotas by tariffs by March 1988.	- Second tranche
			- Replace system of export authorization and import licences by declaration system by January 1988.	- Second tranche
	- Monopoly powers	- Monopolies of OCC and OCV abolished. - Monopolies of OCB and OFNACOM reduced. - Exemptions to OCB's monopoly granted by Ministry of Forestry	- Abolish monopoly of OCI by December 1987.	- Second tranche
			- Review status of remaining monopolies and prepare plan to reduce them by March 1988.	- Second tranche
	- Labor Mobility		- Study impact of removal of monopoly on liberal professions by December 1987.	
			- Prepare plan to restructure ONEMO by January 1988.	- Second tranche
	- Private investment Promotion	- Adoption of new investment code.	- Ease requirements for obtaining business licence and reduce profit tax by December 1987.	
			- Adopt plan of action to develop SME by December 1987.	
			- Harmonize and update legal text as regulations by August 1987.	

Table 1· Base Case Selected Economic Indicators : 1984-1998
(In billions of Constant 1984 CFAF)

	Estimate				Projected		Growth Rates			Average Annual Growth Rates		
	1984	1985	1986	1990	1994	1998	1984	1985	1986	1986-90	1990-94	1994-98
GDP (at Market Prices)	958.5	930.6	863.1	819.2	918.2	1037.8	10.85%	-2.91%	-7.26%	-1.30%	2.89%	3.11%
Terms of Trade Adjustment	-0.0	-27.5	-276.6	-195 7	-171.8	-97.3						
Gross Domestic Income	958.5	903.2	586.5	623.5	746.4	940.5	10.47%	-5.78%	-35.07%	1.54%	4.60%	5.95%
Agriculture	68.3	67.7	69.0	77.7	94.0	114.2	10.45%	2.00%	2.00%	3.00%	4.87%	5.00%
Industry	542.4	509.6	493.8	444.2	485.5	522.8	11.42%	-6.04%	-3.09%	-2.61%	2.25%	1.87%
Oil	413.7	401.3	409.2	365.8	396.0	414.6	15.61%	-3.00%	1.97%	-2.78%	2.01%	1.15%
Manuf./Construction	128.7	108.3	84.6	78.4	89.4	108.2	-0.15%	-15.82%	-21.87%	-1.90%	3.34%	4.69%
Services	312.7	316.8	271.2	269.6	307.7	365.7	-2.70%	1.29%	-14.39%	-0.14%	3.36%	4.41%
		0.01	-0.09	0.05	0.20	0.31						
Private Consumption	372.2	377.8	343.8	360.1	432.9	568.8	1.72%	1.50%	-8.99%	1.17%	4.71%	6.97%
Public Consumption	141.7	146.9	128.9	87.6	75.2	64.6	11.22%	3.69%	-12.26%	-9.20%	-3.74%	-3.74%
Total Consumption	513.9	524.7	472.7	447.7	508.1	631 4	4.15%	2 10%	-9.90%	-1.35%	3.21%	5.58%
Total Investment	291.3	268.5	177.8	127.5	148.7	183.8	-19 53%	-7.83%	-33.80%	-7.97%	3.92%	5.44%
Million US$ Current												
Exports of Goods & Serv.	1345.1	1219.6	802.6	1082.0	1544.2	2285.6	11.92%	-9.33%	-34.19%	7.75%	9.30%	10.30%
Imports of Goods & Serv.	1110.4	1157.1	980.4	944.7	1256.4	1833.9	-20.88%	4.20%	-15.27%	-0.92%	7.39%	9.92%
Goods and Services Balanc	234.7	62.5	-177.8	137.3	287.8	451.7						
Current Account Balance	31.8	-161.1	-331.3	-22.2	61.7	258.1						
Ratios												
Investment/GDP	30.4%	28.9%	20.6%	15.6%	16.2%	17.7%						
Investment/GDY	30.4%	29.7%	30.3%	20.4%	19.9%	19.5%						
Public I /Total I	NA	57.7%	32.5%	20 5%	23.0%	23.0%						
Consumption/GDP	53.6%	56.4%	54.8%	54.7%	55.3%	60.8%						
Consumption/GDY	53.6%	58.1%	80.6%	71.8%	68.1%	67.1%						
Exports of G & S/GDP	61.3%	56.3%	40.3%	58.7%	83.7%	85.1%						
Imports of G & S/GDP	50.6%	53.4%	49.3%	32.1%	29.1%	28.2%						
Current Balance/GDP	1.4%	-7.4%	-16.6%	-0.8%	1.4%	4.0%						
Debt Service Ratio	19.7%	28.6%	35.8%	21.8%	33.2%	18.6%						
Debt Service/Govt Rev	11.0%	15.0%	43.6%	33.1%	49.5%	25.1%						
MLT Debt/GDP	72.6%	83.1%	94.1%	91.8%	53.5%	24.7%						
Cur Sur/Def of Govt./GDP	13.8%	10.3%	4.3%	2.6%	8.4%	15.9%						
Over. Sur/Def of Govt/GDP	-3.6%	-6.3%	-5.0%	-0.7%	4.5%	11.3%						
Oil Exp/Merchandise Exp	90.1%	86.9%	72.8%	67.0%	66.2%	66.0%						
Oil Rev/Government Rev	63.9%	67.0%	50.4%	27.9%	32.6%	39.4%						

Table 2: Base Case Medium and Long Term External Debt, 1984-1998
Public & Publicly Guaranteed
(In millions of US dollars)

	Estimated		Projected												
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Disbursed Outstanding	1593.75	1799.39	1871.82	2115.85	2329.42	2528.85	2703.59	2733.67	2347.43	2461.34	2311.96	2158.53	1778.97	1667.14	1604.95
Principle Payments	179.93	216.47	187.81	58.92	8.58	56.59	91.44	242.54	290.74	327.06	337.45	342.32	348.25	355.20	305.36
Interest Payments	84.73	108.13	99.28	89.73	115.97	130.69	138.69	194.50	197.61	188.56	174.85	162.40	149.80	137.05	124.53
Debt Service	264.66	324.60	287.08	148.65	124.55	187.28	230.13	437.04	488.35	515.81	512.30	504.72	498.05	492.24	429.90
Gross Disbursements	282.08	238.15	204.53	175.04	158 71	192.63	200.74	188.19	192.07	186.75	185.18	185.76	198.55	201.05	205.15
Share of MLT Debt in GDP	72.64%	83.12%	94.06%	89.10%	90.77%	92.38%	91 75%	84.50%	74.32%	62.50%	53.49%	45.38%	33.72%	28.44%	24.67%
Debt Service Ratio	19.30%	26.20%	35.77%	17.09%	12.73%	18.01%	21.27%	38.94%	37.70%	36.30%	33.16%	30.10%	26.79%	23.86%	18.81%
IBRD Debt Outstand./ Total Debt Outstand.	1.93%	2.31%	3.26%	3.61%	4.84%	6.99%	8.80%	10.14%	11.43%	12.61%	13.90%	15.12%	17.59%	19.52%	20.88%

Table 3: Base Case Gross Disbursements by Type of Lender: 1984-1998
(In millions of US dollars)

	Estimated			Projected											
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
IBRD	5.90	11.78	5.39	17.48	41.22	68.69	66.35	48.55	39.76	32.91	31.23	34.05	40.60	43.35	44.25
Other Con. Multilateral	5.62	18.52	7.17	12.94	10.78	9.95	9.12	8.50	9.10	9.60	9.90	10.00	10.00	10.00	10.00
Concessional Bilateral	37.16	25.38	26.26	82.63	37.20	53.04	36.32	37.78	39.15	35.28	29.15	23.35	21.20	20.60	20.30
Suppliers/Non Con.	72.51	78.88	60.51	99.35	101.22	70.24	63.65	53.38	64.07	69.56	74.90	78.35	81.75	87.10	90.60
Private Guaranteed	160.90	105.61	203.49	113.26	201.78	150.02	112.52	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
Private Non-Guaranteed	21.00	81.00	139.00	90.00	90.00	65.37	64.62	68.97	76.35	86.31	89.45	100.43	104.08	116.17	120.39
Capfil	0.00	0.00	3.15	48.90	0.00	0.00	0.00	66.12	0.51	0 00	0.00	0,00	0.00	0.00	0.00
Total	303.08	319.15	443.98	414.53	482.20	400.31	352.58	321.23	268.93	278.06	274.63	288.18	297.63	317.22	328.54
Of which World Bank	2.09%	3.69%	1.21%	4.21%	8.55%	17.16%	18.82%	15.11%	14.76%	11.63%	11.37%	11.90%	13.64%	13.67%	13.50%

Table 4: Base Case Balance of Payments: 1984-1998
(In millions of US dollars)

	1984	1985	1986	1987	1988	1989	8 1990	1991	1992	1993	1994	1995	1996	1997	1998
Exports of goods & NFS	1345.1	1219.6	802.5	869.9	978.6	1040.0	1082.0	1183.1	1295.5	1420.5	1544.2	1677.0	1859.0	2061.1	2235.6
Merchandise	1264.8	1144.8	700.8	758.8	850.4	898.0	934.0	1021.2	1118.5	1226.9	1332.5	1445.4	1605.5	1783.6	1981.7
Non-factor Services	80.3	74.7	101.8	111.1	128.3	141.9	148.0	161.9	177.0	193.6	211.6	231.6	253.6	277.6	303.9
Imports of goods & NFS	1110.4	1157.1	980.4	875.5	892.2	933.5	944.7	990.1	1066.3	1153.8	1256.4	1387.7	1519.8	1679.7	1833.9
Merchandise	759.4	774.5	662.0	586.1	585.8	613.5	626.6	658.5	713.7	771.8	842.6	939.2	1033.5	1152.2	1261.9
Non-factor Services	351.0	382.5	318.4	289.4	306.4	320.0	318.1	331.6	352.5	382.0	413.9	448.4	486.3	527.4	572.0
Resource balance	234.7	62.5	-177.8	-5.6	86.4	106.4	137.3	193.0	229.2	266.7	287.8	289.3	339.2	381.5	401.7
Net factor income	-200.3	-228.5	-154.9	-129.9	-152.2	-162.4	-161.1	-222.1	-227.4	-222.7	-227.7	-219.3	-211.0	-202.4	-195.3
o/w Interest Payments	-160	-171	-154.9	-129.9	-152.2	-162.4	-161.1	-222.1	-227.4	-222.7	-212.7	-203.2	-193.4	-183.0	-174.0
Net Current Transfers	-2.7	2.9	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Current Account Balance	31.8	-161.1	-331.3	-133.9	-64.1	-54.3	-22.2	-27.5	3.4	45.6	61.7	71.7	129.8	180.7	258.1
Long-term capital inflow	-98.5	-28.8	-20.1	121.8	106.4	67.6	67.4	5.8	-32.6	-73.5	-91.3	-90.2	-83.5	-66.0	-9.4
Net DFI	0.0	0.0	0.0	46.9	50.2	51.9	37.9	38.7	39.6	40.5	41.4	45.8	48.9	51.7	52.9
Net LT loans (DRS)	102.2	21.7	16.7	116.1	150.1	136.0	109.3	-54.4	-98.7	-140.3	-152.3	-156.8	-154.7	-154.1	-100.2
disbursements	282.1	238.2	204.5	175.0	158.7	192.6	200.7	188.2	192.1	186.7	185.2	185.8	193.6	201.1	205.2
repayments	-179.9	-216.5	-187.8	-58.9	-8.6	-56.6	-91.4	-242.5	-290.7	-327.1	-337.5	-342.8	-348.2	-355.2	-305.4
Other LT inflows(net)	-200.6	-50.3	-40.0	-90.4	-93.9	-120.3	-79.8	-44.9	26.0	26.4	19.6	20.6	24.3	38.5	38.0
Capfil	0.0	0.0	3.2	48.9	0.0	0.0	0.0	66.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other Cap & Errors/Omiss	-25.5	94.5	164.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-92.2	-95.2	-186.7	-12.4	42.3	13.2	45.2	-21.9	-29.2	-27.8	-29.6	-18.4	46.3	114.7	248.7
Financing	92.2	95.2	186.7	12.4	-42.3	-13.2	-45.2	21.9	29.2	27.8	29.6	18.4	-46.3	-114.7	-248.7
Change in net res.	56.2	-14.3	72.1	14.2	2.8	-1.6	-9.8	-21.2	-18.8	-15.9	-20.7	-23.5	-23.7	-28.2	-27.4
o/w net IMF	0.0	0.0	11.2	14.2	2.8	-1.6	-9.8	-12.8	-5.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	56.2	-14.3	60.9	0.0	0.0	0.0	0.0	-8.4	-13.9	-15.9	-20.7	-23.5	-23.7	-28.2	-27.4
Accum. Arrears (+)	36.0	109.5	169.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	-0.0	-0.0	-54.9	-1.8	-45.1	-11.7	-35.4	43.1	48.0	43.7	50.3	42.0	-22.6	-86.5	-221.3
Memorandum Items															
Debt service ratio before Resch. (1)	19.68%	26.62%	62.52%	55.39%	38.37%	31.44%	25.07%	18.90%	18.93%	14.95%	13.06%	12.70%	12.25%	12.05%	11.69%
Debt service ratio after Resch. (1)	19.68%	26.62%	33.77%	17.09%	12.73%	18.01%	21.27%	38.94%	37.70%	36.30%	33.18%	30.10%	26.79%	23.86%	18.81%

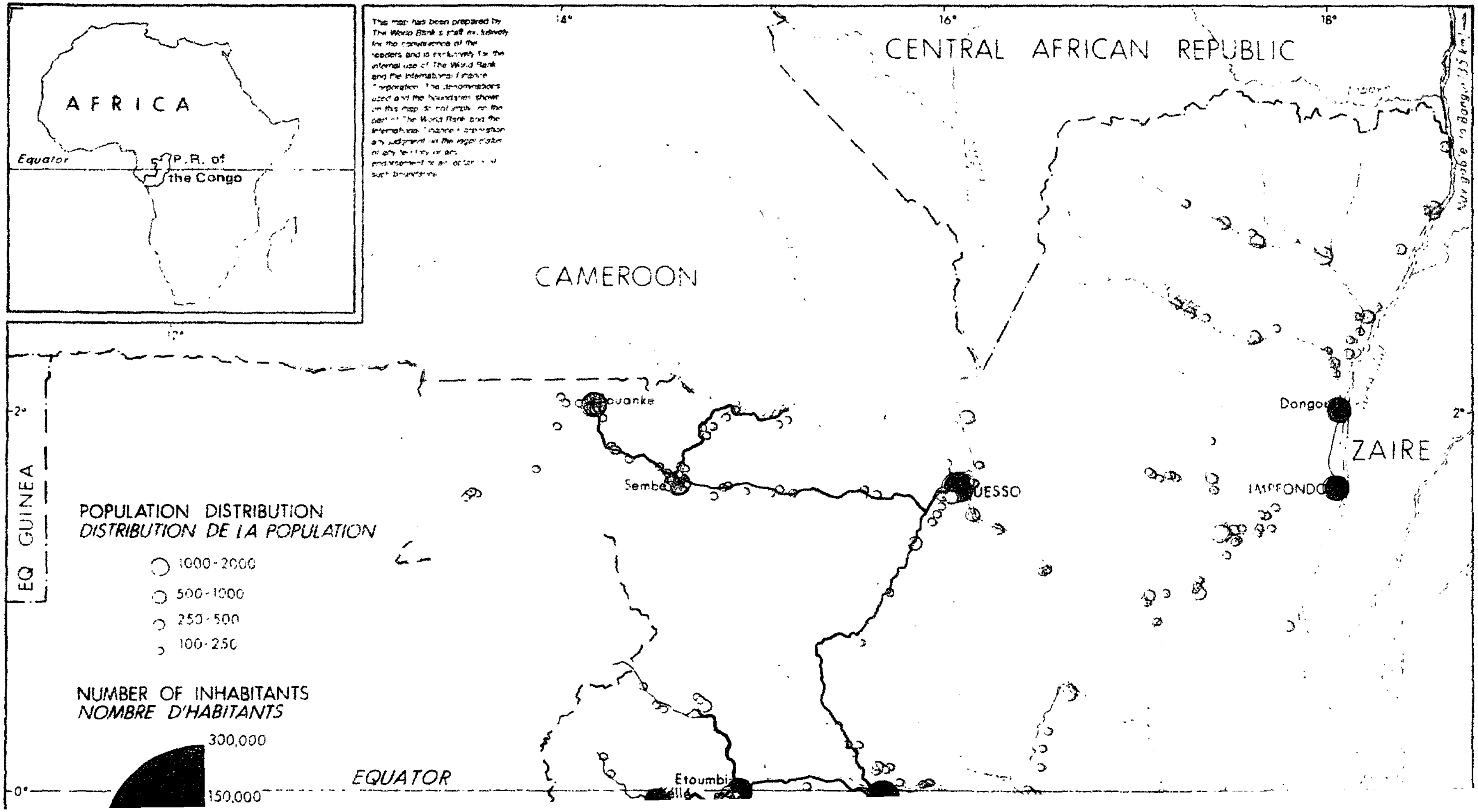
(1) Public & Publicly Guaranteed debt.

Table 5: Base Case National Accounts Summary at Constant 1984 Prices : 1984-1988
(In billions of FCFA)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Origin and Use of Resources															
GDP at market Prices	958.5	930.6	863.1	805.4	803 9	803.1	819.2	840.9	865.7	894.8	918.2	944.7	974.2	1006.1	1037.8
Net indirect taxes	37.1	36.6	29.0	27.2	27.2	27.2	27.7	28.4	29.3	30.3	31.1	31.9	32.9	34.0	35.1
GDP at factor cost	921.4	894.0	834.0	778.2	776.7	776.0	791.5	812.5	836.5	864.5	887.2	912.8	941.2	972.1	1002.7
Agriculture	66.3	67.7	69.0	70.1	72.2	74.7	77.7	81.2	85.2	89.5	94.0	98.7	103.6	108.8	114.2
Industry	542.4	509.6	493.8	452.7	445.8	437.5	444.2	454.4	465.8	478.6	485.5	493.4	502.8	518.0	522.8
Oil	413.7	401.3	409.2	378.0	370.7	360.9	365.8	373.6	382.4	392.1	396.0	399.9	404.8	409.7	414.6
Manufac./Construction	128.7	108.3	84.6	74.6	75.1	76.6	78.4	80.7	83.4	86.5	89.4	93.4	98.0	103.3	108.2
Services etc.	312.7	316.8	271.2	255.5	258.7	263.7	269.6	277.0	285.4	296.4	307.7	320.7	334.8	350.3	365.7
Resource Balance	102.5	57.5	212.6	230.7	244.2	238.4	244.0	256.5	261.6	266.1	261.4	249.9	242.5	230.1	222.7
Exports : GANFS	587.6	564.5	582.1	553.1	552.6	549.7	564.9	584.8	606.6	630.6	648.8	667.5	688.4	710 6	734.1
Imports : GANFS	485.1	507.1	369.5	322.4	308.4	311.3	320.9	328.3	345.1	364.5	387.4	417.6	446.0	480.5	511.5
Domestic Absorption	805.2	793 2	650.5	574.7	559.6	564.7	575.2	584.5	604.2	628.7	656.8	694.9	731.7	778.0	815.1
Consumption	513.9	524.7	472.7	439.8	440.3	444.0	447.7	453.1	465.9	486.2	508.1	536.5	565.9	599.8	631.4
Private	372.2	377.8	343.8	344.3	345.6	353.0	360.1	368.7	384.7	408.0	432.9	464.0	496.2	532.7	566.8
Public	141.7	146.9	128.9	95.5	94.6	91.0	87.6	84.3	81.2	78.2	75.2	72.4	69.7	67.1	64.6
Gross Fixed Investment	291.3	268.5	177.8	134.9	119.3	120.7	127.5	131.4	138.3	142.5	148.7	158.4	165.8	176.2	183.8
Fixed	277.3	257.5	165.2	134.9	119.3	120.7	125.9	129.2	135.8	139.6	146.3	155.8	162.8	173.0	180.6
Change in Stocks	14.0	11.0	12.6	0.0	0.0	0.0	1.6	2.2	2.5	2.9	2.3	2.7	2.9	3.2	3.2
Memorandum Items															
Net Factor Income	-87.5	-95.4	-79.8	-70.8	-54 0	-43.1	-35.7	-36.5	-38.0	-39.6	-47.0	-49.1	-51.1	-52.4	-53.9
Net Current Transfers	-1.2	1.2	0.7	0.8	0.3	0.7	0 8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6
Gross National Product	871.0	835.3	783.2	734.6	749 8	760.0	783.5	804.5	827.7	855.2	871.2	895.6	923.1	953.7	983.9
Gross Domestic Savings	393.8	298 5	113.8	134.9	151.9	158 6	175.8	195.8	213.7	227.8	238.2	246.0	265.5	285.1	309.1
Gross National Savings	305.2	204.4	34.6	64.8	98 6	116.2	140.8	161.1	176 5	188.9	191.9	197.6	215.1	233.4	255.9
Capacity to import	-587.6	-537.1	-305.5	-322.3	-341 0	-349.2	-369.2	-393.8	-420.5	-449.8	-477.0	-505.2	-545.7	-589.5	-636.8
Terms of trade Adj.	-0.0	-27.5	-276.6	-230.8	-211.7	-200.5	-195.7	-191.0	-186.1	-180.6	-171.8	-162.3	-142.7	-121.1	-97.3
Gross domestic income	958.5	903.2	586.5	574.6	592.2	602.6	623.5	649.9	679.6	714.0	746.4	782.5	831.5	885.0	940.5
Gross national income	871.0	807 8	506.6	503.8	538.2	559.5	587.8	613.5	641.6	674.4	699.4	733.8	780.4	832.5	886.6
Oil Price	27.8	25.6	13.0	15.0	17.0	18.0	18.0	19.2	20.5	21.9	23.4	25.0	27.5	30.2	33.1
Oil Production (000 Bbl)	42345.0	41138.0	41950.0	38755.0	38000.0	37000.0	37500.0	38300.0	39200.0	40200.0	40600.0	41000.0	41500.0	42000.0	42500.0
Growth		-0.0	0.0	-0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment	277.3	263.0	165.2	134.9	119.3	120.7	125.9	129.2	135.8	139.6	146.3	155.8	162.8	173.0	180.6
Public Investment	165.0	155.0	57.7	39.9	22.9	22.8	26.1	26.7	30.3	30.9	34.2	35.0	38.2	39.2	42.3
Private Investment	42.3	42 0	44 9	35.0	38.4	37.9	39.7	42.5	45.5	48.7	52.1	55.7	59.7	63.8	68.3
Oil Investment	70.0	66.0	62.6	60.0	60 0	60.0	60.0	60.0	60.0	60.0	60.0	65.0	65.0	70.0	70.0

Table 6: Central Government Budget: 1984-1998
(In billions of current CFAF)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Oil Revenue	212.1	224.4	114.6	33.2	46.7	65.3	56.6	64.4	[illegible]6.7	90.4	104.6	120.4	145.9	175.4	209.2
Non Oil Revenue	111.1	107.6	112.7	115.8	123.7	133.5	144.0	157.7	174.3	192.0	212.8	235.4	259.9	288.6	318.7
Customs	45.9	43.6	40.8	38.1	38.5	40.3	41.2	43.3	48.9	50.7	55.4	61.7	67.9	75.7	82.9
Other Tax Revenue	53.8	49.8	56.5	65.2	70.7	77.2	84.7	93.5	108.4	115.1	127.9	142.8	159.7	17[illegible].0	200.1
Other Non Tax	6.2	9.5	10.4	6.8	7.5	8.2	9.1	10.0	11.0	12.0	13.3	14.6	16.0	17.6	19.4
Autonomous Units	5.3	4.7	5.0	5.7	7 0	7.7	9.0	11.0	13.0	14.1	16.3	16.3	16.3	16.3	16.3
Grants	8.6	3.1	0.3	2.2	2.1	2.3	2.5	2.8	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Total Revenue	331.8	335.1	227.6	151.3	172.5	201.1	203.1	224.9	254.1	285.5	320.5	358.9	408.9	467.1	531.0
Current Expenditures	198.2	231.5	195.2	153.2	164.8	173.2	179.7	201.1	206.3	207.6	207.7	208.2	208.8	209.6	210.5
Wages and Salaries	66.8	76.0	79.0	78.3	80.6	83.1	85.6	88.1	90.8	93.5	96.3	99.2	102.2	105.2	108.4
Goods and Services	36.8	40.4	24.1	10.0	10.3	10.6	10.9	11.3	11.6	11.9	12.3	12.7	13.0	13.4	13.8
Subsidies	37.0	39.6	43.4	31.4	32.0	33.0	34.0	35.0	36.0	37.1	38.2	39.4	40.6	41.8	43.0
Autonomous Units	7.6	7.2	8.9	5.7	5.9	6.1	6.2	6.4	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Interest	37.0	48.6	34.3	27.6	36.0	40.5	43.0	60.3	61.3	58.5	54.2	50.3	46.4	42.5	38.6
Other	13.0	19.7	5.5	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Lending	1.7	3.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Surplus/Deficit	131.9	100.6	29.6	-2.0	7.7	27.9	23.4	23.8	47.9	77.9	112.9	150 7	200.1	257.6	320.6
Capital Expenditures	166.3	162.2	63.8	33.5	25.0	27.5	30.3	34.8	40.0	46.0	52.9	60.8	70.0	80.5	92.6
Balance (comit. basis	-34.4	-61.6	-34.2	-35.5	-17.3	0.4	-6.8	-11.0	7.8	31.8	60.0	89.8	130.1	177 1	228.0
Arrears (Net)	11.6	33.9	-37.5	-35.2	-20.0	-20.0	-15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (cash basis)	-22.8	-27.7	-71.7	-70.7	-37.3	-19.6	-22.5	-11.0	7.8	31.8	60.0	89.8	130.1	177.1	228.0
Financing	22.8	27.7	71.7	70.7	37.3	19.6	22.5	11.0	-7.8	-31.8	-60.0	-89.8	-130.1	-177.1	-228.0
Foreign (net)	44.6	9.7	-58.5	36.0	46.5	42.2	33.9	-16.9	-30.6	-43.5	-47.2	-48.5	-48.0	-47.8	-31.1
Borrowing	123.2	107.0	70.8	54.3	49.2	59.7	62.2	58.3	59.5	57.9	57.4	57.6	60.0	62.3	63.6
Amortization	78.6	97.2	129.2	18 3	2.7	17.5	28.3	75.2	90.1	101 4	104.6	106.1	108.0	110.1	94.7
Except. Financing	0.0	0.0	33.1	0.0	0.0	0 0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Financ. net	13.8	5.9	9.8	8.0	5.0	10.0	10.0	10.0	5.0	10.0	10.0	10.0	0.0	0.0	0.0
Debt Adjs./Relief	-34.2	12.0	65.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	-1.4	0.0	1.4	26.7	-14.2	-32.6	-21.4	17.8	17.7	1.6	-22.8	-51.3	-82.2	-129.3	-197.0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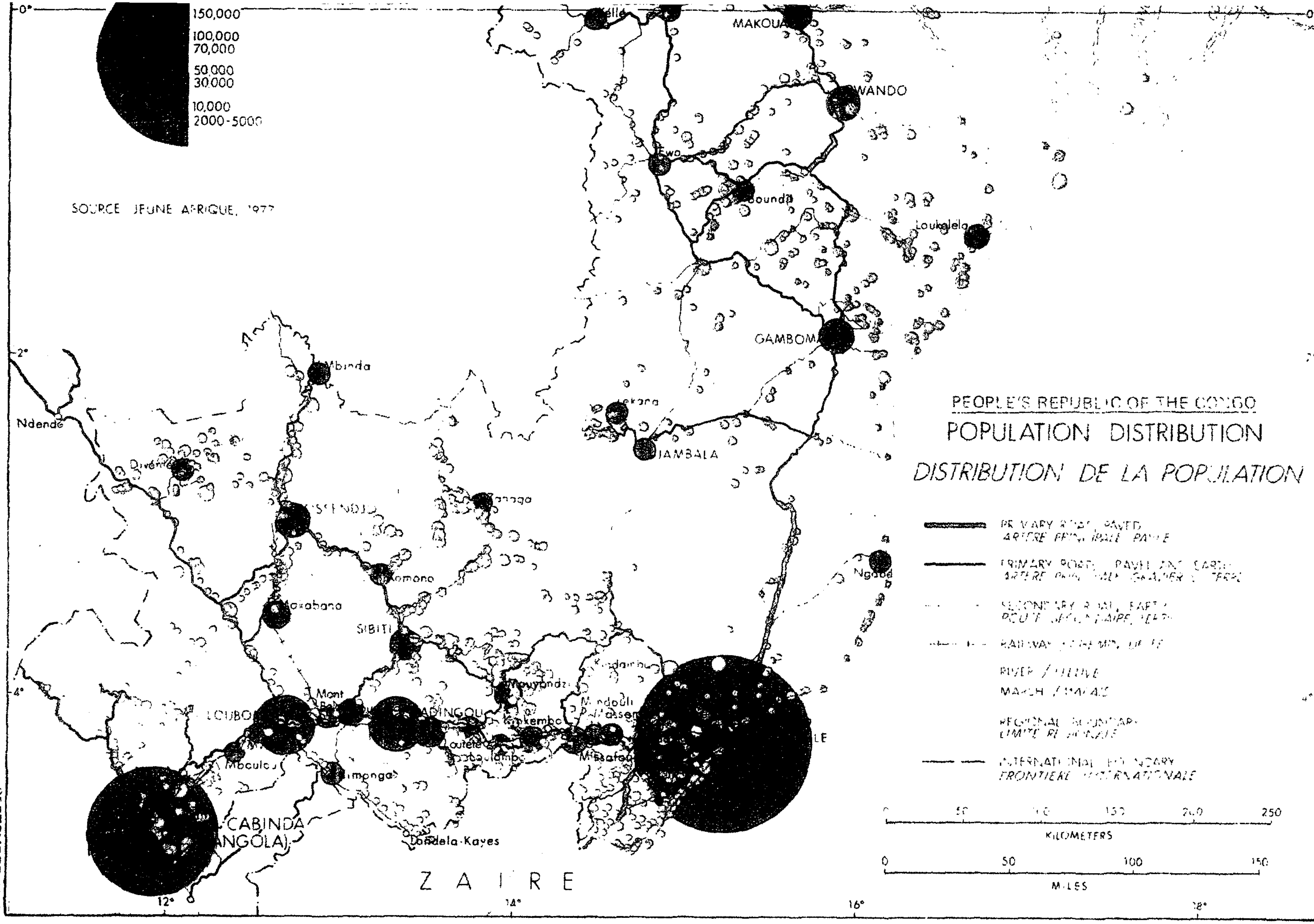
2°
0°
Souanke
Sembe
OUESSO
Dongou
IMPFONDO
Etoumbi
Kellé
EQUATOR
POPULATION DISTRIBUTION
DISTRIBUTION DE LA POPULATION
1000-2000
500-1000
250-500
100-250
NUMBER OF INHABITANTS
NOMBRE D'HABITANTS
300,000
150,000



SEPTEMBER 1985

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