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MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

OF SDR 8.9 MILLION

TO THE

REPUBLIC OF RWANDA

FOR A

SECOND COMMUNICATIONS PROJECT

NOVEMBER 19, 1990

CURRENCY AND EQUIVALENTS

Currency Unit = Rwandese Franc (RF)
$1.0 = RF 123.3

FISCAL YEAR

Government = January 1 - December 1

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

CEM	Country Economic Memorandum
DGP	Direction Générale des Postes (Posts General Directorate)
DGT	Direction Générale des Télécommunications (Telecommunications General Directorate)
ESW	Economic and Sector Work
FAC	Fonds d'Aide et de Coopération (Aid Agency of the French Government)
GOR	Government of Rwanda
MINITRANSCO	Ministry of Transport and Communications of GOR
PE Sector	Public Enterprises Sector
PFP	Policy Framework Paper
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Credit
SPA	Special Program of Assistance for Africa
SEMT	Société d'Economie Mixte des Télécommunications (Semi-private telecommunications company)
RP	Régie des Postes (autonomous public postal entity)
UNDP	United Nations Development Program

REPUBLIC OF RWANDA
SECOND COMMUNICATIONS PROJECT

Credit and Project Summary

Borrower: Republic of Rwanda

Beneficiaries: Ministry of Transport and Communications (MINITRANSCO), and following their creation: Société d'Economie Mixte des Télécommunications (SEMT) and Régie des Postes (RP).

Implementing Agencies: MINITRANSCO, SEMT and RP

Amount: SDR 8.9 million ($12.8 million equivalent)

Terms: Standard IDA.

Financing Plan:

	Total	% of Total
	--------$ Million------	
IDA	12.8	74.4
FAC	.8	4.7
DGT/SEMT	.6	3.5
DGP/RP	3.0	17.4
TOTAL	17.2	100.0

Economic Rate of Return: 25%

Staff Appraisal Report: No. 9042-RW, dated November 19, 1990

Map: IBRD No. 22708

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1. The following memorandum and recommendation on a proposed second communications project to the Republic of Rwanda for SDR 8.9 million ($12.8 million equivalent) is submitted for approval. The proposed Credit would be on standard IDA terms and would help promote efficient communications through a series of well-focussed actions described below. Part I of this memorandum outlines the country policies and Bank assistance strategy. Part II describes the proposed Credit. Country economic and social indicators are in Schedule E.

PART I - COUNTRY POLICIES AND BANK GROUP ASSISTANCE STRATEGY

2. This section first provides a brief background to Rwanda's past economic policies and performance. It then focuses on the main structural and policy-induced problems currently confronting the Rwandese economy. A review of priorities and of the Government's reform program follows. Bank assistance to date is then briefly reviewed. This is followed by a discussion of the direction of the Bank's current assistance efforts. Finally, the risks to the program and a summary assessment are presented.

Past Economic Policies and Performance

3. Rwanda is a small, landlocked, densely-populated country in Central Africa. Its per capita GDP was estimated at $300 per annum in 1989. Rwanda's economy is highly dependent on agriculture. About 90 percent of the population lives in rural areas and agriculture accounts for 40 percent of GDP. Coffee is the main export; in 1988 it accounted for 80 percent of total exports. Industry accounts for about 22 percent of GDP. The sector is geared towards meeting domestic demand for basic goods; over half of its production consists of food and beverages. Manufacturing exports are negligible.

4. During the 1970s, Rwanda experienced high rates of economic growth (5 percent on average per annum) and low inflation. Generous foreign aid, coupled with prudent economic management, enabled the country to achieve budget surpluses, a relatively high level of external reserves, and a low debt service ratio. Government policy throughout this period was generally non-interventionist, and the trade regime was among the most liberal in the region. However, the seeds of future problems were sown in the late 1970s, when the Government embarked on an ambitious public expenditure program in the wake of the coffee boom.

5. Economic conditions began to deteriorate in the early 1980s. Low export prices and adverse climatic conditions led to a large decrease in coffee earnings. Nevertheless, the large public expenditure program was not adjusted, and both the external account and public finances deteriorated rapidly. The Government attempted to combat these trends by adopting restrictive monetary and fiscal policies and intensifying its intervention in the economy. Import licensing requirements were tightened, strict price controls were applied, and inefficient industries were protected from imports by "temporary" import prohibitions. Domestic borrowing to finance large budgetary deficits grew sharply; as a result, public domestic debt quadrupled between 1981 and 1988, reaching $314 million, or 13.6 percent of GDP, at the end of 1988.

6. High coffee prices led to a temporary improvement in the situation in the mid-1980s. However, fundamental problems had not been addressed, and the economic situation worsened again when coffee prices fell in 1987. Coffee quality also deteriorated, due to poor weather and inefficient handling by the coffee parastatal, OCIR-Café.

7. The mining sector, which had provided about 15 percent of exports, collapsed in the second half of the eighties and mining exports have virtually disappeared. Real GDP, which had grown by an average of 4 percent per annum in 1985-86, declined slightly in 1987 (-0.3 percent), stagnated in 1988, and contracted sharply in 1989 (-6.5 percent). On average, GDP growth has lagged behind population growth in the 1980s, resulting in a deterioration of living standards. The balance of payments current account deficit deteriorated from 9.6 percent of GDP in 1986 to 11 percent of GDP in 1989. Although inflation has remained low (2.1 percent a year, on average, since 1986), prices have increased rapidly on the parallel markets.

8. Thanks to grants and highly concessional loans, Rwanda had been able to maintain a relatively low debt service ratio up to the mid-1980s. However, the debt service ratio more than doubled between 1986 and 1989 to reach 17 percent. Foreign exchange reserves have also had to be drawn down to finance balance of payments deficits. As a result, net reserves fell from the equivalent of five months of imports in 1987 to less than one month in mid-1990 (despite a much lower import level due to discretionary import controls).

9. By the end of the 1980s, the fiscal deficit reached unsustainable levels (about 8 percent of GDP in 1989). The Government attempted to control the wage bill by limiting public sector wage increases to a 3 percent annual adjustment and by cutting public investment and services. However, high domestic support prices to coffee producers--affected by low world prices and an overvalued exchange rate--proved to be a serious drain on public finances: annual transfers to coffee producers accounted for 10 percent of current Government outlays in 1987-89. On the revenue side, Government efforts are limited by the narrow tax base. The Government relies primarily on revenue from tariffs and from excise taxes on a few products (especially fuels and beer). Although the revenue effort (tax as a percent of GDP) has increased in recent years, it remains below the average for Sub-Saharan Africa.

Central Development Issues

10. Rwanda faces a combination of structural and policy-induced, constraints to its development. Long-term, structural impediments to growth include: (a) the highest population density in Sub-Saharan Africa (294 people per km2); (b) high rate of population growth (3.7 percent per annum), which in turn threatens agricultural production through subdivision of arable land and cultivation of marginal lands, leads to environmental degradation and complicates the provision of basic services, particularly in health and education; (c) overdependence on coffee, with its volatile prices; and (d) the land-locked location of the country, which makes imports expensive and reduces the competitiveness of exports; and (e) a major imbalance between imports and exports (currently per capita imports and exports are around $35.5 and $14.5, respectively). Policy-induced constraints included, until recently, a highly overvalued exchange rate, high levels of protection, government involvement at every stage of economic activity, and the drain on public resources of high coffee subsidies and inefficient public enterprises. The priority for action is to create an enabling policy environment for sustainable growth, and to begin implementing measures that address long-term development issues, e.g., population and environment.

11. a) Exchange Rate. On November 10, 1990, the Government devalued the Rwandese Franc by 40 percent in foreign currency terms (67 percent vis-à-vis the SDR) as part of a package of coordinated reforms (para. 15). This was the first adjustment in the exchange rate since September 1983, when the Rwandese Franc was pegged to the SDR at the rate of SDR 1 = RF 102.71. This had led to an appreciation of the real effective exchange rate of about 30 percent relative to the currencies of Rwanda's major trading partners. As a result, imports became artificially cheap, resulting in calls for protection from local industries and to rapid loss of foreign exchange. Exports have also been discouraged, since costs are high relative to other countries. The Government intends to follow a flexible exchange rate policy aimed at international competitiveness and export promotion.

12. b) Tariffs and Non-Tariff Barriers. The tariff regime, quantitative restrictions and import prohibitions provide high and varied levels of protection to existing enterprises. In practice, protection comes from the fact that: (i) imports of goods which are produced locally are only allowed if domestic production is insufficient to meet demand; and (ii) available foreign exchange is allocated in a highly discretionary manner by the Government through detailed import programming. The spread in the rates of protection distorts incentives by increasing the profitability of domestic production relative to exports and the relative profitability of various sectors. The policy reform objective in this area should be to move towards a market based system of foreign exchange allocation; relax import licensing requirements; and reform the tariff system by lowering both the level and variance of nominal tariffs, thereby increasing efficiency and promoting a better export climate.

13. c) Government Intervention. Since 1983, the Government has followed a dirigiste approach to managing the economy, intervening at every stage of economic activity. A complex set of regulations governs all aspects of the economy. New investments need authorization from several

departments--a lengthy and expensive process which discourages investment and raises project costs. Under this system, entry of new firms is restricted and hiring and firing decisions must be approved by the Ministry of Labor; domestic competition is thus stifled. Many goods are subject to price controls, often on a cost-plus basis. Coupled with high levels of protection, this has resulted in inefficient, high-cost production. To foster international competitiveness, prices should be progressively decontrolled and impediments to private sector initiative removed.

14. d) Public Enterprises. Inefficient and often non-viable public enterprises play a large role in the economy. Public and mixed enterprises account for about 10 percent of GDP. Individual public enterprises control the sales of coffee, tea, and pyrethrum, which constitute Rwanda's major exports. Poor performance by public enterprises has affected export earnings and put a large burden on public finances. Between 1983 and 1987, subsidies to public enterprises amounted to 6 percent of Government revenue. Under an ongoing IDA project, a program of restructuring, divestiture and liquidation for 17 enterprises has been initiated and diagnostic studies of another 23 enterprises will be undertaken. This will provide the basis for comprehensive reform of the sector.

The Government's Reform Program.

15. A Policy Framework Paper (PFP) for 1991-93 has been prepared by the Rwandese authorities with the assistance of the staff of the Bank and the Fund and will be presented to the Board of the two organizations shortly. The PFP goes a long way towards addressing the major distortions in the incentives system noted above, while laying the foundations for dealing with longer-term structural constraints. It calls for policies to foster an environment conducive to private sector activity and international competitiveness, for improvements and rationalization of public resource management, and for development of the human resource base and safeguarding of natural resources. More specifically, actions envisaged to help introduce international competition include: (a) a substantial devaluation (already undertaken) followed by a flexible exchange rate policy; (b) the introduction of an Open General Licence system for imports; (c) the elimination of import prohibitions designed to protect domestic industry, and their replacement by tariffs and temporary surcharges; (d) the lowering of tariffs, elimination of all exemptions and the reduction of the number of tariff rates; and (e) abolition of price controls, except for a small number of basic necessities.

16. In the agricultural sector, the key objectives are to increase yields and diversify production and exports, and to achieve food security in an environmentally sustainable way. With regard to public sector management, the objectives are to strengthen tax administration and review the tax system, to improve programming and control of public expenditures, to ensure a "safety net" of social expenditures to protect the poorest and most vulnerable groups, and to implement an all-encompassing reform of the public enterprise sector which has already started with IDA assistance. This reform program includes improvements of the legal/institutional framework, rehabilitation of viable public enterprises, divestiture of those that can be privatized, and liquidation of the rest.

17. The Government's structural adjustment program will be accompanied by prudent fiscal and financial policies. The objective is a sustainable overall fiscal position made possible by eliminating coffee subsidies, rationalizing expenditures and increasing government revenues. The fiscal deficit (excluding grants) is expected to be reduced gradually from 7.6 percent of GDP in 1989 to 4.1 percent by 1993. In support of the action on the exchange rate, and to relieve the pressure on prices and the balance of payments, the annual growth of the money supply will be kept lower than the growth rate of nominal GDP. In line with the improvement in the fiscal situation, there will be a decline in net credit to the public sector, thereby allowing a reasonable expansion of credit to the private sector to stimulate economic activity. The measures being adopted will not necessarily result in an immediate major improvement in the trade balance, as imports will have to increase to help restore investment and growth, while export promotion measures are expected to take time to yield results. Therefore, the current account deficit is expected to remain around 10 percent of GDP in 1993 and decline to about 9 percent in 1995. Rwanda has a relatively low external debt burden: the ratio of outstanding debt to GDP was 25 percent in 1989. The Government will continue to pursue a prudent external debt management policy by relying exclusively on concessional loans.

18. The Government has already begun implementing some of the key PFP measures. The most important reforms implemented in November 1990 are: (i) a 40 percent devaluation of the Franc in foreign currency terms; (ii) increases in interest rates which include raising to 12 percent the minimum rate for one year deposits, and the maximum lending rate to 19 percent while all other interest rates on deposits are freed; and introducing a unified rediscount rate of 14 percent; and (iii) an increase in petroleum prices by 75 percent on average. Other announced reforms, which will take effect by January 1, 1991, include: (i) elimination of export taxes, except for coffee; (ii) tariff reforms which consist, in a first phase, of the elimination of import prohibitions and their replacement by import taxes or surcharges, and of a reduction in tariff dispersion. Minimum import duties will be raised to 10 percent and a maximum duty of 100 percent will be introduced; and (iii) tax measures which consist of increasing the turnover tax from 6 to 10 percent for most goods, from 2 to 5 percent for essential commodities, and from 1 to 10 percent for services and entertainment.

19. The Bank's dialogue with the authorities has led to a general agreement that the benefits of improved overall economic management will be short-lived if major progress is not achieved in dealing with long-term structural issues. Of utmost importance in this respect are the design and implementation of appropriate population and environmental policies. Indeed, the Government has already adopted a National Population Policy and an action program emphasizing motivational campaigns and providing for a greater availability and coverage of family planning services, as well as measures to reduce infant mortality. The Government has also prepared an Environmental Action Plan as the necessary framework for maintaining and improving soil fertility while ensuring that environmental guidelines are adhered to in all development projects.

20. The successful implementation of the Government's program and the attainment of its growth and investment objectives will depend not only on

the appropriateness of its economic and financial policies but also on the availability of timely and adequate external financial assistance. Based on the need to finance the imports required by the projected growth of output and the "safety net" of social expenditures, to restcre by 1993 a level of external reserves equivalent to at least three months of imports, and to fully service external debt obligations, total external financing requirements for 1991-93 (including grants) are estimated at $298 million annually. These estimates take into account the impact of the Gulf crisis. After allowing for net transfers, gross inflows from the existing pipeline, disbursements from new concessional commitments for project financing, and net direct investment, the financing gap would amount to about $86 million per annum during 1991-93. This gap could be financed by the following additional resources: (i) IDA Credits for structural and sector adjustment; (ii) the IMF's Structural Adjustment Facility, to be disbursed during 1990-92; and (iii) other bilateral or multilateral assistance within the framework of the Special Program of Assistance for Africa.

<u>Bank Assistance to Date</u>

21. The Bank's primary focus in its operations in Rwanda to date has been on sector and project lending in support of the Government's public investment program; on appropriate but limited policy reforms through sector lending (without quick-disbursing assistance); and on macro and sectoral policy dialogue through economic and sector work. Since 1970, Rwanda has received 37 IDA Credits for a total amount of $466.7 million, and two Special African Facility Credits ($25 million) for the 6th Highway Credit. Rwanda has also benefitted from three loans from IFC and two equity participations. <u>Lending operations</u> have financed: (a) infrastructure development (45 percent), particularly road construction and maintenance; (b) agricultural and rural development (30 percent), with particular emphasis on farming systems research, improving extension services and input supply, and reforestation; (c) human resources development (8 percent), especially in primary education, preventive health services, and family planning; (c) development of local energy sources and energy conservation (5 percent); (d) development of small and medium enterprises (8 percent) through support to the Development Bank (BRD), and (e) technical assistance (4 percent). To date, there has been no lending for structural adjustment.

22. The <u>current portfolio</u> includes 17 IDA Credits. Disbursement performance has been slow (annual disbursements have averaged about $30 million in FY88-90 and about 40 percent of the total commitments remain undisbursed). Portfolio performance has been mixed. In some cases, project implementation is affected by weak management and institutions, lengthy ratification procedures which delay effectiveness of Credits, inappropriate budgetary practices for counterpart funds, and cumbersome procurement procedures.

Table 1: DISTRIBUTION OF LENDING, FY71-90
(US$ Million)

Sector	Amount	%	No. of Projects
Infrastructure	212.67	45.6	14
Road	105.17	22.5	9
Transport	40.0	8.6	1
Telecom	7.5	1.6	1
Urban	32.0	6.9	1
Water Supply	28.0	6.0	2
Agriculture and Forestry	138.85	29.8	11
Agriculture	103.75	22.2	9
Forestry	35.1	7.5	2
Human Resources	44.4	9.5	4
Education	33.6	7.2	3
Health	10.8	2.3	1
Energy	24.0	5.1	2
Finance and Industry	37.0	7.9	6
Finance	25.2	5.4	4
Industry	11.8	2.5	2
Technical Assistance	9.8	2.1	2
TOTAL	466.72	100.0	39

23. The Bank's program has been pursued in a climate of generally good relations with the Government. In all sectors in which the Bank is active, despite the implementation problems mentioned above, there exists a general receptivity to Bank's advice on sectoral development issues. In agriculture, improved sector management as well as more rigorous project planning and financial controls have been attained, with a shift away from integrated rural development schemes towards more directly productive projects and the strengthening of institutional linkages between central government and local levels. In the highways sector, the dialogue with the Ministry of Public Works and Energy is focused on developing a national road maintenance capacity. In industry, the Government is committed to promote small-scale enterprises and has started to focus on the rehabilitation and restructuring needs of some of the public and mixed enterprises. In the education and health sectors, cost and financing analyses by the Government constitute the basis for designing future IDA lending. To pursue its adjustment and growth objectives, the Government is seeking from the Bank a Structural Adjustment Credit (SAL) and access to the Special Program of Assistance for Africa (SPA). In addition, the Government has requested from the IMF a three-year structural adjustment facility (SAF).

Bank Assistance Strategy

24. The Bank's main country assistance objective in Rwanda is to promote sustained economic growth, with an equitable distribution of the fruits of that growth. In the short term, this calls for support of a major adjustment program focussing on resource management and the creation of an enabling environment for private initiative and for export growth and diversification. The long-term strategy is to increase per capita income by reducing population growth, diversifying the economy's sources of growth, improving income distribution and protecting the environment. The full range

of instruments, including policy dialogue, lending, economic and sector work and aid coordination, will be used to implement this strategy. Recent government reforms open the way to a lending program which will blend quick disbursing adjustment operations with additional investment projects.

25. The current assistance strategy consists of two to three operations a year, including a series of structural and sector adjustment operations. The first SAL planned for FY91, will support the initial phase of the Government's economic reform program as described in its 1991-93 PFP. It will focus on four key policy areas: liberalization of the foreign and domestic trade regime, supply-side measures to stimulate the private sector, reduced role for the state coupled with improved public resource management, and adequate delivery of social services. The program would include: (i) actions in the key areas of macroeconomic management, including exchange rate and trade policies, production incentives and export promotion; (ii) alleviation of the institutional and production constraints in key sectors (coffee and mining); (iii) improvement of public sector management by putting into place a process of public expenditure programming; (iv) provision of a satisfactory social "safety net" within the framework of an agreed public expenditure program; and (v) initiation of policy reforms dealing with taxation, labor legislation and civil service, which would be completed under subsequent adjustment operations.

26. The first SAL will support the setting in place of an overall macroeconomic policy umbrella which will be complemented by high priority projects as well as sector operations supporting specific policy measures and investments. These operations would help develop the infrastructure needed to help promote private sector initiative as well as address long-term development issues in education, population and health. The proposed communications projects discussed in Part II of this report fits with this strategy. Improved communications services will facilitate the supply response by the productive sectors, benefit export-oriented ventures and promote activity in the service sector. Future sector operations will seek to promote (i) private sector development by consolidating the measures under the proposed SAL and ensuring the efficient operation of the financial sector; and (ii) intensification of agricultural production to improve food security and the rehabilitation of the coffee sector to help export recovery. Recent sector work which is nearing completion (e.g., on Agricultural Sector Review, and a Financial Sector Study) will provide the analytical underpinnings for these operations. In addition, agreement has already been reached on a substantial program of reforms to liberalize the transport sector within the framework of a recently approved Transport Sector Credit (Cr. 2136-RW).

27. In the area of capacity building, the intention is to focus primarily on the technical assistance and training needs of the macro and sectoral reform programs by: (i) reorienting the existing TA projects in the Ministry of Plan and Finance; and (ii) introducing selective technical assistance components in future projects in agriculture and other sectors. The Bank will also endeavor to improve project implementation by devoting more resources to project supervision. Special emphasis will be put on improving procurement to accelerate the disbursement rate.

28. To address long-term development issues, Bank lending in the social sectors would intensify. This includes an education sector operation which will focus on improving the quality and coverage of primary education in support of the Government's recent decision to reduce the primary cycle from eight to six years--a reform which was prompted by an ongoing dialogue with the Bank. A free-standing population control project will assist the Government in achieving its population policy objectives. A second health and nutrition project will put emphasis on child nutrition and control of malaria and AIDS, which constitute two of the major causes of death in the country.

29. To alleviate the possible unfavorable short-term impact of adjustment measures, the Bank is working with the Government to help put in place a social action program. More specifically, the Structural Adjustment Credit will provide for a social safety net through the public expenditure program, which will ensure that budgetary allocations for the social sectors are protected during the stabilization period. This program will form an integral part of the SAL, both in its design and in its implementation.

30. Economic growth in Rwanda will not be sustainable unless measures are taken to protect the fragile and deteriorating environment. The Bank has helped the Government in formulating a comprehensive environmental action program. Bank assistance in this area will continue, especially in order to strengthen government institutions so that all projects in Rwanda adhere to the approved environmental guidelines. An agricultural sector Credit will include a forestry component as land tenure reform aimed at better management of an increasingly scarce resource.

31. <u>Economic and Sector Work</u>. The Bank's economic and sector work (ESW) will support the adjustment program and will, in turn, be shaped by it. Over the past few years, major investigations such as a Country Economic Memorandum (Report No. 6191-RW) and the First Public Expenditure Review (Report No. 7717-RW) have helped to document the case for adjustment and to identify the range of reforms necessary in crucial areas like the exchange rate, regulatory framework, parastatals, and public resource management. Ongoing and planned ESW focuses on deepening and extending the measures expected to be introduced in the first phase of adjustment and on preparing specific reform proposals in the areas already identified. These are the objectives of an ongoing Financial Sector Review and of a planned study of Labor Legislation aimed at reducing labor market rigidities. The program, at the same time, supports specific country objectives. For example, an Agricultural Strategy Review (in progress) aims at reversing the overall economic stagnation by diversifying agricultural production and integrating it more fully into the international economy. Export diversification and growth are also the focus of a planned regional study. A program of public expenditure reviews aims to improve resource mobilization and allocation with special attention to the needs of the social sectors as well as maintenance of vital infrastructure. A planned study of Secondary and Higher Education should help to develop a policy framework for improving quality and efficiency and contribute to capacity building. A new CEM, together with supervision missions of prospective adjustment operations, will monitor the progress of adjustment with a view to identifying any needed changes in policies, lending (by the Bank or other donors), and ESW itself.

32. Aid Coordination and Relations with IMF. Over the past two years the Bank has kept the major donors abreast of its policy discussions with Rwanda. The Bank will also help the Government to mobilize financial assistance from the international community within the framework of SPA II, and to convince traditional donors to complement their project lending with balance-of-payment support. Rwanda's eligibility will be recommended, based on the agreement reached on the PFP. UNDP has scheduled a Round Table meeting for early 1991 and the Bank will participate in its preparation. In addition, if the flow of foreign resources is not sufficient to cover the financing gap caused by the Gulf crisis, the Bank would be prepared to increase the size of its adjustment operations and restructure ongoing projects to accelerate disbursements.

33. Close collaboration with the IMF has been a long-standing feature of Bank relations with Rwanda. The Policy Framework Paper has been prepared jointly and Bank and Fund missions have closely coordinated the substance and the timing of their work. The Government has requested drawing on the Structural Adjustment Facility and discussions are under way for a SAF arrangement.

34. Uncertainty and Contingency Plans. In the immediate future, keeping the country on the adjustment path will be the main priority in the Bank's dialogue with Rwanda. While the Government has already demonstrated its commitment to reform, there are a number of risks which may force the Government to deviate from the adjustment path.

35. First, the impact of the stabilization combined with food shortages which have already appeared due to drought, could lead to social unrest and may induce the Government to abandon partially or completely the adjustment program. This risk will be significantly mitigated by including in the design of adjustment operations a social safety net to protect the most vulnerable groups during the stabilization period. However, the recently announced far reaching reforms taken at a difficult time in the country's history, show that the Government is committed to adjustment and confirm its reputation for following through on decisions it has taken.

36. Second, continued weakness in the world coffee prices, and higher oil prices, combined with insufficient financial support from abroad, may lead to a significant unfilled external financing gap and make it difficult for the Government to continue with the liberalization program. The Bank will make every effort under SPA II to help the Government to mobilize external financial assistance from traditional and new donors. In addition, as noted above, the Bank would be prepared to increase the size of its adjustment Credits and accelerate disbursements of ongoing projects. These efforts should ensure that adequate external support is available to implement the adjustment program.

37. Finally, ethnic violence could prevent the implementation of the adjustment program. The recent outburst of fighting, which took place when Rwandese refugees from a neighboring country invaded Rwanda, is receding and the peace process has been started. Nevertheless, there is a risk of another eruption until a satisfactory solution is found to the plight of Rwandese

refugees in neighboring countries. The Rwandese Government is working with the Governments of neighboring states to bring about a peaceful solution of the refugee problem.

38. Government has fulfilled the first test of its commitment to the adjustment process, following the recent violence, by implementing several important reform measures which had been agreed with the Bank and the Fund. If the authorities are unable to pursue further reforms under the proposed SAL and the SAF, the Bank will scale back its lending program to one to two high priority projects a year in the social sectors and infrastructure maintenance.

39. Summary Assessment. Rwanda is entering a period of rapid economic and social change. After a long period of hesitation and national consensus-building, courageous decisions have been taken to embark on a far-reaching economic reform program, reversing inward-looking and interventionist policies and beginning to address longer-term constraints, including population growth. The Bank is helping in the design of economic policy reforms and in mobilizing financial support from the international community. Rwanda's credibility in adhering to hard decisions once they are taken is proving valuable in this task. At the same time, long-standing ethnic rivalries have resurfaced in the form of armed conflict. Although it may be too soon to ascertain the longer-term implications of this outbreak, it does introduce an important element of uncertainty and may affect the implementation of the reform program. So far, the Government appears determined to press on with the adjustment process. As long as the Government stays on the adjustment path, the Bank will assist Rwanda with two to three operations a year, including a series of adjustment operations, as well as Credits for high priority projects. If the authorities are unable to implement reforms under the proposed First SAL, the Bank will scale back its lending to one or two investment Credits a year.

PART II - THE CREDIT

40. Background. The Government of Rwanda has requested the Bank's assistance for the development of the country's postal and telecommunications sectors, in support of an improved business environment. The Bank first became involved in the sector in 1978 and, in July 1980, it approved a $7.5 million Credit (1057-RW) to finance a Telecommunications Project. This project consisted of network expansion and replacement investments and modest technical assistance for the improvement of the internal organization of telecommunications services in the Ministry of Transport and Communications (MINITRANSCO). It achieved its physical objectives and contributed to the modernization of the Rwandese telecommunications network. As a result, the quality of service is currently not far below that of developed countries. To sustain this level of service, however, an institutional structure conducive to adequate maintenance of the new equipment needs to be established. Furthermore, the service is mostly concentrated in the capital city of Kigali and a small number of provincial centers, while the country's overall telephone density remains among the lowest in the world and is about one-third the average for Sub-Saharan Africa. Rwanda's postal density of one post office per 218,000 inhabitants is also among the lowest in the world and

compares to one per 31,000 in Tanzania or one per 68,000 in Benin. Demand for both telecommunications and postal services is strong.

41. MINITRANSCO's specialized departments are currently providing all communications services and are operating under serious constraints imposed by public regulations and procedures. In addition, the spread of various responsibilities among different ministries is detrimental to efficiency and hinders coherent sector development. Despite support from the first project, management improvements within the ministry have been modest. In response to persisting infrastructural and institutional deficiencies, the Government's objectives in requesting Bank support are to: (a) expand coverage and enhance reliability of communications services to meet a growing demand, foster decentralization, encourage rural development and improve the communications with the rest of the world; (b) restructure the communications sector by separating the supervision and regulatory functions from the provision of services to the public and from the day-to-day operations of the post and telecommunications facilities; and (c) restructure the operating functions of the ministry into commercially-oriented entities with appropriate financial and administrative autonomy, develop their managerial capabilities and improve their financial and operating performance, with emphasis on human resources development.

42. A number of donors are interested in continuing their support of the Government's sector investment program, mostly for physical telecommunication facilities. The Government has turned to the Bank for assistance in developing a sensible sector investment program and in realizing its institutional development objectives. The main focus of this dialogue was on restructuring MINITRANSCO's departments providing communications services into commercially-oriented entities. The objectives of these changes are to (i) improve operating efficiency and profitability by reducing costs and maximizing revenue generation; (ii) create the necessary conditions for opening the telecommunications sector to private sector participation; (iii) upgrade technical, operational and managerial capabilities in the sector, including adequate maintenance for the newly-installed equipment; and (iv) improve and expand telecommunications and postal services. In the context of this dialogue, the Government decided to make a clean break with the past and reorganize the sector through the creation of independent communications entities rather than try to improve Government departments, and to proceed with the thorough preparation of these entities.

43. Studies and preparation for the reform of the communications sector, as well as preparation for the postal investments were carried out by consultants financed under an IDA-funded Technical Assistance project (Credit 1217-RW). A preappraisal mission took place in November 1988 and the appraisal mission visited Rwanda in February 1989. However, before proceeding further, an extensive dialogue on the overall sector investment program and on a clear definition of the Government's role in the sector took place. This was concluded during a post-appraisal mission in August 1990, with an agreement on a Statement of Communications Sector Policy, which limits the role of the Government to overall policy and regulation, provides for commercially operated entities, and envisages private sector participation.

44. <u>Rationale for Bank Involvement</u>. Until recently, the Bank has followed a strategy which emphasized project lending in: (a) infrastructure to reduce the country's isolation and provide incentives for further intensification of agriculture; (b) promotion of small and medium size enterprises in manufacturing and other sectors; and (c) development of human resources. The country dialogue is now focussing on an improved macroeconomic and sectoral framework as well as stressing improvements in the quality of public investments and public sector management. The proposed project fits well into the underlying strategy of state disengagement from industrial and commercial activities. The Government regards the Bank's involvement in telecommunications as essential in helping focus attention on the important elements of sector reform and in coordinating donor assistance. Other donors have also looked to the Bank to take the lead in bringing about sustainable institutional reform in the communications sector and have welcomed close cooperation, coordinated by the Bank, in designing the sector investment program.

45. <u>Project Objectives</u>. The objectives of the project are to promote efficient communications in support of economic growth through a series of actions designed to: (a) assist Government in institutional reform aimed at creating autonomous commercially oriented operating entities for both the telecommunications and postal sectors, paving the way for private sector participation; (b) support the implementation of a sensible investment program in these sectors; (c) improve coverage and enhance quality and efficiency of telecommunications services; and (d) ensure adequate coverage and service improvement in the postal sector. The project will also further public enterprise sector reform by providing a concrete example of how to ensure the appropriate operating and financial autonomy of two of the largest public entities.

46. <u>Project Description</u>. The project has two major components: institutional reform and training, leading to autonomy in the postal sector and eventual privatization of telecommunications operations; and a part of the national investment program, consisting mainly of key maintenance equipment for telecommunications and buildings and equipment to improve postal services. Specifically, the IDA Credit proceeds would support: (a) technical assistance for setting up the legal framework and putting in place the organizational structures, commercial management capabilities and systems for the new companies which are expected to be created no later than June 30, 1992 ($2.3 million); (b) training for posts and telecommunications staff, rehabilitation of the training center and scholarships ($2.5 million); (c) priority components of the telecommunications investment program to secure the long distance network, create public telephones and improve maintenance ($4.8 million); and (d) the postal sector investment program consisting of construction of a mail sorting center, rehabilitation of main post offices and creation of eight new rural post offices, and vehicles for new postal links between Kigali and the main provincial towns ($3.2 million). Total project costs are estimated at $16.7 million and foreign exchange requirements at $14.3 million, or 85 percent of project costs. A breakdown of costs is shown in Schedule A, along with the project financing plan. Methods of procurement and disbursement as well as the disbursement schedule are presented in Schedule B. A timetable of key project processing events is given in Schedule C and the status of Bank and IFC investments in Schedule

D. The Staff Appraisal Report No. 09042-RW dated November 19, 1990, is being distributed separately.

47. Actions Agreed. The Government has agreed with the Bank on a three-year investment program in telecommunications and posts. Furthermore, Bank approval will be required for additional investments costing more than $1 million and $0.5 million, respectively. The Government will also undertake, and implement the findings of, a study of communication tariffs, taxes and dividends policy. The Government has also agreed to budget realistically its future consumption of communications services. A mid point review of project implementation was also agreed. Additional agreed actions are contained in the Statement of Communications Sector Policy (Staff Appraisal Report No. 9042-RW, Annex 1) formally adopted by the Rwandese authorities. First, the Statement recalls the major goals to be achieved through the reform, which are to relieve the Government from the burden of managing a sector of a commercial and industrial nature, while freeing the sector's operations and development from Government's budgetary constraints. Second, the Statement reiterates the Government's decision to establish two separate autonomous entities: Société d'Economie Mixte des Télécommunications (SEMT) and Régie des Postes (RP). The preparatory work for the successful launching and effective operation of these entities will be funded by the Credit and the hiring of consultants will be a condition of effectiveness. In parallel, the Government will be completing the legislative process for their creation. The Government has agreed that subsidiary loan agreements acceptable to the Bank will be entered into requiring specifically that (i) the proceeds of the Credit be onlent to the SEMT at the IBRD rate and to the RP at 4 percent; (ii) the telecommunications company earn an annual return on average net fixed assets of no less than 10 percent, while the postal authority maintain an operating ratio of not more than 90 percent; (iii) the two companies review their investment program with the Bank; and (iv) the two companies produce financial statements audited by independent auditors within six months of the end of each fiscal year.

48. Benefits. In the context of the proposed operation, the Government has put together a four-year investment program emphasizing least-cost solutions for high priority investments, while ensuring efficient sector development and profitability. This program will raise telephone and postal density by 50 percent and 30 percent respectively, bringing Rwanda closer to the Sub-Saharan average. Under conservative assumptions, the Government program agreed with the Bank has an economic rate of return of 25 percent. The investment program in the communications sector after 1994 will be fully financed from internal cash generation and private, domestic or foreign borrowing. There will also be benefits from improved sector management resulting from the creation of autonomous entities supported by the project which cannot be quantified. These include improving and maintaining at high levels the quality of service, increasing staff productivity and upgrading billing and collection performance.

49. Promotion of private sector initiative in industry and trade is a major objective of Rwanda's development strategy. Improved telecommunications services will benefit export-oriented ventures and will facilitate the supply response from the productive sectors. Increased availability of telecommunications services will also promote activity in the service

sectors, particularly banking. The public sector will also benefit from the introduction of efficient management into a sector that represents approximately 6 percent of total public enterprise employment. The project, through improved communications, will also enhance coordination within the administration, and between public departments and their private counterparts.

50. Risks. There are two principal risks of the project. First, there is the risk that delays in putting in place the agreed independent entities may postpone the introduction of efficient management in the sector. This risk has been minimized by: (i) a long dialogue with key ministries on the value of establishing independent entities, culminating with the adoption of the Statement of Communications Sector Policy; and (ii) starting the preparation for establishing the new companies well in advance of project implementation and by financing a management consulting firm that will help set up efficient commercial and financial structures, introduce systems and procedures, and train staff. The second risk is that poor coordination and supervision of project implementation could lead to delays and cost overruns. This risk will be reduced through close donor coordination ensuring maximum coherence of different subprojects, and by retaining consulting services for project implementation and supervision.

51. Recommendation. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed Credit.

Barber B. Conable
President

Attachments

Washington, D.C.
November 19, 1990

PROJECT COST ESTIMATES AND FINANCING PLAN

	Local	Foreign	Total	% of Total
	---------$ Million--------			
I. TELECOMMUNICATIONS				
Institutional Reform	0.1	1.5	1.6	10.
Maintenance equipment	-	0.9	0.9	5.
Public call stations	0.1	1.4	1.5	9
Microwave links	0.1	1.5	1.6	9
Vehicles	-	0.3	0.3	2
Training	-	1.8	1.8	11
Sub-total	0.3	7.4	7.7	46
Physical contingencies	0.0	0.3	0.3	2
Price contingencies	0.3	0.8	1.1	7
Sub-total	0.3	1.1	1.4	9
TOTAL TELECOMMUNICATIONS	0.6	8.5	9.1	55
II. POSTAL SERVICES				
Institutional Reform	-	0.8	0.8	5
Postal sorting center	0.6	1.7	2.3	14
Construction rehabilitation of post offices	0.3	0.8	1.1	6
Equipment	-	1.0	1.0	6
Vehicles	-	0.2	0.2	1
Training	0.1	0.4	0.5	3
Ingénieurs conseil	-	0.2	0.2	1
Sub-total	1.0	5.1	6.1	36
Physical contingencies	0.3	0.3	0.6	4
Price contingencies	0.5	0.4	0.9	5
Sub-total	0.8	0.7	1.5	9
TOTAL POSTAL SERVICES	1.8	5.8	7.6	45
TOTAL PROJECT COST	2.4	14.3	16.7	100

Financing Plan

	Local	Foreign	Total	% of Total
I. TELECOMMUNICATIONS				
IDA	0.2	7.9	8.1	49
FAC	-	0.6	0.6	4
DGT/SEMT	0.4	-	0.4	2
TOTAL	0.6	8.5	9.1	55
II. POSTAL SERVICES				
IDA	0.2	4.5	4.7	28
DGP/RP	1.6	1.3	2.9	17
TOTAL	1.8	5.8	7.6	45
TOTAL PROJECT	2.4	14.3	16.7	100
*(TOTAL IDA: TWO SECTORS)	0.4	12.4	12.8	77

Financing Sources

	Local	Foreign	Total	% of Total
IDA	0.4	12.4	12.8	77
FAC	-	0.6	0.6	4
DGT/SEMT	0.4	-	0.4	2
DGP/RP	1.6	1.3	2.9	17
TOTAL	2.4	14.3	16.7	100

PROCUREMENT AND DISBURSEMENT

I. Procurement Arrangements: a/

Project Component	ICB	LIB c/	LCB d/	OTHER e/	TOTAL
	----------	----------	-in $ million) b/	----------	----------
1. Training & consultancy equipment		0.1 (0.1)			0.1 (0.1)
2. Telecom equipment procured prior to creation of the entities		0.1 (0.1)			0.1 (0.1)
3. Public telephones installed prior to creation of the entities	0.2 (0.2)				0.2 (0.2)
4. Telecom equipment procured after the creation of the entities	3.5 (3.5)			0.9 (0.5)	4.4 (4.0)
5. Postal equipment procured prior to creation of the entities		0.1 (0.1)			0.1 (0.1)
6. Postal equipment procured after the creation of the entities	1.0 (1.0)	0.1 (0.1)			1.1 (1.1)
7. Postal buildings	2.7 (1.6)		1.6 (0)		4.3 (1.6)
8. Vehicles	0.6 (0.6)				0.6 (0.6)
9. Consultants and training				5.8 (5.0)	5.8 (5.0)
TOTAL	8.0 (6.9)	0.4 (0.4)	1.6 (0)	6.7 (5.5)	16.7(12.8)
%	47 (54)	2 (3)	11 (0)	40 (43)	100 (100)

a/ Costs include proportionate contingency, excluding work force and force account.
b/ IDA financing in parentheses.
c/ Limited International Bidding.
d/ Local Competitive Bidding.
e/ Other includes Bank's Guidelines for the use of consultants, and proprietary items.

II. Disbursements:

Category	Postal Component	Telecom Component	Percentage Financed
1. Training & consultancy equipment		0.1	100% of foreign expenditure
2. Telecom equipment procured prior to creation of the entities		0.1	100% of foreign expenditures
3. Public telephones installed prior to creation of the entities		0.2	100% of foreign expenditures
4. Telecom equipment procured after the creation of the entities		3.1	100% of foreign expenditures
5. Postal equipment procured prior to creation of the entities	0.1		100% of foreign expenditures &
6. Postal equipment procured after the creation of the entities	0.9		100% of foreign expenditures &
7. Postal buildings	1.3		50% of total expenditures
8. Vehicles	0.2	0.3	100% of foreign expenditures
9. Consultants and training	0.8	1.7	100% of foreign expenditures & 90% of local expenditures
10. Refunding of project preparation advance	0.9	0.6	
Subtotal	4.2	6.1	
11. Unallocated	2.5		
TOTAL DISBURSEMENT	12.8		

Estimated IDA Disbursements:

	IDA Fiscal Year				
	FY91	FY92	FY93	FY94	FY95
	--------	--$ Million	Equivalent--	--------	
Annual	0.5	2.8	5.5	3.0	1.0
Cumulative	0.5	3.3	8.8	11.8	12.8

TIMETABLE FOR KEY PROCESSING EVENTS

(a)	First IDA Mission	:	November 1988
(b)	Appraisal Mission Departure	:	February 1989
(c)	Post Appraisal	:	August 1990
(d)	Negotiations	:	October 1990
(e)	Board Presentation	:	December 1990
(f)	Planned Effectiveness	:	May 1991

STATUS OF BANK GROUP OPERATIONS

I. Statement of Bank Loans and IDA Credits (as of September 30, 1990)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US$ million (less cancellations) Bank	IDA	Undis-bursed	Closing Date
22 Credit(s)	closed				222.22		
C12630-RWA	1982	Rwanda	Second Education		10.00	1.66	06/30/89 (R)
C12830-RWA	1983	Rwanda	Bugesera II		16.30	.95	12/31/91 (R)
C15460-RWA	1985	Rwanda	Agri. Research		11.50	4.44	12/31/91 (R)
C15650-RWA	1985	Rwanda	TAS Public Sector Mg.		4.80	3.81	06/30/92 (R)
C16410-RWA	1986	Rwanda	Highways VI		11.00	6.81	12/31/90
C16500-RWA	1986	Rwanda	BRD IV		9.00	4.07	12/31/93
C16690-RWA	1986	Rwanda	Gitarama Svcs. Agr.		12.70	5.82	09/30/91
C16780-RWA	1986	Rwanda	Family Health		10.80	10.70	06/30/92
C16830-RWA	1986	Rwanda	Education III		15.60	12.47	12/31/91
C17830-RWA	1987	Rwanda	Water Supply II		15.00	9.10	12/31/94
C17960-RWA	1987	Rwanda	Public Sector Mg		7.40	7.74	12/31/94
C18110-RWA	1987	Rwanda	Forestry II		14.10	12.20	06/30/93
CA0081-RWA	1988	Rwanda	Highways VI		10.00	11.13	12/31/90
C20260-RWA	1989	Rwanda	Agric. Services		19.90	20.53	06/30/95
C20410-RWA	1989	Rwanda	Urban Inst.		32.00	34.51	12/31/96
C21130-RWA 1/	1990	Rwanda	Public Enterprise		4.40	4.73	12/31/94
C21360-RWA 1/	1990	Rwanda	Transport Sector		40.00	43.27	06/30/97
TOTAL number Credits = 17					244.50	193.96	
			TOTAL		466.72		
			of which repaid		9.00		
			TOTAL held by Bank and IDA		457.72		
			TOTAL undisbursed			193.96	

1/ Not yet effective
(R) Indicates formally revised Closing Date

II. Statement of IFC Investments (as of September 30, 1990)

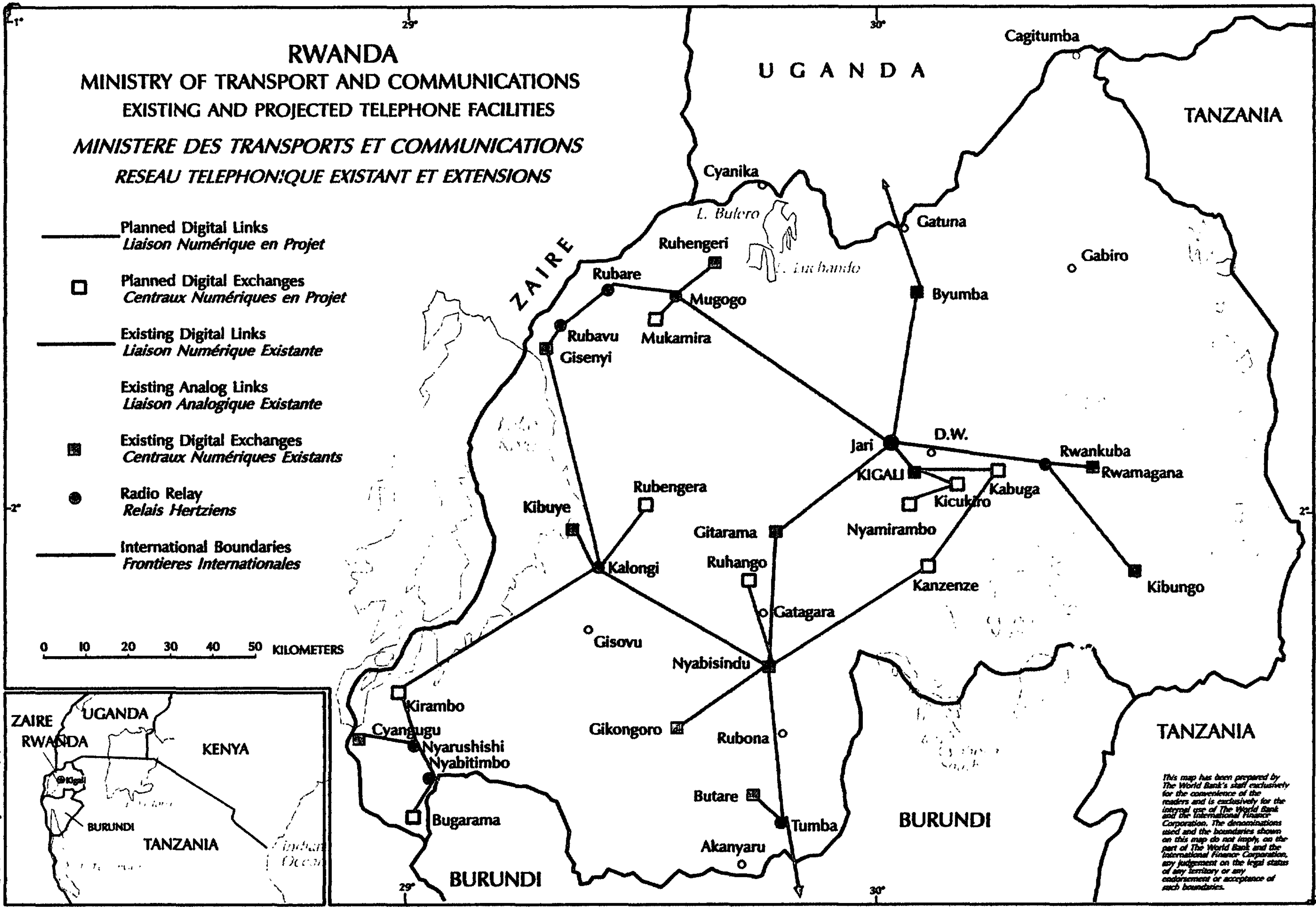
Investment Number	FY	Project Name	Type of Business	Loan	Equity	Total
				---------$ Million--------		
337-RW	1976	SORWATHE	Food & Food Proc	0.5		0.5
470-RW	1979			0.2	0.1	0.3
764-RW				0.3		0.3
1028-RW		SORWAL	Manufacturing	a	0.2	0.2
	Total Gross Commitments			1.0	0.3	1.3
	Less: cancellations, terminations, exchange adjustments, repayments, write-offs, and sales			0.9	0.1	1.0
	Total Commitments held by IFC			0.1	0.2	0.3
	Total Undisbursed			0.0	0.0	0.0
	Total Disbursed			0.1	0.2	0.3

a Loan guarantee of $2.1 million provided by IFC.

COUNTRY ECONOMIC AND SOCIAL INDICATORS

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Growth Rates										
GDP	9.5%	-0.3%	0.3%	-6.6%	0.5%	1.6%	3.7%	4.0%	4.1%	4.2%
Gross Domestic Income (GDY) (1)	6.2%	-4.3%	2.6%	-6.4%	-0.9%	1.7%	4.3%	4.5%	4.4%	4.4%
GDY per capita	2.4%	-7.7%	-1.1%	-9.7%	-4.3%	-2.0%	0.6%	0.8%	0.6%	0.7%
Private consumption per capita	3.0%	-8.1%	-3.2%	-11.6%	-5.4%	-2.2%	0.1%	0.2%	0.3%	0.3%
Money and credit										
Domestic credit	-1.3%	23.1%	23.7%	15.9%	20.9%	8.9%	7.4%	4.2%	..	..
Government	-1.1%	149.5%	25.0%	24.5%	48.8%	-1.3%	-3.2%	-11.3%	..	..
Private sector	-0.2%	-0.3%	23.1%	11.9%	6.4%	16.3%	14.0%	12.3%	..	..
Money and quasi-money (M2)	13.6%	10.3%	7.4%	-4.2%	14.1%	22.2%	11.7%	6.4%	..	..
Interest rate (one-year savings dep.)	5.0%	5.0%	5.0%	5.0%	..	..	..	..	..	..
External Debt										
Debt Service (mill. US$)	19.4	27.8	27.5	27.1	23.7	24.3	25.2	25.1	27.4	27.7
of which: interest (mill. US$)	5.4	7.4	9.4	7.8	8.5	9.0	8.8	9.0	9.3	9.7
Debt Service/XG&NFS (2)	8.5%	16.5%	17.1%	18.3%	16.5%	15.8%	14.5%	12.8%	12.5%	11.3%
Total debt/GDP	20.8%	24.9%	25.1%	25.5%	25.3%	23.5%	22.6%	22.9%	23.0%	23.2%
Ratios to GDP										
Gross Investment	15.9%	15.6%	15.7%	15.1%	15.6%	18.3%	17.3%	17.1%	17.2%	17.1%
Domestic Savings	8.3%	6.3%	6.4%	8.1%	6.4%	7.3%	8.1%	8.9%	9.4%	9.9%
National Savings	8.2%	6.2%	6.3%	6.0%	6.0%	6.9%	7.8%	8.8%	9.4%	9.9%
Private Investment	6.5%	5.5%	7.1%	7.4%	8.2%	9.3%	9.0%	9.1%	9.6%	9.8%
Government Revenues	13.8%	12.5%	13.1%	13.9%	12.3%	13.2%	13.4%	13.5%	13.5%	13.5%
Government Revenues and Grants	16.5%	15.8%	16.6%	17.2%	16.1%	16.5%	15.9%	15.8%	15.7%	15.5%
Government expenditure	21.2%	23.9%	21.8%	21.5%	21.6%	19.9%	18.7%	17.6%	16.9%	16.5%
Overall Fiscal Deficit (incl. grants)	-4.7%	-8.0%	-5.2%	-4.3%	-5.5%	-3.4%	-2.8%	-1.8%	-1.2%	-0.9%
Overall Fiscal Deficit (excl. grants)	-7.4%	-10.4%	-8.7%	-7.6%	-9.2%	-6.7%	-5.3%	-4.1%	-3.4%	-3.0%
Export volume growth rate	17.8%	1.5%	-21.5%	2.7%	14.4%	1.5%	2.9%	4.0%	4.5%	5.0%
Exports/GDP (3)	11.7%	7.8%	8.9%	6.8%	8.7%	8.0%	7.7%	7.9%	8.0%	8.1%
Import volume growth rate	13.1%	-8.9%	-0.1%	-6.0%	-5.9%	1.8%	2.7%	3.0%	3.3%	3.4%
Imports/GDP (3)	21.2%	19.4%	18.1%	17.5%	17.6%	20.9%	18.7%	18.1%	17.7%	17.3%
Current Account (mill. US$) (4)	-186.2	-252.9	-263.2	-232.7	-239.7	-254.6	-255.2	-256.6	-268.2	-278.1
Current Account/GDP (4)	-9.6%	-11.7%	-11.3%	-10.7%	-11.3%	-13.3%	-11.3%	-10.3%	-9.7%	-9.2%
Gross Official Reserves (mill. US$)	182.1	163.9	118.0	70.1	25.4	72.0	109.1	119.5	128.5	138.4
(months of imports)	5.3	5.1	3.8	2.4	1.2	2.3	3.3	3.6	3.6	3.7
Net Official Reserves (mill. US$)	144.8	134.4	97.8	54.1	21.2	59.7	84.8	100.9	108.5	118.8
(months of imports)	5.0	4.6	3.2	1.9	0.8	2.0	2.7	3.0	3.0	3.0

(1) GDP at constant prices adjusted for gains and losses in the terms of trade.
(2) XG&NFS = Exports of goods and non-factor services.
(3) Imports and Exports include nonfactor services.
(4) Excluding official grants.



November 1990

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