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AID AND REFORM

THE CASE OF THE DEMOCRATIC REPUBLIC OF CONGO

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This paper is a contribution to the research project initiated by the Development Research Group of the World Bank on Aid and Reform in Africa. The objective of the study is to arrive at a better understanding of the causes of policy reforms and the foreign aid-reform link. The study is to focus on the real causes of reform and if and how aid in practice has encouraged, generated, influenced, supported or retarded reforms. A series of country case studies were launched to achieve the objective of the research project. The Democratic Republic of Congo (DRC) was selected among nine other countries in Africa. The case study has been conducted by a team of two researchers, including Gilbert Kiakwama, who was Congo's Minister of Finance in 1983-85, and Jerome Chevallier.

AID AND REFORM

The case of the Democratic Republic of Congo

ABSTRACT.

i) During its first years of independence, the Democratic Republic of the Congo plunged into anarchy and became a hot spot in the cold war between the Soviet Union and the West. In 1965, President Mobutu took power in a bloodless coup supported by western governments. A stabilization plan was prepared in 1967 with the help of the IMF. With favorable terms of trade, restoration of private sector confidence, and sound macroeconomic management, the country (renamed Zaire) enjoyed a few years of solid growth. Four shocks, two external (oil prices increase in 1973-74 and copper price decline in 1975), and two self-administered ("Zairianization" of all economic activities in 1973 and heavy debt financing of non viable projects in 1973-74) led to a period of steady decline and arrears accumulation.

ii) After several unsuccessful attempts at financial stabilization, Zaire implemented a comprehensive and far-reaching reform program in 1983-85. The economy recovered. It is unfortunate, however, that during this period the international community did not find ways to help Zaire address its heavy debt burden. Fiscal discipline in the face of negative net transfers in favor of bilateral lenders became increasingly difficult to justify. In 1986 the reform program stalled. Fiscal management further deteriorated in 1987 and 1988, despite strong support from the international community. A last attempt at reform was made in 1989. It was a short-lived one, however, and the World Bank decided to discontinue support to adjustment in early 1990. Lack of control over public expenditure led the country into hyperinflation.

iii) While the responsibility for the failure of the Democratic Republic of the Congo as a state lies squarely with the political elite under President Mobutu, which ruled the country until 1997, it is clear also that the interaction with the international donor community has not been as helpful as it could have been. The major donors were also the major creditors. By financing non viable projects under commercial credit conditions in the early 1970s, and not providing appropriate debt relief ten years later when the country was in the process of reforming, they contributed to making adjustment difficult to sustain.

INTRODUCTION

1. This study is in two parts. The first part presents the economic performance of DRC and the reform programs from independence in 1960 to the end of the Mobutu era in 1997. The second discusses some key issues in the interaction between the donor community and the attempts at reform in DRC.

PART ONE: ECONOMIC POLICY AND PERFORMANCE

2. **The chaotic years following independence**. Independence of the Congo in June 1960 was followed by a long period of political instability and civil strife. The country was ill prepared for independence, with only a handful of university graduates available. Together with Cuba and Vietnam, Congo had the dubious privilege of being a hot spot in the conflict between the Soviet Union and the West during the Cold War. Its vast resources, particularly in the mining sector, its huge size and its strategic location at the center of the continent made it a coveted prize in the east-west conflict.

3. The central instruments of a seemingly all-powerful colonial state decomposed rapidly. Anarchy prevailed after the breakdown of authority in 1960-61. Provincial fragmentation in 1962-63 led to armed rebellions in 1964-65. The economic toll of the first five years of independence was high. While mineral production, the mainstay of the economy, remained stable (copper production in 1965 stood at 282 thousands tons, compared to 282 thousands tons in 1959), commercial agriculture and the transportation network suffered from the pervasive lack of security. Their output was reduced by about one third. Inflation, fueled by monetary financing of the budget deficit, soared to an annual average of 31 percent during the five-year period.

4. **The early Mobutu years.** On November 24, 1965, with the support of Western governments, Mobutu seized power in a bloodless coup. A new Constitution was enacted in 1967 and the name of the country was subsequently changed to Zaire to make a symbolic break with the recent past (in this note Zaire will be used, as the country was known during the Mobutu years, which lasted until 1997). A stabilization program prepared by the Central Bank with support from the IMF was announced in June 1967. It included a 300 percent devaluation and the replacement of the Congo franc by the Zaire, the elimination of the dual exchange rate, a steep increase in export and import tariffs, the removal of import licensing, and the freeing of profit remittances. The stabilization plan was a success. The inflation rate declined rapidly to 2.5 percent in 1968, and economic growth resumed. The 1967-74 period was a favorable one for the economy, with steady growth supported by strong private investment and favorable terms of trade.

5. A generous investment code was enacted in 1969, offering exemption from import duties on capital equipment and a five-year corporate and real estate tax holiday. It triggered a strong wave of private investment, mostly in import substitution industries, including two vehicle assembly plants, a tire factory and a flour mill. These industries relied heavily on imported inputs and protection from competing imports.

6. **The shocks of 1973-75.** Two external shocks and two self-administered ones brought this period of economic expansion to an end. As an oil-importing country, Zaire suffered from the 1973-74 oil shock. To make things worse, in 1975 the price of copper, its main export, fell dramatically, resulting in a 40 percent decline in its terms of trade. The self-administered shocks included the contracting of a large debt on commercial terms for the financing of non-viable projects in 1972-73, and the government decision in late 1973 to transfer all economic activities to Zairian nationals. This policy was a major blunder. It sapped private sector confidence. Its consequences were catastrophic, and by late 1975-early 1976 the Government had to abandon it in stages.

7. In 1972 the Government launched two large projects, with an estimated cost of about US$250 million each, to make use of cheap energy produced at Inga, a site with a huge hydro-electric potential on the Zaire river west of Kinshasa. A steel mill was built with Italian financing, but never operated at more than 10 percent of its capacity. The other project was the construction of the Inga-Shaba power line, partly financed by the Export-Import Bank of the USA. The objective of the project was to supply power from the Inga dam to the mining industry in Shaba, 1800 km. away. Cheaper alternatives were available locally, but the project was launched for purely political purposes, as a means for the central authorities to keep control over the secession-prone province. Implementation of the project took much longer than expected, and its final cost escalated to an estimated US$1.5 billion. For the following two decades, the debt for the Inga-Shaba project has remained by far the largest part of Zaire's debt burden.

8. **The recession years and early attempts at reform.** By 1975, Zaire was unable to service its debt. A prolonged period of economic decline ensued. It was aggravated in 1977 and 1978 by rebel incursions in the Shaba region. Between 1975 and 1978, GDP declined at an annual average rate of 3.5 percent. The inflation rate reached on average 57 percent during this period. In 1978, the external current account deficit was the equivalent of 16 percent of GDP. Arrears on the external debt accumulated to US$1.2 billion at the end of 1978. With the objective of correcting growing imbalances, the Government reinforced a number of controls across the economy. Most prices, including interest rates, were administratively set, the trade regime became highly restrictive, and the allocation of scarce foreign exchange was under the tight control of the Central Bank.

9. In March 1975, the World Bank approved a US$100 million to GECAMINES, the public enterprise responsible for most of copper and all cobalt production, to increase production capacity from 470,000 tons to 590,000 tons of copper and from 16,000 tons to 20,000 tons of cobalt. The project was expected to be completed in mid-1978. Project implementation suffered from a number of factors, including the closing of the Benguela railway in Angola (which served as a major export route for Zaire's copper), foreign exchange shortages, and the hostilities in the Shaba region. In 1982, GECAMINES' production amounted to 466,000 tons of copper and 5,600 tons of cobalt.

10. In 1979, the Government adopted a stabilization plan supported by an 18-month stand-by arrangement with the IMF. The debt to official bilateral creditors (Paris Club) was rescheduled in December 1979, and to a syndicate of commercial banks (London

Club) in May 1980. The reduction of the overall deficit from 4 percent of GDP in 1979 to less than 1 percent in 1980 brought the inflation down from a rate of over 100 percent in 1979 to less than 50 percent in 1980. Real GDP increased by 2.5 percent. Debt service payments were met as rescheduled, absorbing about 20 percent of export earnings. The stock of external arrears was reduced by 35 percent from 1979 to end-June 1981.

11. In June 1981 the IMF approved a new program, supported by a three-year extended arrangement. The objectives were to achieve a 3 percent growth rate, reduce inflation to 25 percent and limit the external current account deficit to 5 percent of GDP in 1983. The program included the lifting of most price controls, the reorientation of the foreign exchange allocation system towards priority sectors, and a change in the interest rate structure. A Paris Club meeting in July 1981 rescheduled principal and interest falling due in 1981-82.

12. The program did not achieve its objectives. The terms of trade further deteriorated by over 20 percent from 1980 to 1983. Growth over the period was negligible, the inflation rate remained over 35 percent, and the external current account deficit remained at a high level of 13.7 percent of GDP.

13. **The 1983 reform.** In September 1983, Zaire adopted a comprehensive and far-reaching reform program. After a steep devaluation, an inter-bank market was established to determine freely the value of the currency and the official exchange rate was set close to the inter-bank exchange rate at weekly fixing sessions. This key reform was accompanied by the liberalization of exchange restrictions, the freeing of interest rates, and the lifting of remaining price controls, except for petroleum products, water and electricity and public transport. The program was supported by a 15-month stand-by arrangement extended by the IMF in December 1983. Under the program, the budget deficit was to be reduced by the equivalent of 5.5 percentage points of GDP in 1983-84, despite a sharp increase in external debt service payments.

14. The adjustment during 1983-85 was substantial. The overall budget deficit declined from 11 percent of GDP in 1982 to 5.9 percent in 1985, while the current account deficit was reduced to 4.9 percent in 1985. The inflation rate, which had reached over 100 percent in 1983, was sharply reduced to 20 percent in 1984, but increased again to 40 percent in 1985. Growth resumed at an average rate of 2.6 percent per year. Zaire resumed normal relations with its creditors. Debt service payments were made on schedule and external arrears were substantially reduced, but this failed to generate additional donor support.

15. **Renewed fiscal laxity**. In April 1986, the World Bank convened a Consultative Group meeting to shore up support to Zaire's reform program. Preparation for an industrial sector adjustment credit was initiated. The IMF supported a new program through a 22-month stand-by arrangement approved in May 1986. The objectives of the program were to contain the external account deficit to 6.4 percent of GDP, limit the budget deficit before rescheduling to 6.6 percent of GDP, and reduce inflation to 30

percent. Shortly after program approval, however, a new Cabinet, much less committed to fiscal discipline, took over. The program went quickly off-track. In 1986, expenditures increased by 56 percent, despite a sharp compression of investment, but revenues increased by less than 10 percent. Inflation accelerated as a result. In late 1986, Zaire suspended payments to Paris and London Club creditors. To hold down the depreciation of the currency, the Central Bank intervened heavily in the inter-bank foreign exchange market.

16. In June 1986, the World Bank extended the Industrial Sector Adjustment Credit (ISAC) in an amount equivalent to US$80 million. The Credit supported a reform agenda aimed at increasing the inflow of private capital through the consolidation of the liberalization of the economy, the reform of the incentive structure, and the improvement of the business environment. The Public Investment Program was reviewed with emphasis on rehabilitating infrastructure and improving the productivity of public enterprises in the mining, transport and energy sectors.

17. **The promise of structural reforms**. In early 1987, a consensus emerged among Zaire and its major donors on the need to develop a broad program, aimed at restoring fiscal discipline and accelerating structural reforms in the context of a medium-term policy framework. To ensure its success, the donor community was to provide generous support, which would offset Zaire’s debt service obligations. A three-year Policy Framework Paper (PFP) was negotiated. The experience of 1986 showed that, despite the substantial reforms introduced since 1983, persistent structural weaknesses prevented Zaire from achieving a sustained rate of economic growth. The investment rate was at a low 12 percent of GDP, the economy was highly vulnerable to external shocks, infrastructure constraints were pervasive, the tax base was too narrow, and the debt burden was too heavy. A restructuring of the Zairian economy was needed to diversify exports, and substantial investment was required to improve infrastructure.

18. The objectives of the 1987-88/1989-90 PFP were to reach a growth rate of 3.5 percent, increase the investment rate from less than 12 percent of GDP in 1986 to 18 percent in 1987 and onwards, reduce the rate of inflation from 40 percent in 1987 to 20 percent in 1988 and less than 15 percent in 1990, reduce the external current account deficit by 14 percent in SDR terms, reduce the overall budget deficit from 16.3 percent to 12 percent of GDP, and increase the share of foreign financing for the private sector. The Government intended to pursue a dual strategy, including promoting private initiatives in the productive sectors of the economy, and improving the efficiency in public resource management.

19. The medium-term program included a broad range of actions. The liberalization of the economy initiated in 1983 was to be consolidated, particularly as regards the exchange rate, interest rates and domestic prices. The business environment was to be enhanced through an even application of the investment code and adequate guarantees. The incentives system was to be streamlined through the elimination of export duties and the rationalization of import duties. The public investment program was to sharply focus on the rehabilitation of infrastructure and the removal of constraints to increased

productivity in key public enterprises in mining, energy and transportation. The public enterprise sector was to be reformed through sale and liquidation, and establishment of performance contracts for enterprises slated to stay in the public sector. Finally, the macroeconomic management was to be improved through the pursuit of strong fiscal, monetary and external debt management policies.

20. A Consultative Group meeting was convened in April 1987 to mobilize funding for the 1987-90 Public Investment Program (PIP) reviewed by the World Bank. In May 1987, the IMF approved a 12-month stand-by arrangement and the first annual arrangement under the Structural Adjustment Facility (SAF). One month later, the World Bank extended a two-tranche structural adjustment credit (SAC) for the equivalent of US$149.3 million. The credit was co-financed by Japan for the equivalent of US$ 15.2 million. No less than 128 actions were envisaged in the reform program supported by the credit. There were three broad categories of reforms in the program: (i) measures to strengthen macroeconomic management, including fiscal reform, financial sector policies, public expenditure programming and execution, and public administration and public enterprises reforms; (ii) a reform of agricultural and transport sector policies; and (iii) measures to strengthen the incentive framework for the private sector.

21. Disbursement of the second tranche of the credit was scheduled for February/March 1988. There were five conditions for second tranche release, as follows: (i) a satisfactory macroeconomic framework, including the level and composition of the 1988-91 public Investment Program (PIP); (ii) the establishment of an oversight structure for the supervision of public enterprises and the appointment of its administrator; (iii) the classification of enterprises to be maintained in the state portfolio, liquidated or wholly or partially privatized; (iv) the finalization of a restructuring and reorganization program for public enterprises remaining in the state portfolio; and (v) completion of financial and administrative arrangements for the retirement of eligible public employees.

22. Implementation of the program ran into difficulties from the outset. Fiscal discipline did not improve and the domestic financing of the budget deficit led to a high inflation rate of over 100 percent in 1987. Performance further deteriorated in 1988. Government revenue as a share of GDP fell to a low 13.2 percent, while expenditures rose significantly in real terms. Spending in all major categories exceeded original budget allocations by a wide margin. As a result, the overall budget deficit climbed to over 22 percent of GDP. Despite a strong rise in copper prices, external imbalances worsened. The spread between official and parallel market exchange rates widened. Arrears on external debt accumulated.

23. **The last attempt**. In November 1988, President Mobutu appointed Mr. Kengo, the artisan of the successful reforms of 1983-85, as the new Prime Minister. The new Government quickly demonstrated its commitment to reform through taking a series of difficult measures. Petroleum prices and public transportation tariffs were adjusted, interest rates were increased, the currency was devalued, and a tight budget was prepared for 1989. A new medium-term program was prepared for 1989-90/91-92. The macroeconomic objectives of the program were to achieve a growth rate of 3.3 percent

rising to 4 percent in 1992, increase investment from 11 percent of GDP in 1988 to 14 percent of GDP in 1992, reduce gradually inflation from triple digit in 1987-88 to 15 percent in 1991, halve the share of the budget deficit (on a cash basis and before debt relief) to GDP from 24 percent in 1988 to 12 percent in 1992, and reduce the external account deficit from 14.2 percent of GDP in 1990 to 11.3 percent in 1992.

24 Taking account of past experience, a ceiling was set on foreign expenditure by Government, and, to prevent recurrence of excessive contributions imposed by the Government on GECAMINES, a dividend policy was formulated with the help of the World Bank. Before finalization of the program, however, in a one-on-one meeting with the World Bank's Vice-President for the Africa Region in March 1989, President Mobutu was asked to make a personal commitment that there would be no expense outside the budget and the public investment program. He was also warned that failure to implement the program would make it impossible for the World Bank to continue its support to adjustment. The President gave his word as a soldier that he would respect the program. The second tranche of the SAC was released, and the IMF approved a new stand-by arrangement in June 1989.

25. Good progress was made in 1989. The rate of inflation was sharply reduced and the spread between the official and parallel exchange rates was maintained within the target band of 10 percent. The share of government revenues to GDP increased from 13.2 percent in 1988 to 17.5 percent in 1989. Interest rates became positive in real terms in June 1989. Government expenditure was stabilized in the first half of 1989, but increased steadily in the second half.

26. In June 1989, President Mobutu was the first African Head of State on an official visit to the Bush White House. At that time, there were signs that expenditures outside the budget and the public investment program were being initiated by the Presidency. Again, the senior management of the World Bank warned President Mobutu of the dire consequences of not respecting his commitment. This warning failed to impress him, however, and several months later, in March 1990, with evidence that he had indeed not respected his word as a soldier, the World Bank informed the Zairian authorities that it would reduce its lending program to a core mode, with emphasis on direct support to local initiatives in the social sectors.

27. For lack of expenditure control, inflation sprang up again and rapidly turned into hyperinflation, with an annual rate jumping from 39 percent in 1989 to over 4000 percent in 1991. The economy went into a free fall. In 1996, the year before the demise of the Mobutu regime, the GDP per capita was estimated at about US$150, less than 40 percent the 1958 level. The production of copper barely reached 40,000 tons, less than one tenth the level achieved in the mid 1980s. For lack of maintenance, infrastructure has deteriorated to such an extent that most regions are now completely isolated. Poverty has become widespread, and social indicators, which used to compare favorably with those in the rest of sub-Sahara Africa, have steadily declined.

PART TWO: AID AND REFORM

28. Part two will discuss a series of issues at the core of the relationship between aid and reform, including the role of financial flows in reform, the adequacy of the reform agenda, the management of public resources and the political dimension of reform.

29. **Financial flows and reform**. During the 1967-97 period, Zaire made two genuine attempts at economic reform. Both programs were formulated trough close cooperation between the IMF and the Central Bank. The first one in 1967 enabled the Congo to recover from the difficult post independence years. The international community strongly backed the reform program, and provided financial support through the IMF. At that time, the Central Bank was in control of macroeconomic management with little interference from the Government. The 1967 reform re-established private sector confidence, and the economy quickly bounced back. The reform program was supported by an IMF stand-by agreement. The financial flows involved were most limited.

30. The second ambitious reform initiated by Zaire took place in 1983-85. After a steep devaluation, the Government liberalized the exchange rate, the interest rates and most prices. Again, this reform was supported by an IMF stand-by arrangement, but little additional support came from the donor community. Improved fiscal management allowed Zaire to pay its external debt as re-scheduled, resulting in a net transfer of resources in favor of its creditors. In 1984-85, the debt service actually paid by Zaire increased by 88 percent over the previous two years. Whereas in 1982 and 1983, Zaire was a net beneficiary of transfers from its creditors for a total of US$42 million, it transferred the equivalent of US$369 million to its creditors in 1984-85, or about 2.6 percent of its GDP.

31. The net negative transfer situation in which Zaire found itself in 1984-85 gave strong ammunition to the opponents of fiscal rigor. The reform program was abandoned in late 1985, but the donor community, reacting with delay to the net transfer problem, stepped up its assistance. Net transfers became positive in 1986, averaging about US$133 million annually during the period 1986-88. This was mostly due to large disbursements from multilateral creditors, which averaged US$244 million annually, despite a steady deterioration in Zaire’s fiscal performance during the same period. The net transfers in favor of bilateral creditors continued, however, but at a much lower level (US$12 million per year, compared with US$127.5 million per year during 1984-85).

32. The debt burden was a serious problem for Zaire in the late 1970s-early 1980s. The debt to GDP ratio increased from about 60 percent on average in 1975-78 to about 120 percent in 1985. This sharp increase was not so much the result of new debt incurred, but of the early debt rescheduling agreements, which brought temporary relief, but at the cost of higher debt in the future. Debt service absorbed a growing share of resources. The ratio of debt service actually paid to exports sharply increased from about 12 percent to about 30 percent during the same period.

33. Arrears became a chronic issue. They steadily increased from the equivalent of about 50 percent of exports of goods and services in 1975-78 to 76 percent in 1979. Debt rescheduling agreed to at the Paris and London Clubs meetings in 1979 and in 1980 brought a temporary solution to the problem, but arrears increased again to reach 61 percent of exports of goods and services in 1982. Implementation of the 1983-85 reform program brought down the level of arrears to about 7 percent of exports of goods and services in 1986.

34. Lack of financial discipline in 1986-88 contributed to the resurgence of the arrears problem, despite generous transfers from the donor community, and significant debt relief provided by bilateral creditors. In 1988 external arrears reached about 44 percent of exports of goods and services. A temporary reduction of this ratio to 24 percent took place in 1989, but arrears started to accumulate again. As exports of goods and services declined in the 1990s, the ratio jumped to 286 percent in 1992, and to a whopping 436 percent in 1996.

35. The debt burden was a major factor, which contributed to making the stabilization program of 1983-85 difficult to sustain. Debt service absorbed an excessive amount of resources, leaving little for essential domestic programs. During the period 1978-82, on average, external debt service represented about 18 percent of government revenues. In 1985, this percentage climbed to about 48 percent, which is far beyond what would be considered reasonable today. In retrospect, bilateral creditors by being too shortsighted undermined the efforts of the only government team, which was committed to fiscal stabilization and economic adjustment. By 1988, debt service absorbed 35 percent of government revenue, but adjustment support provided by the international community reduced this ratio to 11 percent only. The debt service burden was much reduced, but, during that period, the debt issue was used by the political leadership as an excuse for not reforming economic management.

36. **Adequacy of the reform agenda**. The first economic reform program in 1967 was highly successful. Private sector investment, which had been on average equivalent to about 16 percent of GDP during the 1950s, bounced back and became the driving force for a solid economic recovery in the late 1960s and early 1970s. The nationalization of Union Minière du Haut Katanga (UMHK), the copper mining company, in 1967 did not erode private sector confidence. The Belgian owners of UMHK received a profitable compensation package, including rights to the marketing of copper. The nationalization took place during a period of favorable international prices and did not affect copper production. It allowed a large number of Zairians to gain managerial skills. On the other hand, it also opened the door to government interference, which remained, however, limited in the early years of GECAMINES, the new company, which took over from UMHK. The enactment of an investment code in 1969 triggered a strong private sector response. Investment, however, was mostly in highly protected import substitution activities with little real value added.

37. In 1972, one year before the "Zairianization" of all economic activities, the Government initiated the establishment of marketing agencies to monopolize the

purchase of major export crops. This policy was a major departure from the liberal approach to economic activities, which had served the country well in earlier years. As in many other African countries, however, this policy did not bring about its intended benefits of giving the farmers a higher price for their products. On the contrary, poor management led to lower prices and payment delays, which discouraged the producers.

38. To deal with the consequences of the financial crisis of 1975, which was partly of its own making, the Government imposed a series of controls over economic activities. This new approach addressed some of the symptoms of the crisis, but not its root causes. It did not work and Zaire became increasingly dependent on the goodwill of its creditors. The international community relied on the IMF to help stabilize the economy, and posted advisors in key management positions in the public sector, including the Central Bank, to help control the damage being done to the country's infrastructure and institutions. The country was kept under a short leash. Some improvements were made locally, but they were short-lived and not sustainable. Zaire's economy and social fabric continued to deteriorate.

39. The 1983-85 stabilization program was successful in removing the major controls established in the late 1970s. Foreign exchange became more readily available, but this was not sufficient to generate sustained growth. Both the Zairian authorities and the IMF agreed that a comprehensive adjustment program was needed. Private investment was at a low level (about 6 – 7 percent of GDP), and a major effort was deemed necessary to remove a number of constraints to private activity. An Industrial Adjustment Credit was approved in June 1986 by the World Bank to support a reform program aimed at reducing effective protection, streamlining business taxes, and eliminating ex-post price controls. A number of measures were taken, but many of them were quickly circumvented thereafter. The reform program was not particularly relevant. It addressed issues considered as not so important by the business community, but failed to address their real constraints, mainly infrastructure difficulties and the low purchasing power of the population. The foreign exchange made available under the credit was used by local enterprises to increase inventories, not so much to boost output. There was a modest growth in industrial production 1987, but it was followed by a decline of similar importance in 1988 and 1989.

40. In June 1987 the World Bank approved a Structural Adjustment Credit. The reform program supported by the credit was far too complex, however, including measures in the areas of tariff, tax, public investment program (PIP), civil service, public enterprises, financial sector, agricultural sector and transport sector. It was long on action plans and processes, but short on actual changes. It was not bold enough, as it did not seek to make irreversible changes to the ownership structure of key public enterprises. Its implementation ran into considerable difficulties from the outset. Even before the credit was declared effective, large uneconomic investments were initiated outside the agreed upon PIP. The reform program failed and Zaire missed an opportunity to re-establish its economy on a sound footing.

41. During the 1983-89 period, the policy dialogue with the authorities was conducted by the IMF in the early years, then by the IMF and the World Bank on behalf of the donor community. The dialogue was open and productive with technicians and high officials. There was a broad consensus on the reform agenda at this level, but, as it became increasingly clear, President Mobutu had no intention of making any change in his ways of managing the country. In his views, the reform program was fine as long as it did not put any limitation to his prerogatives.

42. **Public resource management**. Improved public resource management was a key objective of the stabilization and adjustment programs during the period 1983-89. Despite considerable efforts made to improve the tax system and the programming of expenditures, the management of public resources deteriorated steadily over the period. The ratio of revenue to GDP increased modestly from a low 8 percent in 1982-83 to an average of about 10 percent during the 1984-89 period. During this period, the Government relied increasingly on contributions from GECAMINES (from about 20 percent in 1984-86 to about 40 percent in 1988-89). The share of income taxes and taxes on goods and services in total revenue declined from an average of 60 percent at the beginning of the period to an average of 35 percent in 1988-89.

43. Serious weaknesses in the Tax and Customs Departments were not corrected. Improvements were made when competent administrators were appointed, but quickly forgotten when they were replaced. The tax and customs systems were undermined by a considerable amount of exemptions and widespread fraud. A multitude of taxes with negligible yields for the Treasury, but representing a substantial burden for the business community, continued to be levied. Without counting local taxes, no less than 1300 fiscal and quasi fiscal instruments have been inventoried

44. The modest increase in revenue during the 1983-89 period allowed for an expansion in expenditures. Non-debt current expenditure increased from about 8 to 11 percent of GDP during the period. This increase was not used for development purposes, however. The share of defense, security, foreign affairs, administrative and political functions increased from 38 to 62 percent of the total during the period, while the share of education and health declined from 39 to 22 percent. Allocations for sovereignty functions have been routinely exceeded, while actual expenditures for development activities have been consistently lower than budgetary allocations.

45. The Government use of resources rose from 11 percent of the GDP in 1984-86 to 14 percent in 1987-89, with a peak of 17 percent in 1988. This increase was made possible by the availability of external resources, which represented 39 percent of government absorption in 1987-89, compared to 5 percent in 1984-86. As indicated earlier, net transfers on account of the external debt became highly negative in the early part of the 1984-89 period, but highly positive in the later part of it. Government absorption was in reality substantially higher than indicated in official data. Expenditures were made outside the budgetary process and financed through a variety of means, such as extra contributions from GECAMINES and other public enterprises.

46. Public investment programming improved over the 1983-89 period. The Public Investment Programs (PIPs) became more realistic and focused increasingly on the rehabilitation of infrastructure and productive facilities, and human development. Starting in 1987, the PIPs became three-year rolling plans. Their implementation was monitored quarterly. Financial execution ratios improved steadily from a low 43 percent in 1981-83 to a high 92 percent in 1988-89. These improvements were seriously undermined, however, by the continued support given by President Mobutu, in spite of explicit commitments made by his Government, to his pet projects, which were financed through recourse to expensive sources of credit. One such project was the Mobaye dam and hydro-electric plant established on the Ubangui river to supply the Presidential town of Gbadolite at an extravagant unit cost.

47. Increased availability of foreign assistance during the second half of the 1980s gave the Government the opportunity to spend more. As indicated earlier, higher public spending benefited almost exclusively non-development activities. By funding development sectors, the donor community gave in effect the Government more latitude to spend for non-development purposes, and to disengage itself from its developmental responsibilities.

48. Efforts made at improving the management of public resources were doomed. They clashed with the political realities of an increasingly voracious regime. To maintain his hold on the country, President Mobutu needed either coercion or a growing amount of resources for buying the support of influential people all around the country, or a combination of both. He also needed to remain in good standing with the international community. Open coercion was becoming less of an option in the 1980s, as the international community was less prone to tolerate it, even when used as an excuse in the fight against communism. Sensing this change in values, President Mobutu established a Ministry of Human Rights to placate western public opinion. The only option left therefore was to maintain his direct control over a large amount of resources. This objective was not consistent with the adjustment program, however. The program sought to eliminate a great number of practices, which were not part of a sound public management system, but little was achieved in this area.

49. President Mobutu paid lip service to the adjustment program, but continued his raids on the Treasury, the Central Bank, GECAMINES and other institutions. He was convinced that he would continue to be courted by world leaders, even if he did not mend his ways. Experience shows that he was right. Even after the fall of the Berlin wall in 1989, he was perceived by western governments as the only person capable of keeping the country together. He presented himself as the only alternative to chaos, even after he brought chaos to his country by encouraging the army riots in 1991.

50. **The political dimension of reform**. The Mobutu regime lasted for more than three decades. Its exceptional longevity is in sharp contrast with the instability of its institutions and governments. During the 1980s governments lasted on average less than one year. Political considerations were paramount in the decision-making process. The consolidation of his regime has consistently been President Mobutu’s main concern. In

1967 he established a one-party system to consolidate his grip on power. The party included all Congolese nationals from their birthdate. It was the center of power and all public institutions, including the Government, were under its dominance.

51. The regime could not tolerate any sign of dissent. In the late 1960s, the Central Bank, the business community, which was dominated by foreigners, and the Catholic Church had still too much autonomy for the regime's comfort. The governor of the Central Bank was replaced by a member of the President's office. The "Zairianization" launched in 1973 was meant to create *ex nihilo* a Zairian business class that would be forever grateful to the regime for its rapid enrichment. This initiative was part of a broader plan to mobilize all national energies trough a cultural revolution process calling for the return to "African authenticity". This process was in particular aimed at curbing the enormous influence of the Catholic Church, which controlled most of the education and health facilities in the country.

52. In this context, economic reforms were adopted as long as they did not threaten the dominance of the regime. They were introduced under the pressure of short term concerns, not to address the root causes of economic problems. They were announced as a means to placate the international community and extract more aid. They were not meant to last and were circumvented most of the time. They were running against a patrimonial way of governance, that was, incidentally, part of the heritage left by the so called Congo Free State, the property of King Leopold of Belgium in the late nineteenth century.

CONCLUSION

53. The Democratic Republic of Congo and its citizenry have paid a heavy price for the country's strategic importance, its extraordinary mineral wealth and its role in the cold war. Independence in 1960 was poorly prepared and the chaotic years that followed it gave ample opportunities to the protagonists of the cold war to manipulate local factions. When Mobutu took over through a bloodless coup d'état in 1965, the country was longing for peace and tranquility. With western support and IMF guidance, the Mobutu regime succeeded in restoring the conditions for economic growth, and its first years brought about positive changes for the country's population. The external shocks of 1973-75, however, and the decisions made during the same period to "Zairianize" all economic activities and to launch high-cost and non-viable projects with the support of commercial lenders and bilateral credit institutions brought the process of economic recovery to a halt.

54. During the late 1970s and early 1980s the country struggled to recover from these shocks, but without much success. Chronic shortages of foreign exchange crippled economic activities and infrastructure deteriorated. The donor community provided financial and technical assistance to help run public institutions and the large public enterprise sector, which was in charge of most mining and infrastructure activities. Technical advisers were in line positions. Some progress was made, but it could not be sustained, mostly because of an inappropriate macroeconomic framework. There were

some bright spots, particularly in those institutions where systematic on-the-job training took place. A number of Zairian technicians were trained in various sectors and they became the backbone of the economy.

55. Economic reform started in earnest in 1983 with IMF assistance. After a long slide the economy showed signs of bouncing back. It was a short episode, however. Bilateral creditors, who were also the major supporters of the country and its regime, did not seize the opportunity to help establish the reform process on a sound footing. They got paid, but for lack of sufficient resources, the reform program fizzled out. External support came too late, and was indirectly used to enlarge the capacity of the regime to spend for non-development purposes. The reformers who counted on the help of the international community had great difficulties fighting against the populist sentiments, which were stirred up by the regime as a means to better maintain its staying power. After the fall of the Berlin wall, the regime managed to stay in power for seven more years, but at a terrible cost to the population. It bought chaos to the country, a full circle trip back to the early years of independence.