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DIMPEX
ASSOCIATES, INC.

INVESTMENT CLIMATE ASSESSMENT

REPUBLIC OF ZAIRE

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INVESTMENT CLIMATE AND ASSESSMENT

REPUBLIC OF ZAIRE

Submitted to:

PRIVATE ENTERPRISE OFFICE
AFRICA BUREAU (AFR/PRE)

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PREFACE

This report on the Investment Climate of Zaire is submitted in fulfillment of obligations under terms of a contract between USAID AFR/PRE and DIMPEX ASSOCIATES. This submission also incorporates material from a separate report prepared under terms of a sub-contract between DIMPEX ASSOCIATES and COOPERS & LYBRAND, Kinshasa, Zaire which was negotiated and supervised at the request of the USAID Mission, Zaire.

The work was carried out in Washington and Zaire over the period October 1 - December 6, 1985. The DIMPEX ASSOCIATE Project Officr was Mr. Arnold Lessard, a senior international business consultant, who is responsible for the contents of this report. The report submitted by COOPERS & LYBRAND under terms of the sub-contract is submitted separately.

The findings and conclusions contained in this report are based on a thorough review of recent published reports on Zaire from USAID, World Bank, IMF and agencies of the Governments of the U.S. and Zaire, interviews in Washington and Zaire with U.S. Government officials and multilateral lending and aid agencies, and an extensive series of discussions with many senior private sector businessmen in Kinshasa and Lubumbashi.

Mr. Lessard worked closely with U.S. Embassy and USAID officials in Kinshasa and Lubumbashi at all stages of the in-country field work of approximately six weeks. Official presentation of findings, conclusions and recommendations were made to U.S. Ambassador Branden Grove and USAID Mission Director Richard Podol and their staffs in Kinshasa on November 14 and 18, 1985. A final draft of this report was delivered to USAID Zaire on November 18th.

Briefing of Department of State, USAID and OPIC officials were made in Washington during the week of December 2, 1985.

DIMPEX ASSOCIATES sincerely thanks Ambassador Grove and Mission Director Podol and their economic and planning staffs for an outstanding level of support, assistance, counsel and interest. USAID's Project Coordinator, Mr. Joseph Ryan, is deserving of the most sincere thanks for his dedication, thoughtful advice, perspicacity and friendship.

EXECUTIVE SUMMARY

The basic objectives of this Investment Climate Survey are to provide the USAID Mission in Zaire with a factual business-oriented basis for formulating private sector strategies, policies and programs, and for serving as a basis in continuing policy dialogue with the Government. The Survey will also provide basic background data for the forthcoming OPIC mission to Zaire. These USAID and OPIC initiatives will:

- Stimulate economic development
- Encourage the growth of private enterprise
- Promote employment
- Raise living standards

This report examines Zaire's political/regulatory and economic/business environments and draws conclusions as to the impact of the overall climate on private sector investment decision making. The report concludes with implications for USAID private sector strategy development.

1. The Government Has Taken Important And Far-Reaching Steps To Liberalize The Economy And Encourage Private Sector Investment Initiatives

The Government is working cooperatively with the IMF to bring about fundamental changes in the regulatory environment in key areas impacting the private sector: currency devaluation, foreign exchange availability, repatriation of earnings and investments, reduction of interest rates, moderation of inflation, easing of price controls, creation of a domestic money market, and control of public sector expenditures.

Foreign and local businessmen and bankers agree that these initiatives are substantial and appropriate. Their major concern, however, relates to the Government's ability and dedication to "stay the course." There remains vivid memories of the disastrous nationalization and Zairianization programs of the 1970's. The predominate private sector view is, "We'll wait and see for a year or two" before committing to major new investments. Specific examples of new investments, however, were identified in the basic consumer segments -- food, beverages, textiles and cigarettes. Such companies believe that the political/regulatory environment is positive enough now to justify multi-year new investments in plant modernization and distribution rationalization.

2. Zaire Faces A Long Period Of Major Economic Readjustment And Low Growth In Both Internal And Export Markets

The economy is heavily depressed. There is a marked absence of positive economic indicators. Private sector businessmen do not see any short-term improvement in internal markets nor are they optimistic about major increases in export earnings.

- Foreign debt burden overhangs are large and even mid-term improvements are not anticipated.

- "Net disinvestment" has been the rule for many years in both essential infrastructure and productive capacity.

- Capital flight continues to be a major problem.

- Export earnings are at the mercy of soft world commodity prices for the major exports of copper and oil.

- The contribution of manufacturing to GNP continues to fall, and utilization of installed plant capacity is very low.

- Consumer purchasing power continues to decline. Consumer demand across the board will not improve over the short-medium term.

- Medium term financing and foreign exchange availability will remain very tight.

While the general attitude of the private sector is appropriately cautious -- and most new investment is simply to maintain existing plant and facilities -- some large multinationals in essential consumer products have adopted aggressive investment strategies considering the economic environment with the objective of capturing a greater share of the existing market while positioning themselves for a hoped-for long-term turnaround in the market.

3. <u>Private Investors Face An Improving Regulatory Climate Combined with An Economic Environment Which Continues To Deteriorate</u>

In summary, the current overall investment climate in Zaire is judged to be poor. While Government actions are seen as highly positive, the basic question of "staying power" dominates private sector thinking. Furthermore, the private sector will continue to face a fundamentally poor economic and market environment.

- Tight liquidity

- Declining or stagnant demand

- Shortage of foreign exchange and medium term finance

- Decline or stagnation of locally produced raw material inputs

This poor business climate therefore -- with important exceptions -- will limit growth of new investment in the short and medium-term.

4. <u>USAID Can Have An Important And Tangible Impact On Zaire's Private Sector Enconomic Development</u>

An integrated USAID private sector strategy is recommended which combines the following elements:

- Concentrate on a few, high-priority objectives and programs.
- Establish a small/medium sized business loan fund to address the major lack of medium-term credit.
- Encourage development of private sector management advisory and business training services.
- Continue close working relationships with OPIC.
- Support GOZ efforts to reform the Investment Code.
- Assist international lending agencies in their programs of parastatal divestment/privatization/elimination.

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I. REPUBLIC OF ZAIRE GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES

1. Political Stability and Risk

The twenty-five year period from 1960 when Zaire gained its independence from Belgium has been one of extreme political and economic instability, internal and external threats to the country's independence, and major and broad based economic decline. Massive external assistance from the west -- both military and economic -- has been required to maintain Zaire's territorial integrity and guarantee its economic survival.

The normally difficult problems of nation building were compounded by a Belgium colonial regime which had done little to prepare the way for independence and was unable to effect an orderly transfer of power, while the new government proved singularly unable to formulate policy and manage its political, military and economic affairs. President Mobutu, who became President in 1965 and is currently serving his third seven-year term, is however widely viewed as being firmly in power. Organized opposition is not apparent. A number of important former opponents to the regime have returned to the country under amnesties granted in May 1983. A one party system has been firmly integrated with the government apparatus at national, regional and local levels, as well as with the military and the labor unions.

Zaire is an important African ally of the West. Its strategic geographic location, its abundant mineral resources, and its generally free enterprise orientation have resulted in close ties with the U.S. and major European countries who provide substantial economic and military support. Close links have also been forged with China. While Zaire has suspended its membership in the Organization of African unity because of its support of Morocco in the Western Sahara disputes, it maintains close ties with most of the Francophone African countries. Zaire is the leading member of the Great Lakes Economic Community with Burundi and Rwanda. There are no major or threatening political problems or disputes with neighbors.

Most business leaders feel that the political stability -- both domestic and regional -- which Mobutu has brought to the country is a favorable -- although minor -- factor in encouraging private investment. The business community is currently more concerned with economic stability and the government's ability to stay the course in managing the necessary and major economic reforms advocated by the International Monetary Fund (IMF).

2. National Development Policies and Plans

The basic development policy of Zaire is now firmly private enterprise oriented. Following the disastrous nationalization and Zairianization programs of the mid-seventies, major policy and regulatory actions have been taken to encourage private sector investment by both foreign and local investors. Major efforts are underway with important assistance from organizations such as the IBRD to divest and privatize -- or abolish -- a number of state corporations. The government has already made progress in this divestiture program including:

- Liquidation of SOZACOM, the marketing arm of the major state mining company.
- Privatization of 35% of the capital of CMZ, the national shipping line.
- Abolition of the import sales monopoly of PETROZAIRE, the national oil company.
- Privatization of SODIMIZA, a government mining company.

The government under strong pressure and guidance from the IMF has -- and is -- making fundamental and long-term economic reforms which have already had important impacts in stabilizing the economy and raising private sector confidence. These actions are discussed in detail in Chapter II.

Zaire has all the essential ingredients for sustainable long-term growth: enormous and low cost mineral and energy resources; a large population with rising adult literacy; large forests and arable lands suitable for growing export and locally consumed food crops and forest products; and the largest river transport network in Africa tied to a major Atlantic port.

Continued political stability and success in carrying out the current economic liberalization program could well move the current "watch-and-wait" attitude of most businessmen towards a growing willingness to consider at least limited new investments. Some cautious investments, in fact, are already underway or planned as noted in Chapter II. The 1986-87 time frame will be critical according to most business and banking observers in Zaire.

The Five Year Plan currently under review, takes major steps to liberalize the economy and increase living standards.

- Encourage private sector investment by providing important new financial and fiscal incentives.
- Continue economic liberalization programs.
- Diversify the economy and encourage development and use of local material and human resources.
- Decentralize the economy by concentration on regional development programs.
- Provide major funds for rehabilitation of basic infrastructure.
- Make important investments in basic health, education and welfare programs.

So far, the Government has demonstrated its willingness and ability to make fundamental changes in its economic orientation and programs. Beginning in 1983, a number of economic reforms were put in place.

- An 80% devaluation of the currency was followed by phased institution of a floating rate exchange system.
- Foreign exchange was made available through commercial banks.

- Exchange rates were permitted to move on the basis of supply and demand.

- Government controls on interest rates were removed.

- A domestic money market was created with the first issuance of short-term treasury bills.

- Profit remittances by foreign firms were authorized.

- Quantitative restrictions on imports were lifted.

- Commerical banks were authorized to issue import licenses.

- Inflation was slowed.

- Arrearages on foreign debts were reduced.

- Major reforms in management of parastatals were initiated.

- An enhanced role for private sector enterprise became a major policy initiative.

- Price controls were eliminated or loosened.

- A series of measures were taken to reduce abuses and control expenditures in the public sector.

- Tax and customs collection and enforcement practices were under review.

- A "Treaty Between The Republic of Zaire and The United States of America Concerning The Reciprocal Encouragement And Protection of Investment" was signed on August 3, 1984 providng for assurances to investors for transfer of profits, expatriate employment, settlement of disputes and related guarantees.

These actions appear to be encouraging business development. According to government statistics, new investments in 1984 were $120 million as compared to $14 million in 1983. The commercial banks have also indicated that despite liquidity constraints, some companies are taking at least modest steps to begin modernization of plant and equipment.

In addition to the major initiatives taken since 1983, a number of additional measures are currently under consideration:

- The Investment Code will be substantially revised to provide greater incentives and assistance to local and foreign investors.

- Rebates on export taxes will be reviewed as a method for export promotion.

- Improvements will be made to facilitate functioning of interbank foreign exchange markets.

- Official gold and diamond exports will be stimulated by elimination of export taxes.
- Disbursement of foreign aid counterpart funds will be speeded up.
- Foreign donors will be encouraged to provide foreign exchange for private sector imports through the commercial banking system.
- The new Five Year Plan will place major emphasis on infrastructure building, agriculture and private sector development.

Multilateral lending agencies and international and local businessmen are highly satisfied with the initial efforts of the Government to liberalize the economy. Very tangible results are being noted in the marketplace. The primary concern of the business community is the staying power of the Government in seeing this long-range and difficult program carried through to completion. If the program is carried out, it will have a strong positive impact on the investment climate.

3. Business Formation and Investment Incentives

The existing Investment Code was promulgated in 1979 to encourage foreign and local private sector investment. Consult Appendix I for a summary of the Code's major provisions.

The Investment Code grants privileges to companies proposing new or expansion/modernization investments on the basis of significance of investments, effect on prices and balance of payments, new job creation, geographic location and positive impact on social conditions. Agreements are based on formal proposals prepared on model submission forms contained in the Code.

A Commissioner on Investments operating under the jurisdiction of the General Planning Commission reviews and determines eligibility of proposals. Depending on the type of proposal, approvals are made by the joint order of the General Commissioner of Planning and the State Commissioner of Finance or the Executive Council co-signed by the above. The entry into effect of the agreement depends on publication of a Presidential Order.

While the current Investment Code benefits are meaningful, businessmen complained that back-up and support services provided potential investors are minimal. Many of the benefits relating to repatriation of profits, dividends or capital have been inoperative, moreover, due to the scarcity of foreign exchange. This situation appears to have changed recently, however, and businessmen are reporting Government approval of such remittancs for the first time in several years.

In general, however, business leaders feel that while the 1979 Investment Code does encourage private investment, the impact is minor. They believe a new, more liberal code is needed. Concrete proposals for fundamental changes in the Investment Code are now under study. It is expected that the new Code will be published in 1986 to coincide with the launch of the 1986-1990 Five Year Plan.

Specific proposals made for revision of the Investment Code include the following:

- o Create an international investment promotion organization to facilitate and coordinate new investments.

- o Create an offshore bank to mobilize Central African and Zairian foreign exchange holdings and facilitate regional and local investment.

A number of these proposals represent fundamental changes in existing regulations and in the administration of these regulations. The proposals for new investment promotion and offshore banking institutions mean de novo creation of organizational entities for which Zaire has had no previous experience. Even though multinational banking and bilateral aid agencies are expected to support and provide assistance and financing for the proposed Investment Code reforms, the installation of the full array of the proposed reforms could well take most of the Five Year Plan period, and include the following actions:

- o Redefine customs duties, tariffs, and import taxes on the basis of imports competing with local production, raw materials, and intermediates used in local manufacturing.

- o Introduce a new system of export duties which will encourage exporters.

- o Redefine sales taxes on exports, imports and internal sales.

- o Examine reductions in direct taxes on revenue, profits, salaries and property.

- o Lengthen the period of loss carry forwards.

- o Redefine the assessment, rates and uses of Development Fund taxation.

4. <u>International Remittances</u>

Repatriation of dividends, royalties, and expatriate salaries has always been "legally" possible, but case-by-case negotiations were required -- and frequently not approved. Many companies, as a result, entered the commodities trading business as a sideline business activity for obtaining exchange transfers, due to their inability to repatriate via official channels.

Current economic reforms have liberalized both exchange controls and foreign exchange markets. Over the past two years FX has been available for imports of most items. Central bank approval is required for remittance of dividends, fees and royalties. Guidelines are general in that approval will be given if the remittances will not damage the financial viability of the company. Approvals have been granted in 1984 and 1985 for most reasonable dividend requests, and physical repatriation has in fact taken place. This has been a major favorable factor in improving businessmens' attitudes about doing business in Zaire.

The 1983 reforms included a massive devaluation of the highly overvalued zaire - - from six zaires to the dollar to thirty. The currency was then allowed to float with the rate being determined by supply and demand on the interbank exchange market. The zaire devalued 38% in 1984 to forty zaires to the dollar, and is forecast to reach fifty-six during 1985. These devaluations are largely equal to the inflational differentials between Zaire and the U.S. As Zaire's inflation moderates, it is expected that there will be a declining annual devaluation.

The FX exchange market is unsophisticated, with Central Bank intervention needed to stabilize supply and demand. FX on the interbank market is supplied from proceeds of private sector exports, incoming remittances and Central Bank sales, while demand is primarily for imports and service transfers. Demand is controlled through monetary measures, primarily the control of the money supply and domestic credit expansion.

The interbank FX market is exclusively a spot dollar/zaire market, with cross rates against other currencies determined by international dollar rates.

Relaxation of controls on private sector remittances is working. While FX is still tight -- and will remain so over the medium-term -- all indications are that international remittances for dividend, debt, fee and expatriate salaries have high government priority as an important signal to the private sector that their reasonable requests will be accommodated.

While Zaire's commercial trade balance -- exports over imports -- has improved markedly since 1983, debt rescheduled by the Paris Club will again begin to impact Zaire in the early 1990's, placing additional and heavy strains on foreign exchange. Most multinational bankers and international business leaders are forecasting further rescheduling and new financing to relieve the strain on FX required for new investment and encouragement of private sector initiatives.

5. International Trade Restrictions

The encouragement of free trade and the private sector are two key guiding policies for the 1986-1990 Five Year Plan. Private sector investors will be provided financial and fiscal incentives, and investments utilizing local materials and manpower will be given priority. Imports of raw materials, equipment and parts and exports of finished products will be facilitated primarily via private sector mechanisms.

Foreign currency may be freely remitted into Zaire but must be exchanged for zaires. Export proceeds must also be exchanged for zaires. Licenses are required for importation but may be validated by a commerical bank for virtually all items. FX has been available over the past two years for such importation -- with minor delays of only several days being reported.

Importers are generally required to deposit 100% of the import value in zaires upon validation of the import license, but are protected against further devaluation. There are reports that some commercial banks are beginning to open import letters of credit with less than 100% collateral, as importers negotiate confirmation lines with foreign correspondent banks. The importer in such cases bears the exchange risk.

A CCA tax (Contribution sur Chiffre d'Affaires) -- a type of sales tax -- is payable on both exports and imports.

- o The CCA export tax rate is 6.75% or 7% depending on the items being exported. Commercial banks are responsible for withholding this tax when the export earnings are repatriated.
- o The CCA import tax is 20%. Some specifically listed items are exempt from CCA, such as direct consumption items and items considered to be of "primary necessity."
- o Imports are also subject to customs duties and an administration tax of 3%.
- o CCA is levied on importations of items meant for direct resale. No further sales tax is levied when the item is sold. Parts imported for local assembly pay CCA at the point of sale of the assembled product.

Import duties are also charged which vary from time to time based on national priorites.

- o All items destined for agriculture, animal husbandry and fish farms: 0%.
- o Most basic consummable items: 0-5%.
- o Raw materials for production purposes when local substitutes are not available: 3%. Taxes are higher when local materials are available.
- o Machinery: 10%. Spare parts: 3%.
- o Motor vehicles depending on horsepower: 30-80%. Vehicles used in agriculture are taxed at lower rates.

Imports entering the country under provisions of the Investment Code are given specific relief from import duties. Refer to Section 3 above.

Imports have been gradually replacing locally assembled or manufactured products. Automotive assemblers and manufacturers in Zaire, for example, state that they cannot compete against high quality, low cost imports. This problem is aggravated by contraband merchandise entering Zaire across its long borders, and the evasion of import duties at the major port. There has been no indication to date that the Government will attempt to close its frontiers or raise import duties to protect its local industries.

While lack of foreign exchange in the past has prevented importation of spare parts, new plant and raw materials, the recent liberalization seems to be solving this problem. The Government continues to support a free trade economy with only minimal restrictions on imports and exports. The Five Year Plan indicates that a whole range of export incentives will be explored.

Many businessmen are encouraged by the continued liberalization of trade -- both imports and exports -- and although some previously protected industries are feeling the competition, most consider the Government's trade policy a moderately favorable factor in the encouragement of business growth.

6. International Agreements

Zaire has international agreements and working relationships with GATT, the International Monetary Fund, the World Bank (IBRD), the International Finance Corporation, the International Development Agency, the United Nations, the Lome Convention, and the Economic Community of Central African States.

Zaire is a member of the "Paris Union" International Convention for the Protection of Industrial Property -- patents and trademarks -- which gives U.S. nationals the same treatment as citizens of Zaire. Zaire is also a member of the "Berne Union Copyright Convention. While the U.S. is not a member, automatic copyright protectior for a work published in the Berne Union countries is available.

Patents, trademarks and industrial designs may be registered and protected under specific provisons of Zairian law.

As a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Material, Zaire admits limited samples and printed advertising duty free or under bond.

Zaire has concluded negotiations with the United States and has signed a Bilateral Investment Treaty.. This treaty offers important assurances in several areas: repatriation of profits, expatriate personnel employment, and settlement of disputes.

Businessmen consider that Zaire provides protections under international agreements which are moderately favorable in encouraging investment. The Bilateral Investment Treaty with the U.S. is considered particularly significant by U.S. businessmen.

7. Taxes

The income tax code does not differentiate between limited liability companies and branches. The corporate tax rate on profits is 50%. Branches -- head office and capital registered outside Zaire -- are subject to an additional 20% payment on net after tax profits. The minimum corporation tax is Z 50,000 (± $800).

All companies must maintain their financial records and statements in conformity with standards established by the CPCZ (Conseil Permanent de la Comptabilite au Zaire), a government unit which regulates accounting requirements. Books must be kept in the French language and follow a chart of accounts prescribed by the CPCZ. While accounting norms and standards are not fully codified, the accounting principles conform to generally accepted accounting principles as understood in the U.S.

Direct taxes are levied on the taxable income of local and foreign companies, professional firms and individuals. Taxable income is calculated by adding back bad debt provisions and expenses not directly related to business operations. Taxable losses can be carried forward for two years and set off against taxable profits.

Taxes are paid in installments based on the taxes paid in the previous year. Settlements are made in the year following.

The basic system of taxation lacks clarity and suffers from inadequate updating, documentation and diffusion of the legal texts. In this environment, interpretation is often in the hands of tax inspectors. The potential and actual abuses of this system are obvious and widespread. Many small businesses have learned to "accommodate" to the pressures placed on them by the tax authorities and successfully evade full payment of taxes. Large -- and particulary foreign companies -- seeking full compliance with the tax code can encounter major problems. The major elements in Zaire's tax code are summarized in Appendix II. Also consult Appendix III, Summary of Procedures Required for Establishing a Private Business.

Public accountants operating in Zaire have called attention to two major tax-related problems currently confronting businesses operating in Zaire.

- Revaluation of Property, Plant and Equipment. The recent 1983 devaluation of 480% has not been reflected in changes in asset revaluation with the result that depreciaton expenses are grossly understated and profits subject to tax are overstated. Capital depletion is a very real possibility under such conditions.

- Treatment of Exchange Losses. Exchange losses are disallowed as a current tax deductible expense, and may only be recognized when the debt is fully settled. This problem of "timing" of the deduction has had major impact on companies who have substantial long-term hard currency debt.

While the overall income tax structure does not appear to impose undue financial hardship on companies operating in Zaire, most businessmen recognize that administration of taxes is a continuing and frustrating burden which is a negative factor in their assessment of the investment climate.

8. Labor Laws

A formal Employment Code governs employer/employee relations. Both parties are free to discuss and conclude the terms of the employment contract as long as they conform to the general terms of the law. The employment contract is a legal document executed in French and must be approved by SENEM, the State Employment Agency, within fifteen days of contract signature.

Employers are responsible for medical care services or must assure that such services are available to employees and their families. Costs are supported by the employer.

The regulations and procedures for employing expatriate staff are detailed and strictly enforced. Work permits must be renewed every two years. Work permits are taxed at levels ranging from Z 20,000 for employees in the agro-industrial sector to Z 50,000 for the commercial sector.

The National Union of Workers (UNTZA) represents workers' interests and engages in collective bargaining on social issues. It plays an important role in discussions and finalization of any collective agreement binding the employer and employees.

Business leaders generally rated labor laws and their enforcement as favorable, with the government playing a major role in ensuring peaceful and non-confrontational solution of employer/employee relations problems.

9. Government Controls and Interference

The intent and spirit of Zaire's continuing economic liberalization program is to free the economy from government controls and encourage private sector initiatives in almost all areas of business activity. The economic reform measures instituted in 1983 -- and the continuing efforts to privatize the economy and provide an enhanced range of incentives for private sector investments -- is impressive. Both the IMF and the World Bank are providing major and direct assistance in the planning, implementation and monitoring of these programs. Businessmen contacted in Zaire, without exception applaud these measures and note the very real results being achieved by the economic liberalization efforts.

Both local businessmen and leading bankers state that several key liberalization programs have been particularly effective: the floating rate currency devaluation, increased foreign exchange availability and remittances, removal of interest rate controls, creation of a domestic money market, lifting of import restrictions, and elimination or loosening of price controls. There is expectation that a new Investment Code will provide interesting new financial incentives for private sector investment, and that major export promotion programs will be put in place.

The Government's official policy is to privatize or close down unprofitable parastatals. A number of marketing boards have been abolished and major privatization studies supported by the World Bank continue. While there has been a major reorganization of GEOCOMINES, the copper mining parastatal, it is still too early to assess the results. Recent centralization of state corporation purchasing activities is a cause of concern to many observers. There is no indication, however, that the government intends to expand the parastatal sector.

There are few reports of government interference in the management and operations of private sector companies. There is, however, essentially universal concern about inefficiency and corruption in the taxation and customs departments. The lack of definitive tax and customs regulations, the marginal qualifications and low pay status of government employees, and the profits to be made from tax and customs duty fraud, are creating major problems for larger businesses intent on following the rules. Estimates of goods entering the country without payment of duties were estimated as high as 60% by one leading local business leader. Income tax "harrassment" is widely reported.

The primary concern of business, banking and public accounting executives is not, however, currently focused on fear of government controls and interference in the management of their businesses. Most also seem able to handle in their own ways the problems related to customs and tax assessments. Their major concern is whether the Government will continue -- on a long-term basis -- to hold to its current liberalization policies. Many are still recovering from the abortive nationalization/Zairianization programs of the 1970's and they are adopting a wait-and-see attitude. The performance of the Government over the next two years will be closely monitored by the business community -- the results will be critical to most new investment plans.

10. Availability of Business Advisory and Promotional Services

Both private sector and government leaders recognize that there are no effective state-supported mechanisms -- apart from the limited resources of SOFIDE, the development bank of Zaire -- for delivering investment promotion and business advisory services. The government has recognized this problem in the new draft Five Year Plan which proposes the establishment of an international investment promotion and assistance organization.

SOFIDE, which is an internationally funded and essentially state controlled medium-term financial institution, has developed a small internal advisory unit capable of carrying out marketing and feasibility studies on behalf of prospective loan applicants. SOFIDE's focus is primarily on local medium and small businesses.

Businessmen, almost without exception, do not rely on government promotion, advisory or training services -- apart from a few specialized technical training institutes operated by international agencies. All companies agree that they must be responsible for their own activities in these fields. Larger international firms draw heavily on their foreign headquarters, while local firms utilize Kinshasa-based public accounting and consulting firms.

Overall, businessmen feel that government promotional and advisory services are either non-existent or of limited usefulness, and while considered unfavorable, it is rated of minor importance in the making of investment decisions.

11. Summary

There is general acceptance in the business community that the Mobutu Government has successfully consolidated its power. Non-confrontational policies -- both for internal dissidents and neighboring countries -- and close relationships with the West have been successful in maintaining a major degree of internal stability. While the question, "After Mobutu, what?" is often raised, few business leaders are waiting for an answer in formulating business plans.

The major concerns of international and local businessmen and bankers relate to the ability of the Government to hold to the commitment implied in the fundamental economic reforms and liberalization measures now being implemented. They have seen major retreats from similar policies in past years, and they remain skeptical.

A key indicator in the return of limited confidence to the business community are the major investments now underway in the cigarette and brewing industries, and an increasing tempo in replacing and modernizing plant and equipment.

There are few fundamental criticisms of current government liberalization policies vis-a-vis the private sector. There are many criticisms of poor implementation, corruption and fraud within the Government -- in particular on tax and customs matters.

Table I shows an overall favorable assessment of current Government policies and regulations. But memories of the past die hard.

E 1 ES AT NS

ES RA G SECTOR EV ZI E

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MAJOR	MODERATE	MINOR
1. POLITICAL STABILITY AND RISK			X			
2. NATIONAL DEVELOPMENT PLANS	X					
3. BUSINESS FORMATION AND INVESTMENT INCENTIVES			X			
4. INTERNATIONAL REMITTANCES	X					
5. INTERNATIONAL TRADE RESTRICTIONS		X				
6. INTERNATIONAL AGREEMENTS		X				
7. TAXES					X	
8. LABOR LAWS		X				
9. GOVERNMENT CONTROLS AND INTERFERENCE						X
10. AVAILABILITY OF ADVISORY SERVICES						X

II. BASIC ECONOMIC AND RESOURCE FACTORS

1. Economic and Market Stability and Growth Prospects

Zaire faces a long period of major economic readjustment and low growth. Assuming the continuance of the current low level of commodity prices for Zaire's major exports -- primarily copper -- the economy faces major problems of debt repayment, balance of payments deficits, foreign exchange shortages, and scarcity of external and internal sources of investment and working capital for economic expansion.

Exports increased 27% over the period 83-85 and imports were held to a 14% increase -- resulting in a much improved positive trade balance which grew 63% over the same period. The current account balance also showed marked improvement.

These highly favorable trading results, however, were overshadowed by high foreign debt service payments and year-to-year growth in foreign disbursements related to debt obligations. The overall result was an increase in the overall deficit over the period from 433 to 451 million SDRs. Refer to Appendix IV, Zaire Balance of Payments - 1983-1985.

Paris Club reschedulings -- which resulted in deferring not eliminating debt repayments -- will again begin to impact balance of payments in a major way in the 1990's. It appears reasonably certain that further Paris Club reschedulings -- and new international financing will be required.

IMF and World Bank specialists are already forecastng major capital shortfalls which unless remedied will prevent the economy from moving from its current depression and stagnation towards even limited growth. Major disinvestment has been the rule in Zaire over the past ten years -- in infrastructure, agriculture and industry. Businessmen say that major investments will be required merely to "catch up" and rehabilitate a seriously weakened productive base.

The major unknown in Zaire's economic equation is the recovery of world commodity prices for its major exports -- copper, cobalt, zinc, crude oil, diamonds and certain agricultural products. Copper prices -- the key factor -- declined 11% over 1983-1985. Informed forecasters do not see a near term turn-around in the current historic lows being posted in world copper markets.

Multilateral and bilateral lenders and aid donors are acutely aware of Zaire's long-term investment requirements. Their reaction in terms of further rescheduling, new loans, concessonal financing and grants remains to be seen. The London Club group of commercial banks is still staying on the new investment sidelines and is concentrating on reduction of commitments to Zaire -- not on increasing them.

Local sources of investment capital are currently limited. The business community claims that the Government's essentially stop-and-go policies required to meet IMF criteria have had the effect of restricting credit to the private sector. There has, moreover, been substantial capital flight. Local commercial banks admit preference for short-term trade financing over medium long-term lending. The availability of local currency and foreign exchange from the banking system is under central bank supervision and control.

Foreign private investment is limited. Major rehabilitation investments in the important nationalizeed mining segment are financed from the government budget and retained earnngs.

Inflation accelerated markedly in 1983. See Appendix V, Exchange Rate Developments. Prices on a December-to-December basis showed an increase of 101% in 1983 over 1982 -- versus a 41% increase in 1982. The rate of inflation fell markedly in 1984 -- an annual rate of 52%. Inflation for 1985 is officially estimated to be running at the rate of 20-25% p.a. for the first six months. Speculation among businessmen places the 1985 inflation rate higher -- 30-40%.

The concensus among business, banking and international financial institutions on the short-term economic forecast may be summarized as follows:

- Modest growth in exports and containment of imports will result in continuing slow improvement in the trade balance.
- There will be a short-term bottoming out of the Government's overall deficit.
- Local private capital outflows may dry up, but there will be little net inflow of private capital.
- Foreign exchange availability for imports will remain tight.
- IMF agreements will continue to restrict domestic credit to both the government and private sectors.
- Inflation will continue at current levels.
- International multilateral and bilateral loans and grants will continue at least at current levels.
- Future reschedulings can be expected. Increased levels of lending and grants will receive serious consideration by government and multilateral lenders and donors.
- Local and international commercial bank lending will be extremely limited over the medium-term, and will be confined primarily to secured short-term and trade financing of known names

The government has demonstrated its willingness and ability to make fundamental changes in its economic orientation and programs. The substantive measures outlined in Chapter I are illustrative of the broad range of changes now being made to liberalize the economy and encourage private sector entrepreneurs. While local and international private businessmen admit that major improvements are being made, they agree that the economy faces a long and tough uphill climb before real growth becomes a reality. A continuation of the 1984-1985 improvements into 1986-1987 will, however, bring about marked improvements in the overall business climate, and be the strongest single factor in positively influencing private sector investment decisions. Some major consumer product segment companies already consider the climate sufficiently improved to budget large scale plant improvement expenditures.

2. Population

Zaire's population was estimated at 30.5 million in 1985, with a growth rate of 2.7%. The country has a low average population density of 11.7 per square kilometer. Adult literacy is estimated to be 55%, while primary school enrollement is stated to be 90% of the eligible school age population. The population is young with 45% under the age of 15.

Kinshasa, the capitol, has a population of three million, with major concentrations of population of between one million and 500,000 in Kanaga, Kisangani and Lubumbashi.

Several local dialects are spoken. French is the predominate European language, with English as the number two business language among the commercial class.

The size of Zaire, five times the size of France, means that the population is widely dispersed and presents a difficult market to reach. It also means that agricultural products are difficult to access, social services are costly to deliver, and central government control outside major population centers is difficult to administer.

The government has proved to be incapable of financing and managing basic educational and medical services for population groups outside large cities. For the most part, these services, where they exist, are delivered by religious groups -- primarily Catholic -- and other private volunteer agencies. Many employees stated that they are seeing perceptible negative changes in basic educational skills of school leavers entering the job market.

3. Business Base

The mining sector dominates and drives the economy, but is highly vulnerable to cyclical price trends in world copper markets.

Mining production continued to recover from 1981 lows in both 1983 and 1984. This recovery is based primarily on tonnage growth since unit prices -- particularly copper -- continued to be soft. Mining exports in 1984 constituted 69% of total exports. See Appendix VI, Mining Production and Major Exports. This is the key segment in Zaire's economy -- the engine which could drive the economy depending on the trend of world mineral market prices.

Copper prices fell 12.7% in 1984 with exports declining both in volume and value. While copper exports in 1984 fell to 38% of total export value from 51% in 1980, copper will remain the key element in economic growth. Zaire may still be the world's lowest cost copper producer.

Cobalt export values increased 90% in 1984, fueled by a 72% increase in world market unit prices.

The remarkable increase in diamond exports in 1983 and 1984 -- 88% and 70% respectively -- was due primarily to increased sales of artisanal diamonds moving through authorized marketing channels due to currency devaluation and price liberalization.

Major reorganization of GECAMINES, the state copper company, and budgeted rehabilitation of its mining, production and marketing base has had the active support of the IMF and the IBRD -- both of whom state that rapid modernization, improved management and dramatic increases in profitability of the company are fundamental elements in any expansion of Zaire's economy.

Crude oil exports have grown consistently since 1980 and are providing an important source of new revenue. Zaire exports its heavy crude production since existing local refinery capacity was designed for lighter crude throughputs. From an export level of 175 million SDRs in 1980 -- 11% of total exports in that year -- crude oil exports in 1984 increased to 316 million SDRs -- 18% of total exports. 1984 production was 11.8 million bbls. See Appendix IV.

Mineral and oil exports in 1984 accounted for 87% of Zaire's total exports. Many in the business and banking communities agree that performance in the two segments will provide an accurate barometer for measuring the continued growth of Zaire's export base and its ability to earn foreign exchange to meet future debt obligations and provide a solid source of investment funds for economic rehabilitation and expansion.

The manufacturing sector has declined consistently since 1978 and has not regained 1970 levels. Manufacturing as a percentage of GDP has declined from 6% in 1978 -- running down consistently each year -- to 1.3% in 1984. Of the sixteen consumer and nonconsumer goods categories tracked by the IMF and the Government of Zaire, only four managed to exceed 1970 production levels in 1983 -- all four in the lowest value added categories. See Exhibit VII, Index of Manufacturing Production.

The principal manufactured products in terms of value added in 1970 were -- in order of importance -- beverages, foodstuffs, clothing, textile spindles and looms, non-ferrous metals, mechanical goods, wood and metal processing.

Executives in both the private and public sectors agree that industry has been operating in the 20-30% capacity range in recent years. Some small improvements were noted in specific segments in 1984, but overall manufacturing continued to decline as a percent of contribution to GDP.

A number of reasons were advanced by senior business executives for the six year rundown in the manufacturing sector.

- o Major and continuing decreases in consumer purchasing power.
- o Falling market demand and lowered profitability.
- o General illiquidity including a shortage of FX for imported inputs.
- o Supply problems due to dislocation of transport services.
- o Lag in foreign investment due to an uncertain economic climate and profit repatriation problems.
- o Limits placed on expatriate employment.
- o Disinvestment viewed as a practical business strategy including a move to short-term buy-sell tactics to minimize risks.
- o General lack of confidence in the economy.

Businessmen believe that the array of economic liberalization measures taken by the government -- with strong IMF support -- should solve some of these problems over the longer term. While these measures are believed to be beginning to positively impact the private sector, hard data quantifying this impact is hard to come by.

Commercial agricultural products will provide very limited growth opportunities over the near term. Coffee -- and to a lesser degree cocoa, rubber, palm oil, tea and timber -- have contributed between 14% and 19% of total export value since 1980. Apart from coffee, all other products in 1984 were at identical export value levels as in 1980. 1983 exports of rubber, tea, cocoa and cotton were all significantly below 1968 levels. See Appendix VIII, Gross Domestic Product 1978-84.

The value of coffee exports increased 91% in 1984 over 1983 reflecting coffee quota increases and rising world market coffee prices. Over the long-term, however, International Coffee Organization (ICO) export quotas -- lower than Zaire's production -- the low quality of local production, and depressed prices in the non-quota world coffee markets leave little room for export expansion.

Zaire has not achieved self-sufficiency in food crops, but is increasingly reliant on local meat production. Imports of non-meat food products moved sharply higher in 1983, accounting for 37% of domestic market consumption. Wheat consumption, which reached 173,500 tons in 1983 -- up from 95,000 tons in 1978 -- was completely supplied from imports. Efforts to increase food production are showing results, however, with year-to-year increases in local production of manioc, corn, rice and peanuts.

Local production of meat products has increased in all categories except swine -- hit by disease in recent years. Poultry production is estimated to have increased almost 50% in 1984 over 1981. Of total estimated consumption of 52,000 tons of meat products in 1983, less than 10% was imported. See Appendix IX, Food Crop and Animal Production.

Zaire's forthcoming five year plan -- 1986-1991 -- seeks to close the gap between consumption and local production of food. Annual increases of 7% in most food crops will be sought, but most observers do not believe that this goal will be attained.

Interviews with executives in the basic consumer products segments did identify isolated areas in which major new investments are underway: beer, cigarettes and textiles. These investments, however, are not being made to provide added capacity, but to pay for long delayed improvements in process plants and equipment. These business segments are highly competitive and even though industry spokesmen are not expecting increases in overall market demand for their products, they have adopted aggressive marketing and distribution strategies in an effort to increase their share of the existing market.

Executives in the banking and multilateral international lending agencies are in agreement that the only possible major positive change in Zaire's business base will come as a result of rising commodity prices -- in particular, oil, copper, cobalt and diamonds. The manufacturing segment is forecast to remain dormant over the short-term.

Commercial agriculture offers only limited growth opportunities, while the attainment of self-sufficiency in food is discounted by most observers.

The essentially depressed state of business activities in Ziare and the essentially unanimous opinion that short-term growth -- short of major increases in commodity prices which are widely discounted -- are considered highly unfavorable factors in encouraging private sector investment and development.

4. Market Potential

The local business community views the Zairian market as highly depressed with no evidence that purchasing power declines have reached bottom. Moreover, local manufacturers -- operating at all-time lows in terms of capacity utilization -- view their relatively high cost operations and out-of-date plant and equipment as being unable to compete with increasing volumes of low cost-high quality imports, much of which enters the country without duty.

The consumer purchasing power of the large subsistence farming sector -- which is basically the non-cash segment of the economy -- provides a limited and declining market except for the basic essentials. Per capita income on a national basis has been consistently in decline through 1984 and was most recently estimated as SDR 162 by the IMF.

Consumer purchasing power of the population segment working in the modern cash economy has also declined dramatically since 1975. Appendix X, Farmgate Prices and Consumer Purchasing Power, illustrates this decline in both public and private sector employment. Large private sector employers confirm this major decline in their employees' purchasing power and living standards, and cite it as a major and growing internal morale and management problem.

In summary, manufacturers and traders see no indications of an increase in market demand, but rather increased competition for a stagnant and limited market. Possibilities for further declines in the cash economy's purchasing power are very real. This depressed state of the market is highly unfavorable to private sector expansion and development and no short-term change is forecast by those close to the marketplace.

5. Basic Materials and Parts

The unavailability of foreign exchange over an extended period up to 1984 resulted in a virtual drying up of all but essential imports. The uncertain business climate -- best dramatized by the ill-fated nationalization-Zairianization program -- resulted in a pull-back by the private sector which virtually eliminated new investments even in essential plant maintenance and replacement. The result was massive disinvestment and the deterioration of Zaire's productive base in both agriculture and manufacturing.

This situation has only recently changed with the liberalization of imports and foreign exchange availability. While still reluctant to commit major new capital funds, the private sector is beginning to spend money for replacement and modernization of existing facilities.

A number of business executives utilizing local raw materials in their operations -- such as brewing, cigarettes, textiles, flour milling, and seed oil extraction -- expressed great concern over the growing difficulty in obtaining supplies of local raw materials. The breakdown in middlemen suppliers, poor roads and transport, and declining quality levels were viewed as major and growing problems.

While economic liberalization appears to be reducing the problem of importation of basic materials and parts, the problem of local raw material supply will require fundamental, costly and long-term changes in agriculture and agricultural distribution systems.

6. Infrastructure

Zaire's transporation and telecommunciations infrastructure is a major obstacle to economic development.

An effective transport and communications system is fundamental for a country with Zaire's characteristics:

o Third largest country in Africa.

o Wide dispersion of population and economic activity.

o Increasing difficulties in using neighboring countries' evacuation routes.

o Mounting demands placed on Zaire's sole internal route to the sea -- a complex system of rail and river transport funneling to the single port of Matadi.

Major deterioration has taken place in the road and rail system. The parastatals responsible for transport have experienced operating deficits and/ or major management inefficiencies.

o ONATRA - river and rail transport.
o SNCZ - portions of the rail system not under ONATRA.
o Office des Routes - road construction and maintenance.
o Air Zaire - the national airline.
o CMZ - the national maritime company.

The World Bank has recognized these major infrastructure bottlenecks and has been providing technical assistance and loans. Almost all new investments in the transport sector -- including a large percentage of domestic road maintenance costs -- have been financed by foreign aid since 1975. Lack of maintenance of rural roads has been a major problem in the growth of agricultural production and forestry exports.

The telecommunciations system is operated by ONPTZ, the government post and telecommunication agency. The system has deteriorated in major ways since 1979. Mail deliveries in 1983 were 26% of 1979, for example, while interurban telephone traffic in 1984 was 31% of 1979. Telegraph and money order services are no longer available for all practical purposes. See Appendix XI, Communications Services and Electricity Production.

International telephone and telex traffic, however, has increased over 1979 levels. Major use is made of private messenger services and private radio and "walkie-talkie" systems, however, because of service difficulties.

Zaire's mail and telecommunications system has been characterized by Zaire officials as "...demoralized, negligent and under-invested." Major investments of the order of $100 million have been included in the 1986-1990 Five Year Plan.

The total transportation and telecommunication sector contributed 1.2% and 1.1% respectively to GDP in 1983.

Every businessman contacted cited the major problems encountered in moving goods to and from markets in Zaire. None were able to identify improvements; most cited continuing deterioration. The continuing decline in transport and telecommunications infrastructure is a major unfavorable factor in Zaire's business climate. No short-term solutions are apparent.

Energy infrastructure, while large and diversified, is poorly distributed and virtually non-existent in many parts of the country.

Zaire's energy assets are truly important:

o Petroleum reserves of 135 million bbl.
o Hydroelectric potential of 100,000 megawatts.
o Coal reserves of over 700 million tons.
o Renewable wood potential of over 10 million tons p.a.

The country remains, however, dependent on imported energy since petroleum provides 60% of the commercial energy supply -- primarily to the transport sector. During 1982 and 1983 almost all of Zaire's crude production was exported due to the inability of the local refinery to economically process local crudes. Both crude and refined oil products have been imported.

Hydroelectric resources are enormous. Over 99% of electricity consumed is produced by hydroelectric generators -- in particular the Inga-Shaba complex. Part of this complex's excess capacity is exported to the Peoples Republic of Congo, but large excess capacity still exists at marginal costs close to zero.

The mining industry consumes 62% of electrical production and other industries 17%. Household and public lighting users have remained static since 1979, accounting for 13% of production in 1983. Estimates place electrical subscribers at 109,000 serving less than 1 million users in a country of over 30 million people. High capital costs of transmission lines have prevented further expansion of the electrical grid.

Shortages of refined petroleum products in outlying areas have been endemic for at least five years. Distributors find it easier and more profitable to supply the main population centers than to attempt distribution to highly inaccessible remote areas. Prices of smuggled diesel fuel in areas such as Shaba are very high.

Executives in all business segments operating on a national or regional basis cited problems with obtaining sufficient and reasonably priced energy. In most cases, the only alternative has been to provide in-house sources such as electrical generation capabilities and fuel tanker and depot networks. No businessman interviewed expected any change in this situation over the medium term.

The unavailability of cheap and certain energy sources outside major city centers is considered by the business community as a major handicap in the development and expansion of the private sector.

7. Local Credit and Capital

Monetary policy in Zaire is under the control of the Central Bank. The banking system consists of nine commercial banks and two development banks. Eighty per cent of the commercial banking market is held by four banks: Banque Commerciale Zairoise and Union Zairoise des Banques which are minority held but managed by major Belgium banks; Banque du Peuple which is state owned; and Banque de Kinshasa which is privately owned. Five foreign banks share the balance of the market: CITIBANK, GRINDLAYS, BARCLAYS, Parisbas and BIAZ. The two development banks are SOFIDE which channels funding from the World Bank and other donors into investment projects, and Banque de Credit Agricole (BCA), a new and small agricultural bank.

Domestic credit expansion has been seriously constrained by the need to control the money supply and reduce inflation. Total bank credit to the banking sector over the past three years has remained essentially stagnant in dollar terms as shown in the table below.

YEAR END	ZAIRES (MILLION)	DOLLARS (MILLION)
1983	2,882	96
1984	4,492	110
1985	5,952	108

The above figures include agricultural finance for the coffee, cotton and maize campaigns. The result is that working capital finance for private sector manufacturers is severely limited, and has been a major constraint on growth and investment.

Available finance is essentially short-term in nature. Finance is normally made available in the form of overdrafts, short-term loans, or discounted bills. Limited medium-term money -- 3-5 years -- is available for capital expenditure needs. Some importers have taken advantage of offshore supplier credits, but imposition of up to 100% up-front deposits against import letters of credit has been onerous. Domestic trade credit has only recently become common practice. Suppliers generally only extend such credit as a defensive measure to retain market share.

Interest rates for working capital finance are currently in the 30%-35% range. Including fees and government taxes actual costs to the borrower will be 40%-50%. Medium-term finance -- if and when available -- is currently priced at 30%-35% including taxes. Preferential rates of 25%-30% may be negotiated by exporters. Commercial banks generally lend to well known medium or large corporate names. Preference goes to exporters. Industrial and consumer lending is unknown. Small businessmen find credit difficult to obtain.

SOFIDE, a development bank, is one of the few sources of medium-term loan funds. It lends to medium and large scale projects and finances up to 67% of project costs with tenors of 5-7 years. Emphasis is on agricultural, transport and infrastructure projects. Funds are generally lent in hard currency and paid directly to the offshore capital equipment supplier. Interest rates are 15 1/2%, but the loan is repayable in the zaire equivalent of the hard currency with devaluation risk lying with the borrower. The fall of the zaire against the dollar, as a result, has faced a number of borrowers with literally insurmountable repayment problems.

BCA is a state-owned agricultural bank which is funded via a development fund tax charged on locally manufactured goods at rates between 7%-10%. The bank was established to provide funds to the agricultural sector not being served by the commercial banks. The bank is new and small and has not yet been able to address the real needs of the sector.

Senior banking executives and private sector corporate officers are greatly encouraged by the government's first steps in liberalization of the finance and banking sector. They all stress, however, that the availability of credit will remain a major problem given the current status of the economy and implementation of the IMF guidelines. Banking executives state they prefer to deal in short-term trade finance and are willing to extend medium-term credit only to credit worthy customers with whom the bank has had longstanding relationships.

The banks remain profitable and two senior bank executives revealed plans for expansion of their branch banking networks.

The lack of medium-term finance will, however, remain a major unfavorable element in Zaire's business climate. Short of self-financing of investments or captal imports, most businessmen do not expect easing in the medium-term credit markets.

8. Business Services, Entrepreneurial and Managerial Resources

There is no major lack of business services in law, public accounting, banking, international transport and general engineering and construction. Apart from many local and European firms providng a broad range of business services, the following U.S. connected firms are active in Zaire: Air Express International, Avis Rent-A-Car, CITIBANK, Coopers & Lybrand, Duncan, Allen & Mitchell (law), IBM, Price Waterhouse, Informatique (Wang and Apple), Logistics and Supply Company, Star Freight and others.

Marketing and advertising support -- apart from market research -- is primarily conducted in-house. The large brewers and cigarette manufacturers, for example, have mounted sophisticated advertising campaigns drawing heavily on the expertise of their European head offices.

The lack of locally available business services was not cited as a significant problem by businessmen. Most of the larger companies report that they have developed in-house systems, marketing and training capabilities, and use qualified outside local accounting, tax and legal services as required.

Overall, the availability of business services is considered by business executives to be a minor favorable factor in establishing and operating a business in Zaire.

Business executives were unanimous in their opinion that internal training and development was the only effective method for training supervisors and executives. Experienced managers are not available in the marketplace. Many companies have found that they must begin training in the educational fundamentals -- even with high school and college graduates. Such training has a high payoff rate according to most managers. Carefully selected, trained and motivated management trainees have moved into the most senior positions of large international companies operating in Zaire.

There has been little opportunity for the emergence of local entrepreneurs in recent years, apart from small commercial and import/export businesses. A survey conducted on behalf of a 1986 OPIC mission to Zaire failed to identify any significant numbers of local entrepreneurs with either well thought through business plans or relvant business experience.

On the whole, businessmen are of the opinion that in the area of business services and development of managerial talent the best -- maybe only -- policy is "do-it-yourself."

9. Skilled Labor

There is widespread unemployment in Zaire. Skilled workers, however, are difficult to recruit. Recent liberalization of Zairianization regulations has made it easier for foreign owned companies to obtain visas and assign experienced foreign nationals to supervisory and training positions, but total costs for such employees are extremely high. Plant managers express a generally high regard for the capabilities and dedication of local employees -- they learn fast and have been able to effectively assume supervisory and lead worker positions with appropriate training.

Wage rates fluctuate throughout the country. A major cigarette plant in Lubumbashi gave the following data:

- o Experienced machine operators, 3500 zaires per month (54 Zaires = $1) plus 100% to cover meals, flour, and various social charges.
- o Unskilled workers, 2000 zaires per month plus a minimum of 1500 zaires per month for food and social charges.

The World Bank estimates that base salaries normally make up 40% of total employee costs, with a wide array of fringe benefit costs growing faster than base salaries.

While there is limited availability of skilled workers, most managers did not consider this a major problem if appropriate training programs are pre-planned. Most large companies provide overseas orientation and working assignments, and careful supervision to solve the problem.

10. Other Factors

Adequacy of Fire and Police Services

Almost all companies provide their own internal fire and security services.

Facilities for Expatriates

Acceptable private housing and apartments for expatriate personnel are available in Kinshasa and major cities. Foreign government missions and large companies tend to develop "compound" areas for their staff.

Elementary and high school education in both English and French are available. An "American School" and an "American Club" operate in Kinshasa.

Medical services are readily available including the Zaire-American Clinic in Kinshasa operated by three U.S. doctors. Normal precautions must be taken since malaria is endemic in Zaire. Consult publications available from the U.S. Embassy, Kinshasa on living conditions in Ziare.

11. Principal Growth and Investment Sectors

Zaire -- Africa's third largest country -- is probably number one in terms of the extent of its forest and arable lands suitable for the cultivation and processing of all kinds of forestry and agricultural products. An enormous river system provides unequalled water, hydroelectric power and transport potentials. The climate places few burdens on the population and with normal rainfall provides a year-round growing season. Mineral resources abound. Copper deposits are large and rich. Cobalt is important. Production of industrial and gemstone diamonds leads the world. Local oil production continues to show year-to-year production increases.

The country has a large and growing population but low density. There are urgent needs to link this large population to the modern economy via massive investments in roads, transport systems, power and telecommunications. Zaire has land links to a number of Central African countries which will one day become important export-import markets.

It is in these areas -- mining, energy, agricultur, agro-industry and infrastructure building -- that Zaire's long-term growth will take place. Non-agricultural based industry outside the mining sector will present few growth opportunities over the medium-term. Zaire's Five Year Plan 1986-1990 has recognized these growth priorities with the largest expenditures targeted -- in order of priority -- on land, river and air transport, telecommunications, agriculture, mines, and energy and water.

Executives in business, banking and the multilateral financial institutions share the view that in general Zaire's current investment climate is poor. They caution, however, that private sector response to this poor climate will vary greatly depending on the characteristics of the potential investor's business. The section which follows summarizes the most likely investment scenario by major types of business based on extensive private sector interviews.

1. Most international companies not now in Zaire will avoid new investments. There appears to be too much uncertainty and too little competitive advantage in Zaire today to warrant new investment by companies not now operating in Zaire. Most companies operating internationally who have investment freedom-of-choice will avoid new investments in Zaire.

2. Most international companies already operating in Zaire will adopt highly conservative new investment strategies. A wait-and-see attitude will continue to prevail among most companies in this segment. Companies experiencing low utilization rates and profitability will hold inventory and raw material inputs as well as finished products to absolute minimums, while restricting investment to essential repair and maintenance. Companies experiencing some sales and utilization increases will undertake limited modernization, replacement and cost reduction investments but very little new additiions to capacity. Production scheduling in all companies will be in response to firm orders and demonstrable market demand. These companies, in turn, will extend credit only to long standing creditworthy customers. Existing foreign companies will take advantage of current liberalization to begin -- and continue if they can -- long overdue repatriation of profits, dividends, capital and fees. The result, in many cases, may be net disinvestment. New local market opportunities for manufactured products will be addressed via importation rather than by undertaking new local production.

3. Some well positioned international companies now operating in Zaire may make substantial new investments. Long and well established international companies whose Zairian operations are a part of a strategic world or African network of branches -- and who have profitable niche markets in Zaire -- are an exception to the general reluctance of multinationals to increase their commitments in Zaire and will make new investments. Such companies, in reality comparatively small branches of large international enterprises whose products or services are profitable in Zaire's current-day economic situation, are primarily in basic and essential consumer products -- food, breweriesbeverages, cigarettes and textiles -- or in essential international banking services. Brewers and cigarette manufacturers, for example, are making important new investments to replace outdated equipment, improve product range and quality, reduce unit costs and ensure regular flows of high quality, locally produced raw material inputs in preparation for hoped-for increase in market share via advertising, improved packaging and product quality. Two major international commercial banks are studying additions to their local branch networks. New entrants to these segments from outside Zaire will find formidable barriers to market entry from well entrenched competition and an unknown operating environment.

4. A few large international companies -- or consortia -- in strategic minerals segments could conceivably consider investments under very special circumstances. Private sector projects in selected strategic minerals and metals for which Zaire has competitive advantage -- high mineral content ores, large reserves, low cost open cast mining technology -- could interest large multinationals if cheap energy is an important investment factor. Even in such cases, however, the project would probably require negotiation of highly advantageous terms under the Investment Code, involve low cost mixed credits, export credit agency guarantees and insurance, and provide for international offtake-marketing rights for production to ensure payments for investments, profits and services.

5. Foreign and local businesses in the commercial sector will follow short term, risk reduction strategies. Commerce has been in many countries -- including Zaire -- a first step to local small scale import substitution processing and manufacturing. Foreign and local businessmen engaged in commercial trading activities in Zaire will over the medium term concentrate on short-term payout and low risk import/export transactions providing rapid cash flow and possibilities for repatriation of funds rather than investment in new local import substitution projects. This trend is now apparent. The net result could be to drive down even further utilization rates of more expensive local producers -- tires, textiles, clothing, small manufactured products.

6. Some existing small-medium sized local businesses will continue to seek investment financing. Local "productive sector" investments will be made by companies in agriculture, forest products and agri-business segments, and in transport and distribution services -- low technology businesses providing basic, relatively high demand goods and services. Most of these investments will be for rehabilitation, modernization and cost reduction objectives. Some will be new venture investments by existing experienced companies branching out into closely related businesses. It is difficult to quantify the significance of this sector, but business opinion is that given

a continuation of the current reforms, small business expansion could be important over the next 3 to 5 year time frame.

7. Selected world-branched international companies and small/medium sized local businesses appear, therefore, to be the primary investors over the short-term. The beer/beverage and cigarette multinationals currently operating in Zaire are beginning to compete aggressively for local market share. They are supported by formidable foreign head offices which provide technical and marketing assistance; plant design, specification, procurement and installation; international purchasing and transport of raw materials and supplies; low cost intercompany loan and investment funds. Such companies have a long-term, world or regional strategic view of their industry. Apart from current and budgeted plant replacement and modernization, the local companies in this segment are planning to develop an assured supply of high quality, locally sourced raw materials -- in this case rice and tobacco. One company is actively exploring the possibility of tobacco leaf exports via his corporate headquarters' international tobacco buying unit. It appears that all these new investments will be internally financed.

Large world-networked commercial banks currently operating in Zaire -- who can also call on world-class headquarters' specialists and large overseas branch networks in support of trade transactions -- are profitable. Two of these banks feel confident enough to have firm branch expansion proposals before their managements. Expansion will be self-financed.

Certain segments of the local business community are also beginning to make "productive investments" -- outside the buy/sell, import/export commercial segment. The evidence points to heavy concentration in agriculture-linked projects of a primarily rehabilitation or expansion nature. Typical proposals reviewed include cattle raising, feed mills, palm oil processing, brewing, dairy and chocolate products, outreach programs for coffee cultivation, processing and marketing, soft fruit drinks, saw milling and wood products exports, integrated poultry farming and chicken products distribution.

Implicit in both investment categories is the need for a revitalization of the agricultural "middleman" sector. This means companies capable of financing, gathering, grading, packing, and transporting locally produced raw materials for both human and industrial consumption.

12. Summary

Table 2 which follows summarizes the relative importance of key economic and market factors which influence private sector development and investment in Zaire. This table demonstrates in a dramatic manner the very real obstacles standing in the way of private sector development. Until such time as businessmen perceive significant improvements in infrastructure, see a revival of market growth based on real increases in consumer purchasing power, and are able to obtain medium term credits for new investments, the private sector will essentially remain dormant. While a few businessmen believe they "...see some light under the door," business confidence will only be restored by strong government commitment to current economic reform and tangible indications that the economy and the markets are turning around.

TABLE 2

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN ZAIRE

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MAJOR	MODERATE	MINOR
1. Economic and Market Stability and Growth Prospects				X		
2. Population						X
3. Business Base				X		
4. Market Potential				X		
5. Basic Materials and Parts					X	
6. Infrastructure				X		
7. Local Credit and Capital				X		
8. Business Services, Entrepreneurial and Management Resources						X
9. Skilled Labor						X
10. Other Factors						X

III. CONCLUSIONS AND RECOMMENDATIONS

Zaire's economic liberalizaton program contains all the fundamental policy ingredients essential for stabilizing the economy, arresting further deterioration in the country's infrastructure and production bases, and building an economic foundation for at least limited growth. The test of the effectiveness of this program will be the performance of the economy in 1986-87. Meanwhile there is some tangible evidence that a certain measure of business confidence has already been restored and the bottoming out of decline in new investments may already have occurred.

USAID can provide important assistance to private sector development in its 1986-1987 programming and funding by a focus on assisting small and medium sized local businesses desiring to modernize and expand into critical agribusiness and related transport/distribution activities.

The development of this sector is handicapped by the lack of commercial bank medium-term lending. Only one financial institution, SOFIDE -- an internationally financed development bank -- is active in this market. As in most institutions of this type, problems are arising because of the lack of adequate management and technical advisory assistance available to borrowers for the development of feasibility studies and loan proposals, and for on-going internal systems, marketing and operations counsel.

The sections which follow outline some general recommendations which may be helpful in designing USAID Zaire's private sector program.

1. USAID private sector initiatives should be based on tightly focused objectives and guiding policies. The basic private sector objective for USAID in Zaire could be stated as follows: "Foster national economic development, employment and training by establishing private enterprise as the mechanism of choice in mobilizing, allocating and managing economic and human resources."

   A number of policy guidelines should be established to direct programming:

   - Maximum use of private sector mechanisms in structuring donor and national tax funded projects.

   - Minimum donor and national government involvement in ownership, management and regulation of economic activity.

   - Donor and national government actions directly supportive of private sector development of economic and human resources.

     - Privatize, deregulate and reform.

     - Build facilitative infrastructure -- primarily road, transport and telecommunciations.

     - Promote Investment Code and export incentives reforms.

   - Emphasis on private sector involvement in all major USAID/Zaire programming.

   - Concentrate USAID private sector programming on agribusiness related projects -- which play to USAID staff and program strengths and experiences.

2. Create a USAID sponsored loan fund to provide medium term credit to small-medium sized private sector companies in agriculture-linked businesses.

   - Establish appropriate covenants and conditions with GOZ for fund establishment, on-lending requirements, and fund disbursement via private sector commercial banks.

   - Prequalify and on-lend to private commercial banks on a matching fund basis with US portion available for both local currency and FX uses.

   - Delegate loan review, approval and administration to selected commercial banks able to obtain rapid fund disbursements and provide close-in loan supervision.

   - Establish three to five year loan tenors to ultimate borrowers at market rates, including an allocated percentage of the loan fund for working capital uses.

   - Lend to local borrowers with ability to perform on the basis of creditworthy business proposals and demonstrated private sector business experience.

   - Establish lending focus as agribusiness related.

   - Limit USAID involvement to necessary loan policy establishment and review, portfolio performance analysis, and program audit for conformity with U.S. Government laws and regulations.

3. Encourage and fund programs for the development of local management advisory, technical assistance and training services in support of small/medium sized private sector business development.

   - Provide financial incentives to participating banks for developing in-house business advisory services.

   - Assist local private accounting and advisory services firms in developing business advisory services and management training capabilities.

   - Provide direct subsidies on a shared-cost basis to small/medium sized business to develop feasibility studies and loan proposals.

   - Subsidize technical assistance to banks, consulting organizations and private sector borrowers via USAID or PVO sourced technical and management specialists.

4. Continue close working relationships with OPIC in identifying possible joint venture, loan and/or investment opportunities.

   - Continue submission of business opportunities summaries for OPIC U.S. circulation.

   - Identify projects which could combine loan fund financing of a local partner with OPIC loan guarantee and insurance packages for U.S. joint venture partner.

5. Support GOZ efforts in Investment Code reforms.

   - Provide direct assistance in design and implementation of the proposed investment promotion program.

   - Provide technical assistance in review of off-shore banking proposals.

6. Support efforts of multilateral agencies in achieving disinvestment/ privatization of parastatals.

   - Consider working with and through international financing agencies in achieving privatization objectives by use of USAID PRE funded disinvestment/privatization technical assistance.

   - Avoid at this time direct USAID involvement in go-it-alone disinvestment-privatization programs.

*****

Senior executives of three large multinational companies interviewed during the survey discussed investment and research projects which are under active consideration. Possibilities exist for USAID cooperation with these companies in carrying out the projects -- all of which are closely linked to agriculture and rural development. See Appendix XII, USAID Cooperation With Private Sector Projects in Agriculture and Rural Development.

A companion survey of potential investment projects was carried out simultaneously with the Investment Climate study, primarily on behalf of an OPIC private sector investment mission which will visit Zaire in early 1986. The report was prepared by Groupe COGEPAR, a private Zairoise audit and management consulting firm. General supervision of the work was provided by the DIMPEX Project Manager, Mr. A. Lessard, who provided assistance on report formats and participated in a number of interviews with project sponsors. Refer to the final report which has been submitted separately: Profils Des Projets Identifies Pour Le Compte De L'USAID Et L'OPIC." (Profiles of Projects Identified for USAID and OPIC)

APPENDICES

APPENDIX I
CODE OF INVESTMENT - ZAIRE

SYSTEM	REQUIREMENTS AND BENEFITS
GENERAL	Minimum investrment of 500,000Z. Foreign promoters must provide 80% of total investment from abroad. Loans shall not exceed 70% of total investment with no more than 30% of total investment reimbursable in first five years. Investment Code benefits include: o Exemption from Proportional tax at time of company formation. o Exemption for up to 5 years on tax on profits. o Partial exemption on profits for modernization-expansion. o Exemption from tax on expatriate salaries up to time product enters the market. o Exemption for maximum of five years on dividends. o Exemption for up to five years on real estate taxes. o Exemption from customs and input duties for equipment which cannot be purchased locally.
PARTIAL	Partial exemptions are provided for companies proposing new expansion-modernization projects for existing investments not covered by Investment Code who agree to set aside profits into a "Special Reinvestment Reserve." Approval based on same criteria as General category above. o Taxes on set-aside profits reduced 50%. o Turnover tax and customs duties on new imported equipment exempted.
CONVENTIONAL	Negotiated case-by-case terms for very large or long-term payoff profits which include guarantee of stability of taxation system in effect at time of agreement.
OTHER GUARANTEES FOR FOREIGN INVESTMENTS	The Investment Code Provides specific guarantees for foreign investments: o Transfer of amounts equal to value of enterprise in case of transfer or liquidation. o Transfer of dividends in proportion to foreign investor's initial captal contribution. o Transfer of payments for use of property rights. o Transfer of foreign finance up to 30% of total investment. o Transfer of indemnities resulting from expropriation.
GENERAL PROVISIONS	All guarantees remain in force and are not changed by subsequent legislation. More favorable legislatiion, however, may be applied to original agreement.

APPENDIX II

SUMMARY OF PRINCIPAL FISCAL LEGISLATION

Potential investors should seek legal and public accounting firm counsel on the content and administration of Zaïre's tax code. This Appendix provides a brief summary of the key features of fiscal legislation currently in effect.

The tax code broadly distinguishes between Direct and Indirect taxation. Direct taxation is levied on revenues from commercial and professional activities, property rental, divident and interest income, and includes property, vehicle and land taxes. Indirect taxation includes turnover tax (Contribution sur le Chiffre d'Affaires - CCA), import and export duties, and various company formation fees.

1. Commercial And Professional Activities

Taxes are levied on taxable income of local and foreign companies/branches operating in Zaïre, on professional firms, and on salaries/remuneration. Taxable income includes bad debt provisions and expenses not considered directly related to business operations. Taxable losses can be carried forward two years and set off against taxable profits. The tax rate for companies, branches and professional firms is 50%.

Taxes are payable in instalments on the basis of the previous year's taxes: one - third prior to November 1 of the current fiscal year, one-third prior to February 1 following the end of the financial year. Based on whether actual taxes are greater or less than the previous year, the final one-third is due prior to May 1 of the following financial year.

Branch accounts of foreign companies pay an additional 20% on after-tax profits for the deemed distribution of dividends. The effective corperate tax for a branch works out as 60% as opposed to 50% for locally encorporated companies.

Tax exemptions may be granted for new foreign investment under the provisions of the Investment Code.

(1) Depreciation/Depletion

No standard depreciation rates are provided for in the tax law, but realistic rates may be agreed with the tax authorities. Generally accepted rates are as follows: buildings - 2.5%-5%; plant and equipment - 10%-15%; furniture and fixtures - 10%-15%; motor vehicles - 25%

Companies operating in the mining and oil sectors normally negotiate tax treatment on an individual basis.

(2) Reserves

All reserve provisions must be added back to income for tax purposes. Bad debts and employee benefits are deductible as actually incurred.

(3) Inventory

Inventory valuation methods are not prescribed by law. Local practice is normally FIFO, but LIFO is not prohibited

(4) Individual Income Taxes

Tax tables in force since April 1984 provide for a sliding scale which starts at a 5% rate in the income range of 4901 to 9000 zaïres to 60% in the range over 300,001 (approximately $5500). Total tax payable is limited to 50% of total taxable income. There is a special tax of 15% on gross salaries paid to expatriate employees - which is not considered when assessing the averall 50% tax ceiling.

The employer can provide a number of "benefits in kind "which are not taxable such as transport or car, rent, pension and life insurance, holiday and business travel, medical costs. Certain benefits in kind are taxable: domestic help, water/electricy, restauration.

2 Property Rental

All rental income is subject to tax. Company tenants are required to withhold 20% of rents and pay directly to the tax authorities.

3 Dividend And Interest Income

A withholding tax of 20% applies to interest paid and on dividend distribution.

4 Property, Vehicle And Land Taxes

Taxes are minor and are settled or an annual basis

5 Tax On Turnover (CCA)

The CCA tax is paid in principle only once at the point of sale and is not a value added tax as understood in Europe. Taxes are assessed on exports, imports and local sales.

The CCA export tax is 6.5% or 7% depending on the items exported. Banks are responsible for withholding when the export earnings are repatriated.

There is no CCA on raw material imports, since the CCA will be collected on the finished product when sold. Spare parts imported for resale pay CCA. Assembly plants pay CCA at point of sale. If imported "whole" CCA plus duties are paid at point of importation when CCA is payable or on import. The rate is 20%.

The CCA "interior" tax is levied on locally manufactured goods, local construction and services rendered. The following table applies

ITEM	TAX
Services	18% Invoiced Value
Local Production	18% Invoiced Value
Construction	18% of 75% of Invoiced Value
Imported Services	30% Invoiced Value
Transport	6% of transport cost, 25% Foreign Transport

An exempt list exists for CCA interior taxes which should be consulted

6 Other Import Taxes

Apart from CCA taxes on imports there are tariffs and administratives taxes. The exempt, taxable and exonerated items are changed from time to time. Current rates are published by OFIDA. A "statistical" tax of 3% is also levied on imports.

Examples Of Current Duties Follow

ITEM	TARIFFS %
ANIMAL HUSBANDRY, AGRICULTURE	0
FISH FARMS	0
BASIC CONSUMABLES	0-5
RAW MATERIALS FOR PRODUCTION	3
MACHINERY	10
SPARE PARTS	3
MOTOR VEHICLES ON BASIS OF H.P.	30 - 80
AGRICULTURAL VEHICLES	LOWER RANGE RATES

7 Company Registration And Related Fees

A capital tax of 4% is payable on formation of a SARL type company levied on the share capital/capital stock introduced and upon subsequent addition of fresh capital. Capitalized retained earnings are not subject to this tax.

APPENDIX III

SUMMARY OF PROCEDURES REQUIRED FOR ESTABLISHING A PRIVATE BUSINESS

There are two major types of companies in Zaire:

- o Société par actions à responsibilité limitée (S.A.R.L.) - a limited liability share holding company
- o Société privée à responsibilité limitée (S.P.R.L.) - a private limited liability company

S.A.R.L. Company

A company with at least seven shareholders with share capital fully subscribed and paid-in to the value of 20%. The formation of the company normally involves the following:

1. Statement of Objectives
2. Denomination of the Company
3. Denomination of shareholders and their responsibilities
4. Presidential (Chief of State) approval
5. Constitution registered within six months of authorization and publication in the official journal
6. Share capital in cash or kind to cover the initial objectives
7. Share capital issued by name or bearer
8. Payment of 4% of share capital as organizing fee for a 30 year life. Extension requires payment of an additional 4% fee
9. Payment of legal costs of about $5000
10. Mining and hydrocarbon companies required to gift 20% of their share capital to the State in exchange for concession rights

S.P.R.L. Companies

A company formed by two or more persons with the capital contributed only by the partners. Shares carry equal rights and cannot automatically be transferred. Shareholders can be corporations or individuals - local or foreign.

1. No limit to level of share capital which can be in cash or kind.
2. Share capital must be fully subscribed with 50% of designated value paid in.
3. Insurance and banking businesses cannot be formed as S.P.R.L.s.
4. Share transfers require the approval of 50% of the shareholders and 75% of the voting rights.
5. The company has unlimited life and does not pay the 4% capital tax.
6. Setting up costs are approximately $4000.
7. Authorities will not normally approve company formation unless 40% of the shares are held by a national.

Branches

A branch office is one in which the head office and capital is registered outside Zaire. Set-up costs are similar to an S.P.R.L. company.
A branch company is taxed 20% on its net after tax profits in addition to the 50% tax rate applied to S.A.R.L., S.P.R.L. and branch organizations.

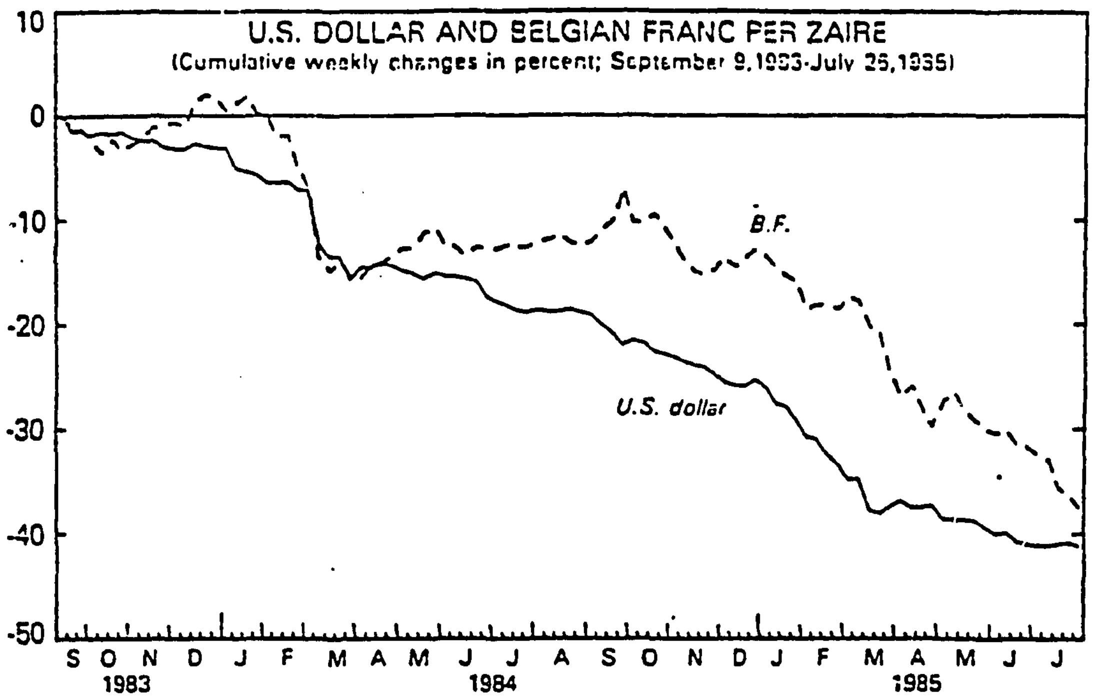
APPENDIX IV

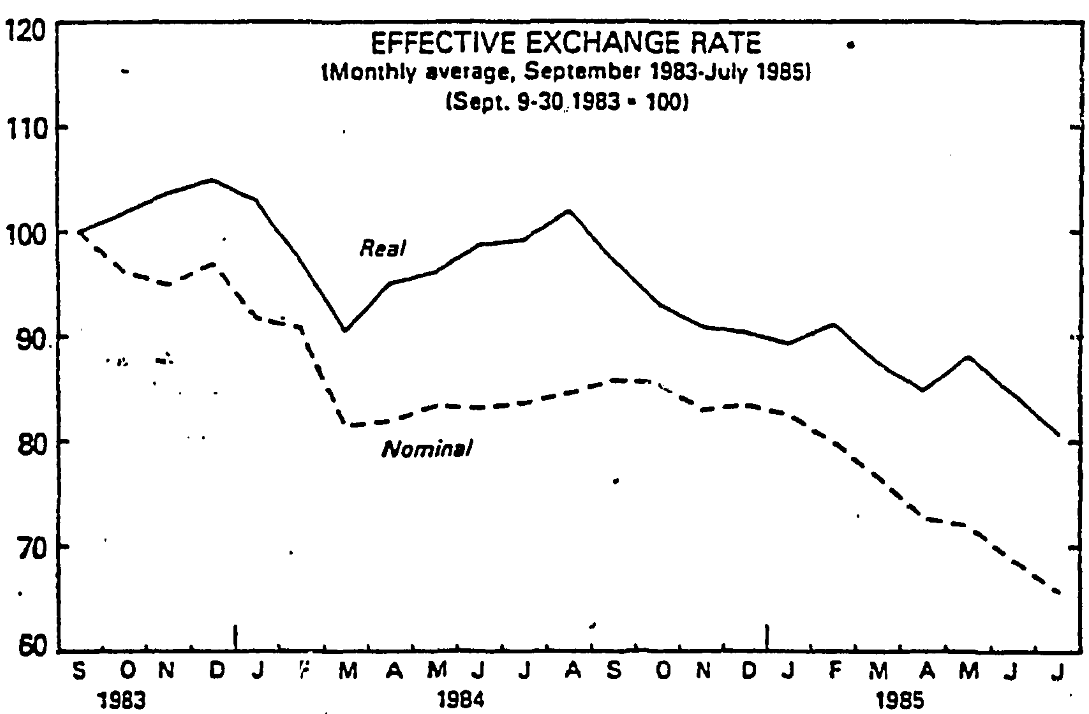
ZAIRE: BALANCE OF PAYMENTS 1983-85
(million SDRS)

ITEM	83	84(E)	85(Rev EST)	CHANGE 1985 Over 1983
EXPORTS (FOB)				
. Copper, Cobalt, Zinc	890	933	1043	17%
. Crude Oil	221	315	310	40%
. Diamonds	130	215	194	49%
. Coffee	109	207	190	74%
. Other	74	61	76	39%
Total exports	1424	1731	1813	+ 27%
IMPORTS (FOB)				
. Oil	- 156	- 162	- 190	22%
. Non Oil	- 885	- 974	- 1000	13%
Total Imports	-1041	- 1136	- 1190	14%
TRADE BALANCE	383	595	623	+ 63%
SERVICES				
. Receipts	118	108	114	
. Payments	- 957	- 1046	- 1031	
Total Net Services Pay	- 839	- 938	- 917	+ 9%
T UNREQUITED ANSFERS	165	116	106	—
RRENT ACCOUNT BALANCE	- 291	- 227	- 188	- 35%
PITAL DISBURSE- NTS, ETC	- 142	- 234	- 263	+ 85%
DEFICIT	- 433	- 461	- 451	+ 4%
ort unit value ... r- US cents per pound		FORECAST 79 / ACTUAL 62	FORECAST 61 / REVISED 63	- 11%

ZAIRE

EXCHANGE RATE DEVELOPMENTS





Sources: Bank of Zaire, and IMF staff estimates

APPENDIX VI

MINING PRODUCTION AND MAJOR EXPORTS

MINING PRODUCTION - 1983/84

MINERAL	1983	1984	% Growth
Copper - T	499,544	527,583	5.6
Cobalt - T	5,370	9,185	71
Cadmium - T	308	317	2.9
Zinc - T	62,534	66,100	5.8
Cassiterite - T	2,972	3,572	20.
Ind. Diamond - 000 Carats	5,952	6,895	15.
Jewelry Diamond - 000 Carats	6,174	11,562	87.
Manganese - T	1,803	14,368	794.

Source: SOFIDE, Gecamines, Dept. of MINES

EXPORTS BY MAJOR COMMODITY
Million SDR and Percent

COMMODITY	80	81	82	83	84
COPPER	794 - 51	641 - 50	716 - 54	730 - 51	657 - 38
COBALT	290 - 18	135 - 11	165 - 12	114 - 8	215 - 12
DIAMONDS	87 - 6	66 - 5	69 - 5	130 - 9	221 - 13
OTHER METALS	88 - 7	99 - 5	77 - 6	118 - 8	101 - 6
OIL	175 - 11	232 - 18	248 - 19	221 - 15	316 - 18
COFFEE	125 - 8	95 - 7	95 - 7	109 - 8	207 - 12
RUBBER	15 - 1	16 - 1	10 - 1	14 - 1	15 - 1
OTHER - INCL. WOOD/AG.	103 - 7	79 - 6	84 - 6	95 - 7	105 - 6

Source: IMF, Government of Zaire.

APPENDIX VII

INDEX OF MANUFACTURING PRODUCTION
(1970=100)

COMPONENT	1970 VALUE ADDED (ZMIL)	78	79	80	81	82	83	84
MANUFACTURING AS % GDP	–	6%	4%	3%	3%	2%	1.5%	1.3%
CONSUMER GOODS	42.1	106	93	93	94	85	90	–
. BEVERAGES	12.4	113	78	74	83	88	92	–
. FOODSTUFFS	7.6	128	155	124	125	100	90	–
. CLOTHING	6.9	103	76	114	83	59	61	–
. CHEMICALS	3.4	114	107	96	94	103	96	–
. PRINTING/OTHER	3.2	69	88	75	90	84	74	–
. TOPACCO	2.6	79	58	55	58	90	96	–
. SHOES/LEATHER	2.4	39	31	26	39	38	54	–
. METAL MFG	2.3	128	114	153	170	102	87	–
. PLASTICS	.7	153	96	89	111	116	133	–
. PRINTED FABRICS	.7	110	111	126	106	95	103	–
EQUIPMENT	23.6	85	84	82	86	82	83	–
. TEXTILE SPINDLES AND LOOMS	6.8	70	88	94	92	82	72	–
. NONFERROUS METAL	5.3	97	69	77	82	83	83	–
. MECHANICAL GOODS	3.8	90	96	61	64	71	59	–
. FOOD PROCESSING	3.3	44	49	57	62	60	58	–
. BASIC CHEMICALS	2.9	73	82	89	85	95	126	–
. TRANSPORT MATERIAI	1.4	218	185	150	194	128	175	–
TOTAL	65.7	98	90	89	91	84	84	–

Source: IMF, Government of Zaïre.

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APPENDIX VIII

GROSS DOMESTIC PRODUCT 1978-84
(million zaires at 1970 prices)

Industrial Origin	Year 1978	1979	1980	1981	1982	1983	1984		% GROWTH 1978-1984
Commercial Agricul.	79	82	84	86	87	88	91		15%
Mining/Mineral Processing	218	206	220	236	229	238	249		14%
Manufacturing	73	68	68	68	60	60	64		- 14%
Construction/Public Works	28	25	25	25	26	29	26		- 7%
Electricity/Water	11	11	12	11	12	12	13		18%
Transport/Telecomm.	66	59	63	67	58	62	68		3%
Commerce	96	96	104	104	103	108	114		18%
Commercialized GDP	841	843	863	884	854	860	885		5%

Source: Govt of Zaire, IBRD

MAJOR AGRICULTURAL EXPORTS
(Thousands of Tons)

PRODUCT / YEAR	PALM PRODUCTS	COFFEE	RUBBER	TEA	COCOA	COTTON
1968	241	57	40	4.3	5.1	7.2
1982	39	68	15	3	4.1	0
1983	34	63	13	2	4.6	0

APPENDIX IX

FOOD CROP AND ANIMAL PRODUCTION

PRODUCTION OF FOOD CROPS 1981-1984

Product (Tons)	1981	1982	1983	1984	Growth1984/81
Corn	666,250	638,700	673,068	703,954	5.6%
Manioc	13,172,000	14,184,500	14,600,000	15,037,500	14%
Rice	259,000	250,000	271,317	286,012	13%
Peanuts	347,355	349,425	366,731	375,610	8%
Vegetables	162,600	104,508	111,332	156,408	- 4%

Estimated Deficits 1984: Corn 53,789 tons Rice 326,541 tons
Source: SOFIDE, Dept. of Agriculture and Rural Development

ANIMAL PRODUCTION 1981-1984
(000 Head)

Type	1981	1982	1983	1984	Growth 1984/81
Bovine	1,225	1,254	1,283	1,314	7%
Swine	696	702	708	650	- 7%
Goat	3,017	3,155	3,330	3,530	17%
Sheep	729	733	737	752	3%
Poultry	23,239	26,492	30,201	34,731	49%

Source: SOFIDE, Bureau d'Etudes et Planification

APPENDIX X

FARMGATE PRICES - THREE PRINCIPAL FOOD CROPS
(Makutas per Kilo - 100m=1 Zaïre)

YEAR	PRICE INDEX	MANIOC COSSETTES		MAIZE		PADDY RICE	
		MARKET	DEFLATED	MARKET	DEFLATED	MARKET	DEFLATED
1975	100	2	2	7	7	8	8
1976	189	10	5.3	12	6.3	12	6.3
1977	307	10	3.2	12	3.9	12	3.9
1978	462	22	4.9	22	4.9	16	3.5
1979	912	35	3.8	35	3.8	50	5.5
1980	1339	50	3.7	50	3.7	70	5.2
1981	1813	65	3.6	65	3.6	78	4.4
1982	2470	130	5.3	130	5.3	250	10.1
1983 I-III	3813	325	8.5	325	8.5	275	7.2
1983 IV	5640	NA	NA	600	10.6	700	12.4
1984	6581	710	10.7	400	6.1	500	7.6

Source: DEPT. OF AGRICULTURE, ZAIRE, USAID

CONSUMER PURCHASING POWER
BASED ON PRIVATE AND PUBLIC SECTOR URBAN SALARIES
(1975=100)

SECTOR \ YEAR		75	76	77	78	79	80	81	82	83 I-III	83 IV	84
PRIVATE	CURRENT PRICES	100	131	160	207	277	454	722	1172	1524	2042	2797
	DEFLATED	100	77	56	48	29	32	37	43	40	36	43
PUBLIC	CURRENT PRICES	100	128	133	156	320	372	460	570	-	-	-
	DEFLATED	100	75	47	36	33	26	23	21	-	-	-

Source: BANK OF ZAIRE, USAID

APPENDIX XI

COMMUNICATION SERVICES AND ELECTRICITY PRODUCTION

COMMUNICATIONS SERVICES
(1979=100)

SERVICE	TRAFFIC	YEAR	INDEX
MAIL	INTERNAL	83	26
TELEPHONE	LOCAL INTERURBAN INTERNATIONAL	84	87 31 110
TELEX	INTERNAL INTERNATIONAL	84	90 144
TELEGRAPH/ MONEY ORDERS		84	Not available

Source: Government of Zaïre.

ELECTRICITY PRODUCTION AND CONSUMPTION
(MEGAWATT HOURS)

	78	79	80	81	82	83
LOCAL CONSUMPTION						
. MINING	2,329	2,260	2,514	2,539	2,644	2,744
. OTHER INDUSTRY	626	724	765	711	740	753
. HOUSEHOLD/ PUBLIC LIGHTING	506	588	531	543	564	559
. TRANSPORT	55	57	62	66	68	79
. AGRICULTURE	13	14	16	20	22	27
NET EXPORTS	133	93	97	127	97	106
LOSSES	399	332	320	206	321	181
TOTAL PRODUCTION	4,056	4,068	4,305	4,212	4,456	4,449

Source: Government of Zaïre

APPENDIX XII
USAID COOPERATION WITH PRIVATE SECTOR PROJECTS IN AGRICULTURE AND RURAL DEVELOPMENT

During the course of the current Private Sector Investment Climate interview program with the larger companies in the textile, tobacco and brewing industries, several major agriculture-linked projects were identified. These projects are summarized below in the belief that they could offer very real possibilities for cooperative USAID - private sector initiatives now in the strategic planning stage.

The fact that the three companies involved are major long established, well managed and profitable companies linked to major world-class multi-national enterprises whose long term strategies provide for substantial investments over the next five years would make them outstanding potential partners in cooperative undertakings which are very much in harmony with many of USAID'S fundamental objectives.

1. TABAZAIRE

   TABAZAIRE is Rothman's local subsidiary which has captured a majority share of Zaire's cigarette market. The company is interested in increasing the quality and quantity of local tobacco production including the introduction of more advanced growing, collection, grading, curing, storage and transport systems. A long term objective is the export of local tobacco to nearby African countries where Rothmans has production facilities. Zaire tobacco varieties do not appear to be competitive with U.S. tobacco exports.

2. BRALIMA

   BRALIMA is a major brewing chain which is part of the Heinekens world network of breweries. The company is currently moving from corn as the mash to rice, but is experiencing major quality, procurement, and delivery problems. They are considering a major program to improve rice strains, encourage production, and establish modern collecting, grading, processing and storage methods to ensure reliable deliveries of high quality agricultural inputs.

3. UTEXAFRIC

   UTEX is seriously concerned about high energy costs in plants in the Kasai Oriental - North Shaba region. The company is seriously considering feasibility studies leading to the possible installation of "micro" hydroelectric generators to provide a constant source and low cost alternative to gas-oil fed generators. Management states it has high quality in-house engineering capabilities to carry out the detailed studies. Financing the capital costs, however, is a major problem. The proposed facility may also provide a source of electricity for the nearby towns.

   UTEX is also considering a major research effort to replace potato based starch currently imported for use in the textile manufacturing process by locally produced starch from cassava. The project will consider major new cultivation so as not to place strains on existing sources of supply used for human consumption

It would appear that all four of these projects [illegible] to subjects of vital concern to USAID and are in agricultural areas in which current USAID staffing has outstanding experience and professional credentials.

- o Increase local production of quality agricultural products utilizing both plantation and outreach farming.
- o Provide major new cash crops for small farmers.
- o Obtain improvements in agricultural growing, collecting, grading, processing, transport and distribution systems.
- o Increase employment in farming, distribution, processing and manufacturing segments.
- o Encourage private sector initiatives.
- o Improve urban income and essential services.

A. Lessard
Kinshasa, Zaire
November 16, 1985