Reconnaissance for Privatization Prospects

ZAIRE

Report by

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2000 Pennsylvania Avenue, N.W.-- Washington, D.C. 20006

Project No. 60

February 1989

Prepared for the Bureau for Private Enterprise
U.S. Agency for International Development

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This report was prepared under
AID Contract No. DPE-0008-C-00-5058-00 between
the U.S. Agency for International Development
and Analysis Group, Inc.

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Purpose of Reconnaissance Trip

Several objectives were to be accomplished by the reconnaissance trip, the purpose of which was to define a privatization strategy for the USAID mission. The objectives included the following:

- Review what the Government of Zaire (GOZ) had done thus far in defining and executing a privatization program
- Determine the GOZ level of commitment toward privatization
- Assess the present business climate and economic environment
- Analyze the above factors and determine the potential for a successful privatization program in Zaire
- Explore the position of the World Bank and the United Nations Development Program (UNDP) vis-a-vis the GOZ privatization effort
- Define a strategy for the USAID Mission if a privatization program appeared feasible in Zaire at this time.

To accomplish the above objectives, the study team held a series of meetings with the appropriate GOZ officials, particularly in the Departement du Portefeuille, the government agency responsible for the privatization effort. Strategy meetings were also held with U.S. Agency for International Development (USAID), U.S. Embassy, World Bank and UNDP officials to determine potential collaborative efforts.

The bulk of the time was spent interviewing a wide array of private sector individuals, both Zairian and expatriates, representing manufacturing, service and banking interests. These meetings were held in Kinshasa and Lubumbashi. The major purpose of the meetings with the private sector was to assess the overall business and investment climate and to determine the potential interest of Zaire-based businessmen in acquiring state-owned enterprises (SOEs) that might be privatized. Since the GOZ did not want to publicly disclose which SOEs it intended to privatize in the first phase, discussions with the private sector were held on the general level of interest rather than discussing specific SOEs. A complete list of individuals interviewed is presented in Exhibit 1.

II. EXECUTIVE SUMMARY

II. EXECUTIVE SUMMARY: FINDINGS AND RECOMMENDATIONS

The USAID Mission in Zaire requested the assistance of the Center for Privatization to determine the potential for privatization in that country, and to define the potential role that the mission might play in that process.

A two-person team, consisting of Bene M'Poko and Mima Nedelcovych, undertook a reconnaissance trip to Zaire in February 1988.

FINDINGS

During the 3-week trip, the team held extensive discussions with officials from the USAID mission in Kinshasa, the GOZ, the World Bank, UNDP and representatives from private as well as public sector enterprises in both Kinshasa and Lumbumbashi. The important findings were as follows:

1. The total number of state-owned enterprises in Zaire is estimated at 134 (see Exhibit 2 in the back of this report) of which:

   - 54 are wholly (100%) owned by the GOZ
   - 61 are less than 100% owned by the GOZ, with participation ranging from 1 to 91%
   - 19 represent foreign companies registered outside Zaire, such as the African Development Bank, in which the GOZ has a small equity participation.

2. The GOZ has already taken preliminary steps towards a sound privatization program by agreeing to a UNDP financed and World Bank executed diagnostic study that focused exclusively on 30 (out of 54) wholly-owned SOEs. The non-wholly owned companies were not analyzed because they are managed by the private partners, which

experience virtually no government interference and, for the most part, are profitable.

3. The GOZ has drawn up a list of 21 companies to be privatized during the first phase, of which:

- 9 are wholly-owned by the government
- 12 are partially GOZ-owned, mainly poor performers among the group of 61 companies mentioned above.

4. In addition to the companies listed above, there are 14 subsidiaries considered to be peripheral to the operations of the GECAMINES mining company. These companies, although 100%-owned by the GOZ, were not included in the UNDP/World Bank study, nor are they targeted for privatization by the government.

5. In spite of some resistance to the privatization initiative from certain segments of the GOZ, there is evidence of a strong political will for divestiture. Both the President and the newly appointed Prime Minister are committed to this effort, as are some key Cabinet ministers.

The limited resistance stems from the fact that privatization within the Zairian context is somewhat confused with "Zairianization" that took place in 1973. During the Zairianization exercise, a number of enterprises, most of which were owned by foreigners, were Zairianized and given to friends and relatives of key government officials. Most of these enterprises have since gone out of business.

6. The IMF program appears or is rumored to be off track and the World Bank Structural Adjustment Loan I is at a standstill. This fact, coupled with Zaire's poor economic performance of the last few years, has negatively affected the business climate, impairing the country's ability to attract new investment. With the new government now in place, the International Monetary Fund (IMF)

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and the World Bank programs should be able to resume, accelerating the economic recovery.

7. Local banks are not involved in medium to long term financing due to the lack of corresponding medium to long term resources. The privatization effort must necessarily be financed by some outside sources since a private investor, local or foreign, in most cases would not be willing to put up 100% of the required capital. Unless the financing issue is resolved it will be difficult to have a successful privatization program in Zaire.

RECOMMENDATIONS

1. An inter-agency collaborative effort should be pursued.

USAID/Kinshasa and the Center for Privatization should play the role of catalysts working with other donor agencies and international organizations, including the World Bank, UNDP, etc., to better coordinate the privatization effort.

2. Maintain the momentum.

While waiting for the IMF and the World Bank programs to resume, we strongly recommend that the planning process be continued and the scope of work for short and long term technical assistance be defined to maintain the momentum of the privatization program. In this context, we are recommending two concrete steps:

- A follow-up visit to GECAMINES in Lubumbashi in April to discuss strategies for the potential spin-off of the GECAMINES peripheral companies

- The organization of a public awareness seminar, in conjunction with UNDP, to present the benefits of privatization.

3. Reinforce the creation of a High Commission for Portfolio.

We are in total agreement with the World Bank's recommendation to abolish the current Departement de Portefeuille and replace it with a technical, independent and simply structured High Commission of Portfolio. This new entity would supervise and manage the GOZ portfolio, and at the same time, coordinate the privatization process.

4. Provide short and long term technical assistance.

- Short term assistance:

  - Follow-up on the reconnaissance trip with assistance to the GECAMINES management in drafting a spin-off policy for the peripheral companies

  - Organize a series of public awareness seminars to be financed by UNDP

  - Assist the GOZ in developing an overall divestiture strategy

  - Assist the GOZ in conducting complete and systematic valuations of the companies to be privatized. The list of the 21 companies should be prioritized and the most likely candidates for privatization must be valued first

  - Maintain contact with the already identified potential investor so as to keep his interest alive and eventually introduce him to the appropriate channels in the GOZ

  - Assist USAID/Kinshasa to prepare a project paper (PP) following discussion and approval from Washington on the possibility of using the FY 1989 Africa Economic Policy Reform Program

(AEPRP) funding mechanism to provide the needed funds.

- Long term assistance:

  - Place a resident advisory team of two experts, a financial expert and a marketing and promotional specialist, within the new High Commission for Portfolio. This effort ideally would be co-financed by the World Bank and USAID.

5. Create a Privatization Fund

As mentioned earlier, local banks are not likely to provide the necessary financing for the acquisition of the companies to be privatized due to their lack of adequate medium and long term financial resources. The privatization effort will be seriously hampered unless adequate financing is made available. Therefore, we recommend the creation of a Privatization Fund to be funded by the donor community. The organization of the Fund, its level of funding and the terms under which it would provide financing should be carefully studied once the concept itself is accepted by all parties concerned.

III. INTRODUCTION

III. INTRODUCTION

Economic sluggishness, high budget deficits, and rampant inflation have convinced the GOZ to sell its unprofitable, poorly managed public enterprises to the private sector.

There are 54 wholly-owned public enterprises in Zaire, 30 of which were included in a recent diagnostic study financed by the UNDP and executed by the World Bank through private consulting firms.

The 61 companies that are less than 100% owned by the government are managed by private sector partners with virtually no interference from the GOZ. These companies were not covered in the World Bank study, nor were the peripheral enterprises owned by GECAMINES, a major mining operation.

The GOZ welcomed the timely reconnaissance trip that this team undertook in February 1988 and recommendations from this study are expected to form the basis for the government's next steps on privatization. The GOZ presented the reconnaissance trip to the World Bank as fulfillment of one of the Structural Adjustment Loan conditions precedent, which calls for the Government to take decisive action on SOEs.

One of the most encouraging and innovative aspects of the privatization effort in Zaire is the inter-agency collaboration among UNDP, the World Bank, USAID and the Center for Privatization. This is the first time these four agencies have worked closely together in a privatization effort in Africa. The Zaire model, if successful, can be applied in other African countries going through the same process.

To better coordinate the restructuring of the public sector enterprises and keep the privatization process away from political influence, the GOZ has agreed, within the context of the World Bank Structural Adjustment Program, to dismantle the Departement du

Portefeuille and replace it with an independent, simply structured High Commission for Portfolio.

As far as the GOZ is concerned, the process of privatization has started. While the international donor community is awaiting the outcome of the IMF/World Bank country reports, we recommend that preparatory activities described in the Recommendations Section of this report be pursued to maintain the present momentum.

IV. COUNTRY ASSESSMENT

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Political Environment: Commitments to/Perceptions of Privatization

A successful privatization program requires the commitment of the GOZ government at key levels, as well as the support of various groups in society. These groups include the management, employees, and customers of the SOEs, financial institutions, academia, the media, and the public at large.

The key factor for successful privatization is strong commitment from the government at the highest levels. In Zaire, there is clear evidence that this sort of commitment has been made by President Mobutu himself, and that the message to proceed has been sent to the top government officials. Moreover, the key members of the newly reshuffled government team, including the new Premier Commissaire d'Etat and the Commissaire d'Etat au Plan, are strong supporters of privatization. Unfortunately, the previous Commissaire d'Etat au Portefeuille, Cit. Thambwe, a strong and active proponent of privatization, has left his post for personal reasons. It is expected, however, that the new Commissaire d'Etat au Portefeuille will actively support the direction taken at the top echelons of government.

Some potential resistance to privatization may arise, however, within the bureaucracy and the National Assembly, as well as the general public. That resistance probably stems from a lack of understanding of privatization. The misconception is that privatization entails giving away "national patrimony" and repeating the mistakes of the past "Zairianization" program of the early 1970s. During this period, companies were turned over to a small group of politically well-connected individuals to the detriment of the public-at-large. A series of public fora, bringing together government, private sector, academia and media representatives, will need to be organized to discuss and publicize the positive benefits of privatization, and to dispel the misperception that it is a repeat of the "Zairianization" exercise.

Further resistance can be expected from the management and employees of the public corporations who may be displaced by the privatization process. The key to overcoming this opposition must be a clearly enunciated policy by top government officials favoring privatization, and articulating the long term benefits for the overall economic well-being of the country. To the extent that programs can be developed to reorient and transfer displaced public servants into other productive private sector activities, the more that resistance will be softened. In the end, the critical factor for success will be the determination at the highest levels of government to pursue its stated privatization goals and to convincingly argue that it is for the long-run general good of the society.

The fact that the Zairian government is strong and stable, facing little serious internal opposition, will ease the general acceptance of the privatization effort as long as the GOZ maintains its strong commitment to privatization. The World Bank and USAID must play the critical role of continuing to encourage and press the GOZ in its privatization effort, constantly reinforcing the positive benefits to be gained from privatizing SOEs.

Economic Environment/Business Climate

The Zairian economic environment, although faced with numerous problems and constraints, is nonetheless characterized by an open economic system that is not opposed to private enterprise and a free market orientation. Zaire does not have legal barriers or ideological beliefs that would hamper privatization.

The large role played by SOEs in the Zairian economy is a result of the Zairianization program of 1973-1974. The excesses of that period resulted from a nationalistic zeal, fueled by overly optimistic projections of commodity prices. It was not primarily motivated by a political ideology bent on establishing the supremacy of the state in managing and controlling the economy.

The GOZ appears to have recognized its past mistakes and is now prepared to readjust its economic policies and diminish the role of SOEs. While the obstacles to a successful privatization program are many, as will be discussed below, it is important to point out that these obstacles are technical and economic in nature, and not imbued with ideological of political overtones. Hence, the prerequisites for successful privatization are an improvement of the overall macroeconomic situation, as pursued by the World Bank Structural Adjustment Program, in addition to the public support for the program, which can be strengthened by the broad dissemination of information concerning the benefits of privatization and by an effective implementation process. In Zaire, one does not face the more difficult and ellusive step of an ideological about-face required in countries with centrally managed economies.

While there is ample evidence that the GOZ is committed and has the wherewithal to pursue a strategy of privatization, the overall economic environment and business climate does present a number of problems that must be dealt with if privatization is to succeed.

The overall economic situation in Zaire today is bleak although to the extent that the country institutes the policy reforms stipulated by the World Bank Structural Adjustment Program, one can be optimistic about a turnaround. The GOZ is continuing to amass large deficits (over 10% of the GDP), which are exerting a downward pressure on the value of the local currency. The inflationary spiral is directly felt in the cost of production of local goods which are heavily dependent on imported inputs. In an effort to stem inflation, the GOZ has tightened credit availability, severely limiting liquidity and further depressing domestic economic activity.

At the same time, Zaire is facing an acute shortage of foreign exchange. With the exception of a slight improvement in copper prices last year, the world prices of Zaire's other major exports (cobalt, coffee, cocoa) continued to remain low. Despite a 19% increase in the volume of exports in 1986, which resulted from a series of liberalization measures and the devaluation of the Zaire, a sharp decline in overall export prices that same year (down 14.4% in dollar terms) wiped out any gains in export earnings over the previous year. The possibility of increasing exports even further has been hampered by severe transportation bottlenecks, particularly for agricultural products. The net result has been a widening of the current account deficit, from $279 million in 1985 to $470 million in 1986.

The economic situation has been further aggravated by the poor performance of SOEs operating under lackluster management, low utilization, and swollen employee ranks. Most SOEs are not only draining the government coffers, but in many cases are wasting the opportunity to earn large sums of foreign exchange because of their inefficient production and lack of exports. Privately run companies, which operate more efficiently and could stimulate production, are also running at low capacity utilization (25-40%), largely due to shortages of foreign exchange to purchase spare parts and other critical inputs.

Financial Markets

Zaire lacks viable financial markets. The problem is twofold: Lack of institutional structures, and a shortage of capital exacerbated by low investor confidence and capital flight. Moreover, shortages of foreign exchange have encouraged businesses to hold as much hard currency offshore as possible, further aggravating the situation.

Medium and long-term financing is, practically speaking, not available in Zaire today. SOFIDE, the sole remaining domestic source of long-term development financing, is sharply curtailing its activities due to a lack of medium and long term financial resources. Commercial banks, which are limiting their loans to short term trade finance, are so strapped for foreign exchange that they can only parcel out small amounts in relation to the actual needs of their most established clients.

Non-bank financial institutions play a very limited role. Local entrepreneurial capital is also in short supply as most of it winds up offshore due to lack of investment confidence in Zaire. Unlike informal pooled venture funds such as those found in the Cote d'Ivoire and Cameroon, no such mechanisms are evident in Zaire. Finally, foreign investment, which could provide sorely needed hard currency, will not easily be attracted to Zaire under present conditions.

Investment Climate

Given the above-described macroeconomic problems, it comes as no surprise that the investment climate is likewise extremely poor. In addition to the economic issues, the GOZ has imposed extremely burdensome bureaucratic requirements for creating new businesses. ANEZA, the Zairian Chamber of Commerce, has enumerated over 40 legal steps that an entrepreneur must take to open a business. The overly burdensome regulatory and bureaucratic environment, further complicated by widespread, but perhaps diminishing corruption, is a strong disincentive to attracting new foreign investment. In fact, multinational companies, facing these problems, in addition to foreign exchange shortages and the remaining obstacles to doing business in Zaire, are closing down in large numbers.

Given the above conditions, what are the advantages of Zaire if any, and what type of company or individual is likely to make new investments? Zaire has in its favor large, untapped natural resources, a sizeable market of nearly 40 million people, and a spirit of open and free enterprise for those who know how to operate within its system. Our preliminary survey of over two dozen companies showed that, despite all the problems and constraints, companies can and do make a profit. Many of those interviewed, while recognizing that the economy is presently in the doldrums and that domestic purchasing power has sunk to low levels, nonetheless feel that a turnaround could be achieved within a couple of years.

The key ingredients for recovery included the GOZ controlling its spending, continuing the World Bank Structural Adjustment Program and the IMF program, and continuing to liberalize the economy. All private businessmen expressed the dire need for a rapid infusion of foreign exchange to energize the economy. Almost unanimously those interviewed also felt that the GOZ was in a critical period when the economic reform program had to work, or else investor confidence would be lost for a long time.

The most likely investor in Zaire today will have very distinct characteristics. Multinationals can be counted out for the immediate future. Clearly, privately held companies and individual entrepreneurs, with the flexibility and capability to react quickly to changing conditions and the ability to improvise, are the most likely new investors. Such entrepreneurs might be wealthy Zairian investors, foreign investors, or a combination of the two, but in any case they must have a deep knowledge of and a long-term commitment to the country. The investor will have to be a risk-taking venture capitalist with creativity and experience in managing businesses in developing countries. Finally, that investor will have to be willing to take high risks and confront a myriad of problems in exchange for a very high potential return on investment. In brief, the most likely investor is one already situated in Zaire and who is interested in expanding his/her business interests.

V. ENTERPRISE ASSESSMENT

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Companies Selected by GOZ for the First Phase of Privatization

The 21 companies listed below have been selected by the Zairian government to be divested during the first phase of the privatization effort. The list was given to the team on a confidential basis and should be treated accordingly. The government, at this point, does not want to alert prematurely the managers of these companies, as their full cooperation will be necessary for the successful implementation of the privatization strategy.

The World Bank, with UNDP funding, conducted a diagnostic study of 30 wholly-owned public enterprises. Nine of those companies are included in the GOZ list of companies to be privatized. The GOZ list also includes 12 not-wholly-owned companies which were not included in the UNDP/World Bank diagnostic study. The Zairian Commissaire d'Etat au Portefeuille (Minister of Portfolio) explained to the team that the GOZ's list constitutes only the first group of companies to be privatized and could be amended at a later date, depending on the success of the initial effort. The team took a close look at these enterprises, analyzed the UNDP/World Bank recommendations, and made its own suggestions and recommendations with respect to the final disposition of the companies under consideration. The companies that were recommended for privatization in the UNDP/World Bank report, but not found on the GOZ list, are listed separately (see Exhibit 5).

In drawing up the list of the companies to be privatized, the GOZ followed two principles:

- Retain within the government portfolio those companies either considered within the "strategic" sector or producing positive returns for the government

- Privatize the ones that are unprofitable but which could be turned around once in the hands of a private buyer.

The team advised the GOZ officials that, unless the list was enhanced by adding companies that offered actual or potential profit, it would be difficult to attract buyers. The team was given the impression that the list drawn up by the GOZ was not negotiable at this point.

Subsequently the team travelled to Lubumbashi to inspect several companies attached to GECAMINES, the giant mining company. It should be pointed out that these companies are not part of the mining operation. The objective of the Lubumbashi trip was to identify companies that could be added to the privatization list, thus making it more attractive. Unfortunately, the GECAMINES management was swamped by visits from the World Bank, the European Community and the European Development Fund during the same period, and therefore could not take the necessary time to take us around to visit the companies in question. However, GECAMINES' Chairman, Citoyen Mulenda Mbo, and his Belgian advisor, Mr. Bouyer, informed us that the issue was of great interest to them, was being discussed internally, and that we should plan to see them again by mid-March for follow-up discussions. They indicated that if the GECAMINES peripheral companies were to be spun off, they would undoubtedly need some outside technical assistance.

The Group of Nine: 100% Publically Owned (Exhibit 3)

Of the 21 companies selected by the GOZ for privatization, nine are entirely owned by the government and twelve are partially owned, with shares ranging from 10 to 50%. Since the UNDP/World Bank report only covered the companies entirely owned by the GOZ, the information on the other 12 companies is very sketchy.

Within the group of nine wholly-owned companies, three (SOSIDER, ONPTZ, SONAS) offer real potential for divestiture to the private sector. The other six could be made attractive provided they are first valued, restructured, and that the right price is asked for them. Brief descriptions of these nine companies follow below.

1. <u>SOSIDER</u>: A steel mill, built 16 years ago by an Italian group to produce semi-finished steel products, never reached its estimated full capacity of 250,000 tons a year. The highest utilization level reached by the company was only 13% in 1979. The work force, consisting of 800 employees in 1982 reduced to 600 in 1986, has been supported totally by government subsidies. In 1985, production ceased.

   The UNDP/World Bank study recommends that the company be liquidated as they see no hope for revitalizing the operation, due to a lack of strong domestic demand for steel products, strong competition from imports, and the high cost of production. On the supply side, production has been hampered by the shortage of foreign exchange with which tc import the inputs. The GOZ, on the other hand, is considering two alternatives:

   - Partial privatization of the mill

   - The formation of a consortium of the Central African states to own and operate the mill.

   It will be extremely difficult to find a private investor to purchase this mill. However, its privatization may be successful, provided the GOZ is willing to assume the external debt burden and allow a private sector investor to revive the company by injecting the necessary working capital and gradually buying-out the government with future dividends. One such investor expressed an interest in this strategy, but SOSIDER's real financial situation must be assessed and the plant valued before serious discussions with any investor can commence.

2. ONPTZ: This government monopoly supplies postal, telephone, telex and telegram services. The GOZ position and the recommendations by the UNDP/World Bank study to restructure ONPTZ, pull out the telephone segment and privatize it, is a good strategy. A number of foreign companies have reportedly expressed interest in investing in the telephone operation. Again, the whole structure needs to be sorted out, valued and restructured before offering it to the potential private investors.

3. SONAS: The national insurance company is operating as a national monopoly with a string of private agents underwriting the policies on its behalf. Although the company was previously profitable, it has recently experienced acute cash flow problems due mainly to mismanagement and a high level of fraudulent claims. The company is overstaffed at 600 employees and the quality of service is considered poor.

   We recommend that SONAS be restructured and that the insurance sector as a whole be liberalized. A newly structured SONAS (publically owned or partially privatized) would then be compelled to compete with private insurance companies formed as a result of the sector liberalization policy.

4/5. PALMEZA and CACAOZA: The palm oil mill and cacao production and processing plant are both under management contract with Scibe-Zaire. They should be offered to Scibe at prices based on valuations of these operations. Should negotiations with Scibe not be successful, other private investors should be sought.

6. COTON-ZAIRE: The cotton production and marketing operation, which was under management contract with

UTEXCO, needs to be restructured and privatized. Textile companies might be the potential buyers.

7. OTCZ: The urban bus transport and bus rental company has continuously lost money due to poor management, heavy competition from private mini-bus operators, regulated prices, and a lack of foreign exchange with which to import spare parts. OTCZ should be restructured and privatized. Simultaneously, urban bus fares should be liberalized so that fares reflect real costs of doing business. The private mini-bus operators are currently charging prices considerably above the official prices, whereas OTCZ, a public company, is obliged to charge the official fares and hence loses money.

8. EMK: The manganese mining company, located in Shaba, employs 600 workers and has had a considerable stockpile of manganese since 1980. It has been unable to transport its production due to the interruption of the Benguela railroad as a result of civil strife in Angola, causing obvious financial problems. The available information on the company is very sketchy, therefore, further study is required.

9. UMAZ: This manufacturer of agricultural hand tools has operated at 10 to 30% of capacity, apparently due to a lack of market outlets. It sells its production mainly to public sector companies, is heavily subsidized and has been unable to compete effectively with Chanimetal, a mixed private-public company. The information on UMAZ is very limited and therefore requires further study.

The Group of Twelve: Companies Partially Owned by the GOZ (Exhibit 4)

Historically, the management of the companies that are only partially owned by the GOZ (regardless of the proportion of government ownership) has been allowed to operate with almost no interference from the government. In general, most of the "mixed" companies have functioned well, with a few exceptions such as the ones listed in Exhibit 4. The GOZ has decided to sell its share in these companies to private investors, as these have not been paying dividends to the government due to continuous and accumulated losses.

We recommend that the GOZ's shares in these companies be offered first to the current partners and, if there are no takers among them, then to outside groups.

The GECAMINES Group

As mentioned earlier, the GECAMINES group of companies includes some peripheral entities that are not directly part of the mining operations. They are attached to GECAMINES, either because of the lack of another, more appropriate parent company at the time of Zairianization, or simply due to the fact that GECAMINES, in some cases, was the sole customer and user of the services or products offered by a particular company. GECAMINES is presently questioning the rationale for maintaining these companies under its umbrella, an arrangement that places undue burden on its internal operations and management.

During this reconnaissance trip, GECAMINES management provided the names of the peripheral companies (or the line of activities) that may be good candidates for a possible spin-off. The companies include the following:

1. LATRECA-CABLECOM: manufacturer of electrical cables

2. SIMETAL: metal workshop (metal furniture)

3. INDUPLAST: plastic and rubber products

4. BRIQUEVILLE: brickmaker

5. FONCITERE: Real estate management

6. CHARBONNAGE DE LUENA: Coal mining

7. CIMENTERIE DE KAKONTWE: Cement factory

8. Flour mill

9. Modern garage for auto/truck repairs

10. Taxi/bus company for workers' transport

11. Building maintenance company

12. Construction company

13. Corrugated and galvanized roofing sheet plant

14. Food provision and cafeteria services.

As mentioned earlier, a follow-up trip to Lubumbashi is necessary to discuss the possibility of divesting one or more of their peripheral companies with the GECAMINES management.

VI. CRITICAL ISSUES

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For the privatization program to be successful, the GOZ must effectively deal with the following critical issues and take appropriate corrective action where necessary.

IMF Program

The Zairian economic recovery depends for the most part on its ability to maintain its eligibility for new funds under the IMF stabilization program. This means that all the major monetary and fiscal targets negotiated with IMF must be respected.

The IMF mission visited Zaire in February 1988 to review the targets as of December 1987. At the time this report was written, the IMF staff had not issued its findings and conclusions concerning the December targets. Early indications, however, are that these targets were probably not met and the country will have to negotiate a new program with the IMF.

Most international institutions and some bilateral donors are using the IMF program as a yardstick to measure GOZ commitment to the economic stabilization program. Some are going as far as designating the Fund program as the prerequisite to further assistance to the country. Economic stabilization and recovery will greatly improve the investment and business climate in the country. Any privatization process, therefore, will depend on the successful implementation of the IMF program.

The World Bank's Structural Adjustment Program (SAP)

In addition to the IMF program, Zaire entered into a structural adjustment program aimed at stimulating economic recovery and growth through a series of economic policy reforms. Again, the success and the continuation of the SAP depends on the success of the IMF program.

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Creation of the High Commission for the Portfolio

One of the conditions precedent to the drawing down of the second tranche of the Structural Adjustment Loan I is the dismantling of the Departement du Portefeuille and its replacement by a non-political, independent entity that will manage the government portfolio, and supervise and coordinate the restructuring and privatization of the public enterprises. This new entity would be the logical recipient of the short and long term term technical assistance under the privatization effort.

The UNDP/World Bank study recommended the creation of such an agency to take over the role of supervising and coordinating the management, the restructuring and eventually the privatization of the SOEs. The rationale behind the recommendation is to free the privatization program from direct political influence and a slow moving bureaucratic process, and placing it in the hands of an efficient, non-hierarchical independent agency.

Employment Dislocation

It is premature to estimate the number of employees who will be affected by the privatization process, but it is certain that the new owners will reduce the personnel of the privatized enterprises.

SOSIDER, for instance, employs about 600 workers. A prospective investor felt that he would need only about one-third that number to start up production. In an environment of high unemployment, laying off workers may create problems for the government. Although the labor laws are not conducive for mass layoffs, and the government and the unions may complain in cases involving the private sector, the government is not likely to take legal action.

Financing Issue

As mentioned earlier in this report, commercial and development banks in Zaire are risk averse and therefore do not provide financing for medium and long-term projects. Since it is unrealistic to expect private investors to put up 100% of the financing required to purchase and run the privatized enterprises, some kind of external lines of credit will be needed to finance this effort.

Profile of the Potential Investor

The business and investment climate in Zaire is very uncertain due to the lack of foreign exchange, the rapid depreciation of the local currency, high inflation, cumbersome government bureaucracy, etc. Again, in considerable measure the hope for improvement lies on the success of the IMF and World Bank programs.

Manufacturing companies are becoming frustrated at their inability to obtain foreign exchange with which to import spare parts and raw materials. It is estimated that the lack of foreign exchange is causing the Zairian industry to operate at 25 to 40% capacity. The multinationals, unwilling to put up with these nearly impossible conditions, are withdrawing from the country. Goodyear and General Motors have recently sold their plants. If the situation does not improve, more multinational companies will probably follow suit.

The prospective investor, therefore, will not be a multinational company, but a private individual entrepreneur or a group of entrepreneurs who knows how to operate in Zaire. The potential investor must meet the profile of venture capitalists, willing to sacrifice current earnings for long term profits.

Most investors encountered in Zaire, local as well as foreign, are looking for quick returns on their investments, and therefore are investing primarily in trade-related activities rather than in manufacturing ventures. If found, the venture capitalist (investor) must be given real incentives to encourage him to invest fresh capital. Until the economic situation improves, the multinational investor, with the possible exception of international telephone companies, will probably not be interested in privatized enterprises in Zaire.

Public Awareness

Privatization in Zaire is still confused with the Zairianization that took place in 1973 during which nationalized companies were given to friends, relatives and politicians. As might be expected, most of these companies have now gone out of business.

There is a fear among some members of the National Assembly as well as among middle and lower level bureaucrats that privatization may be a new term for Zairianization. This is a genuine concern. Management of the privatization process by an independent agency, assisted by foreign experts and coupled with a public awareness campaign (media releases, seminars, etc.) would go a long way toward mitigating this fear.

To effectively correct this misconception, the first company to become privatized must be done correctly to send the right signals not only to the prospective investors, but also to the local skeptics.

Valuation of the Assets and Liabilities

The tendency for most governments is to ignore the value suggested by the valuation experts and to try to obtain the highest possible price for the companies being privatized. Since we do not expect an overwhelming interest in acquiring the companies listed in Exhibits 3 and 4, it is imperative that the services of competent, credible and independent valuation experts be retained and the government be committed to abide by the results of the valuations. The government should be involved in the selection process of these experts and should be guided afterwards in the pricing process by the results of their valuation.

Management Contracts

Zaire has experimented with management contracts for public enterprises and unfortunately, in most cases, they have been a total failure. The contracted managers have often paid themselves hefty salaries, raised operating expenses by hiring lots of expatriates, and siphoned off cash from the very companies they were supposed to be managing efficiently. This result has left GOZ officials soured on management contracts, and any suggestion of a management contract without the managers taking an equity position in the company is rejected outright.

The table below gives examples of management contracts that have all failed to produce positive results.

Public Enterprise	Activities	Private Contractor	Remarks/Status
1. Domaine Presidentielle de la N'Sele	• Chicken farm • Fruit juice canning • Pineapple plantation	DAIPEN	Closed down
2. Air Zaire	• Air transport	UTA	Losing money reportedly faster than before
3. PALMEZA	• Palm oil mill	Scibe-Zaire	Financial information poorly reported so no one knows the true situation
4. CACAOZA	• Cacao plantation	Scibe-Zaire	
5. OTCZ	• Urban bus transport	Leyland	Contract discontinued
6. Coton-Zaire	• Cotton production	UTEXCO	Contract discontinued

VII. RECOMMENDATIONS

FOR FOLLOW UP ACTIVITIES

VII. RECOMMENDATIONS AND FOLLOW UP ACTIVITIES

During the reconnaissance trip, and in follow-up meetings with the World Bank and AID in Washington, it became evident that three agencies, AID, the World Bank and UNDP, are very interested in supporting the GOZ privatization effort. Since the success of the privatization effort is directly tied to GOZ willingness and ability to meet the World Bank's Structural Adjustment Program and IMF stabilization conditions and targets, we strongly urge that a collaborative effort be made by the three agencies. The three agencies are already working closely together at the mission level, and this seems an ideal opportunity to develop a model collaborative project in which bilateral donors and multilateral agencies work together toward the same goal.

The GOZ has already taken several concrete steps to demonstrate its commitment to privatization as a condition precedent to SAL I. The GOZ has accepted the notion of privatization and has had a diagnostic study conducted on 30 wholly-owned SOEs (UNDP/World Bank study). Based on that study, the GOZ has selected nine wholly-owned state enterprises and 12 enterprises with substantial state ownership for privatization in the first phase. The GOZ has also agreed with the UNDP/World Bank study's recommendation to replace the Department of Portfolio with a High Commis ion for Portfolio, thus depoliticizing the privatization process and turning it over to a technically oriented institution. In brief, the GOZ has thus far acted in good faith in following the UNDP/World Bank recommendations, and we feel that this momentum should be maintained.

The critical issue is how to maintain the momentum with just the right combination of encouragement and pressure on the part of the donor community until it is appropriate to provide long term technical assistance. We do not feel that long term technical assistance should be offered until the GOZ is clearly working within the IMF and World Bank SAL programs. Within the World Bank the feeling is that the GOZ is only temporarily off track and that the situation will stabilize in a couple of months. Based on that assumption, we feel it is imperative that appropriate short term TA be made available in the near future to maintain interest in and discussions on privatization.

Short term TA in the near future should be provided for the following two activities:

- Discussion with GECAMINES regarding their peripheral companies that might be added to the list of companies to be privatized in the first phase of the program

- A series of conferences bringing together members of the public and private sectors, the media and the academic community to publicly discuss and sensitize various elements of society to the benefits of privatization.

The first activity may provide additional prospects to the list of companies to be privatized, as earlier discussed. The purpose of the second activity is to dispel the widespread confusion between "Zairianization" as experienced in the early 1970s and the present privatization program, as well as to begin building coalitions that will support the GOZ in its privatization endeavors.

The two activities will set the stage for developing a long term technical assistance package when appropriate. Discussions with GECAMINES, including a quick overview of their peripheral companies could be conducted as an extension of this reconnaissance trip. Since one of the team will be in Zaire in any case, that activity (a maximum of one week) can be carried out with a minimal cost to USAID.

A series of conferences, which should be scheduled for the May, June, July period, could potentially be funded by the UNDP. The UNDP Resident Representative has expressed interest in such a project, and the team suggests that the USAID mission in Zaire discuss this prospect directly with him.

Additional short term technical assistance could be provided by the World Bank prior to initiation of a full scale project. The World Bank expressed an interest in funding the valuation of those SOEs on the GOZ list of nine that have the most realistic chance of being privatized in the first phase. Again the USAID mission in Zaire should discuss this possibility directly with the World Bank resident staff. This activity would certainly contribute to the momentum, and would be a step toward a full-scale privatization effort.

Once the USAID mission, the World Bank, and UNDP feel it appropriate to discuss full-scale, long term TA with the High Commission for Portfolio, a project identification (PID) mission should be sent into the field. This could occur at a point when it would give the USAID mission enough time to prepare the documentation necessary to submit a project for AEPRP funding in FY 1989.

The purpose of the PID mission will be to define the exact scope of the long term project assistance to be offered and the specific roles to be played by each of the donors. It is our understanding that PD&S funds could be made available at the mission level to perform this activity.

It is envisioned that this project will require both long and short term technical assistance. For the long term component, the most effective arrangement will be for a resident advisory team to be placed directly within the High Commission for Portfolio to oversee and direct the privatization effort. The role of that team of experts will be to assist the High Commission in its organizational goal setting, and to assist in the implementation of the privatization process.

In the start-up phase, the team would consist of two individuals with complementary strengths in financial and marketing/promotional expertise as well as the ability to operate within the Zaire environment. One individual should have a strong financial/accounting background to be able to oversee the valuation and restructuring of the SOEs and the other one should have strong abilities and experience in marketing and promotion to act as the "deal maker" in identifying and negotiating with potential investors. Given the lack of viable financial markets in Zaire, and in view of the earlier discussion regarding the investment climate, successful privatization will occur only on a very labor intensive and individual deal-by-deal basis. The specific scopes of work for the long term advisors would be defined by the PID mission.

The long term advisors will also be responsible for the overall coordination of what will probably be considerable short term technical assistance input. Every SOE must be systematically evaluated, a process whose implementation requires industry specific experts. In most cases, the concerned SOEs will probably also have to be taken through a detailed restructuring process prior to even beginning to seriously pursue discussions with potential investors, an activity that will also require industry specific expertise. Beyond these requirements, the long term advisors will identify and coordinate any other short term technical assistance as needed.

Finally, these advisors will provide the linkage between the High Commission and donor agencies to assure that agreed-upon goals, targets and conditions precedent are being met. Both USAID and the World Bank should consider policy reforms as conditions precedent to disbursement of funds for technical assistance. The exact nature of those policy reforms will be determined in the project design stage. A fertile area for policy reforms may be measures to improve the overall investment climate for foreign investors as well as local entrepreneurs (i.e., regulatory relief for start ups, expatriate work visas, one stop investment centers, etc.).

In addition to short and long term TA, in view of the lack of medium and long term financing available in country, a special line of credit should be established specifically for privatization. Since the local financial institutions neither have adequate resources nor the will to finance the buy-outs of SOEs, we recommend that the bilateral donors and international institutions combine forces to establish a Privatization Fund from to finance the acquisition of SOEs by private investors.

GOZ officials should be aware that the privatization process is a long one, and will certainly require a concerted multi-year effort. USAID officials must also be mindful of this likelihood as they plan their budgetary cycles.

The final mix of long and short term technical assistance, as well as detailed scopes of work and budgetary requirements, will be estimated in the PID writing exercise. Throughout the project design phase, the continued close collaboration among USAID, the World Bank and UNDP should be encouraged, and the agencies should explore the means whereby they could jointly fund the privatization program.

EXHIBITS

EXHIBIT 1

MEETINGS HELD IN ZAIRE DURING PRIVATIZATION RECONNAISSANCE MISSION - FEBRUARY 1988

U.S. Embassy Officials

William C. Harrop, U.S. Ambassador
Ralph Bresler, Counselor
Alice Dress, Economic Officer

U.S. AID Officials

Dennis Chandler, Mission Director
Joseph Goodwin, Deputy Director
Joseph Ryan, Program Officer/Senior Economist
Richard Macken, Project Development Officer

World Bank Officials

Jerome Chevallier, Resident Representative
Silvio Capoluongo, Zaire Country Officer (Washington)
Johan de Leede, Zaire Country Economist (Washington)
Pierre Lazard, Zaire Country Economist (Washington)

UNDP Officials

Alan Doss, Resident Representative

Zairian Public Sector Officials

Sambwa Pida Nbagui, Vice Premier Commisssaire d'Etat
Thambwee Mwamba, Commissaire d'Etat au Portefeuille
Kayokela Sasangula, Counseiller Economique, Department de Portfeuille

Zairian Private Sector Individuals

Pierre Thiran, Secretaire Generale, Association Nationale des Enterprises du Zaire (ANEZA)
Kazadi Membu, President Directeur General, SOFIDE
Kande Mupompa, Chef du Departement des Etudes, SOFIDE
J.C. Woodhouse, Administrateur Delegue, Grindlays Bank (Zaire)
Laurent Puglionisi, Directeur Generale, PHARMAGROS
Rigano Natale, Directeur, IVECO
Loup J. Brefort, Principal, Coopers and Lybrand
C. Dangbele, Directeur, ZAMAT
P. Efanbe, President Directeur General, Transport Company
Tamer K. Massoud, General Manager, Inter-Continental Hotel
Michel de Cuypere, Administrateur Delegue, Banque Commerciale Zairoise
Kenneth E. Natale, Resident Partner, Duncan, Allen and Mitchell
Miko Rwayitare, President, CIE
Dennis de Azevedo, Directeur Principal, UTEXAFRICA
Tshilombo wa Nahimba, President Administrateur - Delegue, Union Zairoise de Banques
Madeleine Jacob, Administrateur, ACGZ
Walter Fluckiger - Bohren, Administrateur - Delegue, Minoterie de Matadi (MIDEMA)
James Blattner, President du Conseil d'Administration, COPNEUZA
Elwyn Blattner, Administrateur - Delegue, COPNEUZA
Mulenda Mbo, President Directeur Generale, GECMINES
Jean-Pierre Bouyer, Directeur, GECAMINES
Victor Benatar, MACALZA
Kalonji Ntalaja, Economics Professor, University of Kinshasa

EXHIBIT 2*

COMPLETE LIST OF ENTERPRISES WHOLLY OR PARTIALLY OWNED BY THE GOZ

A. WHOLLY OWNED PUBLIC ENTERPRISES

A.1 Enterprises of a Commercial Character

Sector		Name or Acronym	Main Products/Services	Observations
MINNING (4)	1)	GECAMINES HOLDING and three affiliates: GECAMINES EXPLOITATION GECAMINES DEVELOPMENT GECAMINES COMMERCIAL	Copper and by-products	Recently re-organized situation improving; profitable.
	2)	KILOMOTO	Gold	Severe logistical problems; unexplained depletion of stocks and cash blances; major capital injection required to exploit untapped reserves; privatization should be encouraged.
	3)	EMK - Mn	Manganese	Operations suspended and only sporadic since 1981; 400 strong labor force maintained by government subsidy.
	4)	SODIMIZA	Copper	Apparently marginally profitable despite low prices; managed by Canadian team operating under contract.
ENERGY AND WATER (3)	5)	PETRO-ZAIRE	Import and distribution of petroleum products.	Profitable and relatively important source of dividends to Government until 1985; lost formal import monopoly on crude petroleum and products in 1985; will also lose satus as government shareholder in mixed petroleum companies.

*Source: UNDP/World Bank 1988 Study Etude sur la Reforme des Entreprises Publiques - Composante B

Sector	Name or Acronym	Main Products/Services	Observations
	6) REGIDESO	Water supply	Relatively well-run company; profitable despite low tariff for some consumers and a number of financially unviable projects.
	7) SNEL	Electricity supply	Slowly improving but still loss-making; needs to sharply increase tariffs to finance new investments and to assume increasing share of debt service burden, internal management and planning reforms underway but much remains to be done.
COMMUNICATIONS (1)	8) ONPTZ	Postal and telecommunications services	Large loss maker in what should be a profitable activity; major restructuring and reform required; large foreign payments arrears.
AGRICULTURE AND FORESTRY (8)	9) CACAOZA	Cocoa	Entrusted to private management; no financial information available.
	10) PALMEZA	Palm oil and nuts	Entrusted to private management; no financial information available.
	11) COTON-ZAIRE	Marketing and processing seed cotton	Loss making; under private management.
	12) CSCO	Cotton lint distribution	Little financial information available; also responsible for regulating and coordinating cotton sector.
	13) FORESCOM	Lumber	Heavy losses; management in hands of Canadian lumber company; forecasts show little prospect of breaking even before 1995.
	14) LOTOKILA	Sugar	Integrated sugar project with Chinese assistance; no information available.
	16) ONDE	Ranch development and management	No financial information available.

Sector	Name or Acronym	Main Products/Services	Observations
	17) OZACAF	Coffee processing and export	Also responsible for coffee sector regulation, coordination and export control; gross over-staffing; heavy loss maker; consistent erosion of trading monopoly through smuggling.
INDUSTRY (3)	18) AFRIDEX	Explosives for the mining industry	Once more becoming profitable after major accident in 1981, but still receives direct government subsidy.
	19) SOSIDER	Steel	Operations suspended since at least early 1985; work force of 800 supported by government subsidy.
	20) UMAZ	Agricultural implements	Inefficient and overstaffed plant built by Chinese technical assistance; losses amount to about 50 percent of turnover; operations suspended due to lack of foreign exchange.
TRANSPORT (9)	21) AIR ZAIRE	Air transport	In need of major restructuring privatization or close down; management contract with UTA of France signed in late 1985; has shed some surplus labor since 1984.
	22) CMZ	Merchant sea shipping	Stumbles in a cycle of upswings and severe crises in accordance with who is managing the company; currently in an upswing thanks to contract with Belgian company; is shedding some surplus labor.
	23) OGEFREM	Freight brokerage	Profitable and apparently efficient; restricts its activities to sea freight brokerage; could potentially expand into other modes.
	24) ONATRA	Port operations, river and rail transport.	Some improvement in recent years and marginally profitable but much remains to be done; structure unwidely, serious consideration should be given to splitting into component parts and some privatizations.

Sector	Name or Acronym	Main Products/Services	Observations
	25) SNCZ	Rail transport	Severe problems due to low and distorted tariffs; poor management and general operational inefficiency.
	26) OTCZ	Urban bus services	Severe logistical and financial problems; services currently suspended.
	27) RVA	Airports and air traffic control	Serious financial problems due to inappropriate tariff structure, failure to pay landing fees by Air Zaire, cumbersome internal structure, and over-staffing.
	28) RVM	Control of maritime traffic on the estuary of the Zaire river	Profitable due to successful exploitation of monopoly position and consequently very high tariffs; however, substantial internal weaknesses.
	29) RFV	River traffic control	Suffers losses due to inadequate tariff structure, over-staffing and poor costing control.
COMMERCE (4)	30) SONATRAD	Procurement agent	Operations currently restricted to five major enterprises and contracts of over US$ 5 million; no such operations have taken place since the company's founding in 1985.
	31) CCIZ	Management of office building in commercial area of Kinshasa	Stated objective is to promote international trade.
	32) FIKIN	Trade fair organizer in Kinshasa	No financial information available.
	33) OZAC	Quality control on exports and imports	Profitable but less so than might be expected given monopoly quality and price control function on all exports and imports for which it charges an ad valorem fee.

Sector	Name or Acronym	Main Products/Services	Observations
OTHER NON FINANCIAL SECTORS	34) RENAPI	Printing	No financial information available.
	35) ONL	Housing construction, sale and rental	Very severe problems due to massive arrear on rents and mortgage loans (rent arrears in Kinshasa alone amounted to US$126 million equivalent), over-staffing and antiquated equipment.
FINANCIAL (4)	36) BDP	Commercial banking	Operates efficiently in competition with private sector.
	37) SCNAS	Insurance	Profitable but less than expected given monopoly on insurance and re-insurance in Zaire.
	38) BCA	Agricultural credit	Lends at subsidized rates to small farmers but prudent management has thus far avoided the pitfalls often associated with this type of operation.
	39) CADEZA	Savings bank	Little information available but alleged to have severe financial problems.

A.2 Enterprises of a Non- Commercial Character

Sector	Name or Acronym	Main Products/Services	Observations
COMMUNICATIONS (2)	40) AZAP	Government press agency	Staff salaries paid out of Budget Annex.
	41) OZRT[1/]	National radio and TV	Income from advertising covers only a small proportion of costs.
FINANCIAL (3)	42) Banque du Zaire	Central Bank	Inappropriate to treat as private enterprise.
	43) INSS	Social security	Inappropriate to treat as private enterprise.
	44) OGEDEP	External debt management	*De facto* branch of the Finance Ministry.
TAXATION (1)	45) OFIDA	Customs Service	*De facto* branch of the Finance Ministry.
TRANSPORT (1)	46) OR[2/]	Road building and maintenance	*De facto* branch of Public Works Ministry.
PROMOTION AND TRAINING (3)	47) INPP[2/]	Technical training for maintenance	State-sponsored training service largely financed by fees paid by enterprises.
	48) IZAM	Management training and consulting	Salaries paid out of Budget Annex.
	49) OPEZ[1/]	Promotion of small scale industry.	Salaries paid out of Budget Annex.

1/ Potentially self-financing.

2/ Currently self-financing through earmarked tax revenues.

Sector	Name or Acronym	Main Products/Services	Observations
RESEARCH AND CONSERVATION (5)	50) INERA	Agronomic research.	
	51) FONAMES	Medical research.	
	52) INS	Collection and processing of statistics.	
	53) IJZBZ	Development and management of botanical and zoological gardens.	
	54) IZCN	Environmental protection agency.	

B. MIXED ENTERPRISES

B.1 Enterprises Registered in Zaire

Sector	Name or Acronym	State Participation %
MINING (8)		
	1) MIBA	80
	2) ZAIRETAIN	50
	3) SOMINKI	28
	4) SOMIBA	20
	5) SOMIAO	20
	6) Societe Minere de Kania	20
	7) SOMIKIVU	20
	8) SMDG	20
ENERGY (11)		
	9) SOZIR	50
	10) Zaire - Shell	40
	11) Zaire - Mobil	40
	12) Zaire - Texaco	40
	13) Zaire - Sep	40
	14) Zaire - Fina	40
	15) SOLIZA	20
	16) Gulf Oil Zaire	20
	17) JAPEZA	20
	18) SOREPA	15
	19) SHELL - ZAREX	15

Sector	Name or Acronym	State Participation %
INDUSTRY (15)		
	20) Cimenterie Nationale	91
	21) SUCKIL	50
	22) PLZ	42
	23) CHANIMETAL	40
	24) MIDEMA	40
	25) CSKWILU-NGONGO	40
	26) SOTEXKI	40
	27) SOZATOLES	40
	28) Nogeuira et Cie	40
	29) LEZA	31
	30) COMIGEM	20
	31) CIZA	15
	32) BRALIMA	1[illegible]
	33) CAP	10
	34) MAZAL	[illegible]
AGRICULTURE (10)		
	35) ZAIROM	60
	36) AGRIFORE	40
	37) GRELKA	40
	38) Cie Partavale du Haut Lomami	40
	39) CODAIK	40
	40) LA COTONNIERE	37
	41) SOTEXCO	30
	42) COTOLU	15
	43) ESTAGRICO	13
	44) Nouvelle Exploitation Forestiere du Kasai	10

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Sector	Name or Acronym	State Participation %
COMMERCE (10)	45) SOZAL	60
	46) SIK	50
	47) Grands Hotels du Zaire	50
	48) Zaire Motor Ltd.	40
	49) AFRIMA	30
	50) ATC	20
	51) SOCIAZ	20
	52) NEZA	18
	53) INZAL	16
	54) TOURHOTELS	9
SERVICES (2)	55) IPS/ZAIRE	35
	56) AMIZA	1
FINANCIAL (4)	57) UZB	28
	58) BCZ	26
	59) BK	23
	60) SOFIDE	20
TRANSPORT (1)	61) SOTRAX	10

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B. MIXED ENTERPRISES

B.2 Enterprises Registered Abroad

Sector	Name or Acronym	State Participation %
MINING (1)	1) GROMINES	9
ENERGY (1)	2) COMETRA OIL	2
INDUSTRY (3)	3) Clanic SA	15
	4) CIMENTAF	10
	5) Dolonies des Marctas du dames	1
AGRICULTURE (4)	6) Cotoni SA	7
	7) Agricom SA	5
	8) Credit Agricole d'Afrique	3
	9) SUCRAF	1
SERVICES (6)	10) Goffin et Cie	10
	11) Societe de Gestion et d'Investissment Immobilier	8
	12) SOBAKI	5
	13) Societe Auxiliere de l'Union Royale Belge	2
	14) COFIBEL	1
	15) Industrial Promotion Services (Switzerland)	1
FINANCE (4)	16) BDEGL	26
	17) BAD	7
	18) Groupe Bruxelles Lambert	1
	19) TCIL	1

EXHIBIT 3

WHOLLY OWNED (100%) PUBLIC ENTERPRISES ON GOZ LIST OF COMPANIES TO BE PRIVATIZED

Name of Companies	Activities	Financial Performance	Operational Performance	UNDP/Workd Bank Recommendations	GOZ Position	Our Recommendation
1. SOSIDER	• Semi-finished steel products	• Lost Z18 million in 1986 • Heavily subsidized • GOZ estimated at $400 million	• Formed in 1972 • Never reached above 15% capacity • Currently closed except for maintenance	• Liquidate	• Partial privatization	• Attempt to privatize
2. ONPTZ	• Postal Services • Telephones • Telex • Telegrams	• Small losses overall • Heavy losses from postal services • Marginal profits from telecoms due to international services	• Poor quality of services • Poor management • Low level investment	• Restructure and privatize telephone • Contract plan	• Restructure and partially privatize telephone	• Restructure and privatize telecom
3. EMK	• Manganese production in Shaba	• Not available	• Manganese stock piled since 1980 • Production not evacuated due to Benguela railroad problems	• Not covered in this report	• Partial privatization	• Needs to be studied further

Name of Companies	Activities	Financial Performance	Operational Performance	UNDP/World Bank Recommendations	GOZ Position	Our Recommendation
4. SONAS	• National Insurance	• Profitable • Undercapitalized • Cash flow problems • No reserves	• 600 employees • Poor services • Low legitimate claims • High fraudulent claims	• Restructure • Retain as public enterprise or partially privatize	• Partial privatization • Liberalize the sector	• Restructure and • Liberalize the sector
5. PALMEZA	• Palm oil milk	• Continuous losses Z18 million in 1986	• Under SCIBE management contract since 1983 • Provides housing, schools and health care	• Either privatize or • Liquidate	• Privatize	• Restructure and • Privatize
6. CACAOZA	• Cacao production, processing and exports	• Operationally profitable • Losses due to foreign exchange • Last Z18 million in 1986	• Under SCIBE management contract • More than 500 workers • Provides housing schools and health care	• Privatize	• Privatize	• Restructure and • Privatize
7. COTON-ZAIRE	• Purchasing, ginning, and marketing of cotton	• Continuous losses • Retail operations unprofitable	• Was under UTEXCO management contract until 1986 • New management not in place	• Restructure and privatize	• Privatize	• Restructure and • Privatize

Name of Companies	Activities	Financial Performance	Operational Performance	UNDP/World Bank Recommendations	GOZ Position	Our Recommendation
8. UMAZ	• Manufacture and sale of agricultural hand tools	• Continuous losses • High leverage	• 10-30% capacity utilization • Sells mainly to public sector	• Liquidate	• Privatize	• Needs to be studied further
9. OTCZ	• Urban Bus Co. • Transport/Bus Rental	• Continuous losses • Heavily subsidized but subsidies not paid	• Price control • Was under Leyland management contract • Heavy competition from private operators	• Either restructure pricing or • Liquidate	• Privatize	• Restructure and • Privatize • Liberalize/ rationalize pricing

EXHIBIT 4

PARTIALLY OWNED PUBLIC ENTERPRISES ON GOZ LIST OF COMPANIES TO BE PRIVATIZED

	Name	GOZ Share	Activities	GOZ Position	Remarks
1.	ZAIRETAIN	50%	• Tin Mining in Shaba • Heavily subsidized	Privatize	• Limited information • To be studied
2.	AGRIFOR	40%	• Timber operation in Mayumbe	Privatize	• Limited information • To be studied
3.	ESTAGRICO	12%	• Cotton Production	Privatize	• Limited information • To be studied
4.	NOUVELLE EXFORKA	10%	• Timber operation in Kasai-Occidental	Privatize	• Limited information • To be studied
5.	GRELKA	40%	• Cattle raising • in Shaba	Privatize	• Limited information • To be studied
6.	COMINGEM	20%	• Not known	Privatize	• Limited information • To be studied
7.	COTOLU	25%	• Cotton • SINTEXKIN offered GOZ shares	Privatize	• Limited information • To be studied
8.	IPS-ZAIRE	34.5%	• Industrial Promotion • GOZ shares offered to Swiss partners	Privatize	• Limited information • To be studied
9.	SODIAZ	20%	• Car dealership	Privatize	• Limited information • To be studied
10.	A.T.C.	20%	• Car dealership	Privatize	• Limited information • To be studied
11.	ZAIRE-MOTOR Ltd.	40%	• Car dealership	Privatize	• Limited information • To be studied
12.	S.I.K.	50%	• Real Estate Co.	Privatize	• Limited information • To be studied

EXHIBIT 5

COMPANIES RECOMMENDED FOR PRIVATIZATION BY UNDP/WORLD BANK STUDY BUT NOT FOUND ON GOZ LIST OF COMPANIES TO BE PRIVATIZED

NAME	ACTIVITIES	REMARKS
SODIMIZA	Copper Mining	• The study recommends privatization in 5 years
ONDE	Distribution of Veterinary pharmaceuticals	• Losing money
CMZ	Maritime freight	• Losing money
Petro-Zaire	Distribution of petroleum products	• Somewhat profitable
FORESCOM	Timber	• Under Canadian government assistance
GECAMINES Development	• Flour and maize milling for GECAMINES • Distribution of agricultural products	• Profitable

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