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Washington, D.C.

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Contacts with member countries, Zaire - Correspondence 02

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WBG Archives

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Michael L. Lejeune

SUBJECT: ZAIRE - Visit by Mr. Bokana w'Ondancela of the
Bureau of the Presidency

DATE: July 31, 1972

1. Mr. Bokana, Legal Adviser in Zaire's Bureau of the Presidency, was sent by the Zairan Government to deliver a letter to Mr. McNamara from President Mobutu. He met with Mr. McNamara on July 19, 1972, for this purpose. Mr. Kochman, the Zairan Ambassador, and I were present.
2. The Ambassador took the occasion to say to Mr. McNamara that he was returning to Zaire to become the Secretary-General of the Ministry of Foreign Affairs. He expressed his appreciation of the close working relationship between him as Ambassador and the staff of the Bank, and he also referred to the great interest that Mr. Kochman took in Zaire's relations with the Bank. Mr. McNamara thanked him for his kind words and wished him well in his future assignment.
3. Mr. Bokana explained that President Mobutu wished to invite Mr. McNamara to pay him a visit in Zaire, even if only for a few hours, to discuss the problems arising from the necessity to undertake large investments, including investment for the supply of electricity. He handed over the letter (a copy of which is attached, together with a translation).
4. Mr. McNamara said he was aware of the importance of the problem facing Zaire, and he would like to be of as much help as he could to President Mobutu. Unfortunately, he was not able to go travelling for a while. A principal reason was that he was heavily engaged in trying to consummate the replenishment of IDA. As Mr. Bokana would know, the replenishment had not yet taken place because the principal contributor, the United States, had not yet signed the instrument which would bring the replenishment into effect. This was of grave concern to Mr. McNamara, and particularly to those countries to which IDA replenishment was so important. President Mobutu and Mr. Bokana would understand that Mr. McNamara must give this matter his close attention until replenishment was assured.
5. Secondly, the Bank's Annual Meeting would take place in September and Mr. McNamara had many obligations and duties to perform in respect of it.
6. For these two reasons, it would not be possible for him to pay an early visit to Kinshasa. Mr. McNamara would, however, be writing to President Mobutu in response to his letter.


President has seen

July 31, 1972

7. Mr. Bokana thanked Mr. McNamara for his interest and said he would convey his reply to President Mobutu and advise him that he could expect a letter from Mr. McNamara.

8. Subsequently, a similar conversation took place in my office. Mr. Halbe and Mr. Moreau of the Eastern Africa Department were present, in addition to Mr. Bokana and the Ambassador. Nothing new came up. It was clear that Mr. Bokana had come to Washington purely as a courier, to bring the letter from President Mobutu and was not briefed to discuss the substance.

Attachment



cc: Mr. McNamara (2)
Mr. Knapp
Division D

MLLejeune:ck

Unofficial translation

TO: Mr. McNamara
President
International Bank for
Reconstruction and Development
1818 H Street N.W.
Washington D.C. 20433

Mr. President:

The present economic evolution of my country requires urgent and costly solutions. I am thinking in particular of the Inga hydroelectric project, the first stage of which will be initiated next November.

Without getting too much into details, I can tell you that the next stages have begun. Their cost is so high and the world economic situation so unfavorable that we do not have available to us the type of financing required for this kind of project.

Therefore, while I am aware of your extremely busy schedule, I would be infinitely grateful if you could come to Kinshasa as soon as possible and at your early convenience, even if it were only for a few hours, so that I may discuss with you, personally and face to face, matters which are a great concern to me regarding the energy problem of my country.

Sincerely yours.

Signed Mobutu Sese Seko



BUREAU DU PRESIDENT

Kinshasa, le 15. VII 1972

N°PR/ 1595 /72.

A Monsieur Mc NAMARA
Président de la Banque
Internationale pour la
Reconstruction et le
Développement
1818, H. Street N.W.

WASHINGTON DC 20.433

(USA)

N/Ré :

V/Ré :

Objet :

Monsieur le Président,

L'évolution économique actuelle de mon Pays exige des solutions urgentes et coûteuses. Je pense notamment au grand projet hydroélectrique d'Inga dont nous inaugurons la première étape en novembre prochain.

Sans vouloir trop entrer dans les détails, je peux vous signaler que les étapes suivantes ont aussi démarré. Leur coût si élevé et la conjoncture économique mondiale si défavorable ne nous permettent pas de disposer de financement compatible avec ce genre de projet.

Aussi, tout en connaissant votre programme extrêmement chargé, je vous saurais infiniment gré si vous pouviez vous rendre à Kinshasa dans les meilleurs délais et à votre prompt convenance, même pour quelques heures seulement, afin que je puisse vous entretenir personnellement et de vive voix, des questions qui me tiennent à coeur concernant les problèmes énergétiques de mon Pays.

Veillez agréer, Monsieur le Président, l'assurance de ma parfaite considération.



LE PRESIDENT DE LA REPUBLIQUE,

MOBUTU SESE SEKO
Général de corps d'armée

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 19, 1972

FROM: Michael L. Lejeune

SUBJECT: Your meeting with Mr. Bokana, July 19, 1972.

1. Mr. Bokana, Legal Adviser in Zaire's Bureau of the Presidency, is coming to deliver a message to you on behalf of President Mobutu Sese Sako. This is not the first time that Mr. Bokana is entrusted with confidential missions by the Presidency; in the matter of the termination of the SEDES Technical Assistance to the Bureau of the Presidency, in January, he was sent to explain the matter to the Bank. Mr. Bokana has also represented the Bureau in several negotiations with us and he was a member of the Zairan delegation to the 1971 Annual Meeting of the Bank.
2. Mr. Bokana will be accompanied by Ambassador Ileka, who will return to Zaire next month to become Secretary General of the Ministry of Foreign Affairs. The incumbent Secretary General, Mr. Lombo, is to succeed him as Ambassador in Washington. I will attend the meeting and I presume Mr. Kochman will also. I am sure Mr. Kochman or the Ambassador can handle any necessary interpretation, but if you prefer, I can have Mr. Halbe or Mr. Moreau available.
3. While we do not know exactly what is contained in the message Mr. Bokana will deliver to you, I do know, as I told you last night, it includes an invitation from President Mobutu to you to visit Zaire and discuss with the President Zaire's economic and financial needs. I think the message may also ask the Bank to participate in the financing of the second phase of development of the Inga hydro-power site. In this connection, as you know, the Government intends to build a transmission line from Inga to Shaba (the Katanga) to supply the new mining developments.
4. On July 3, I sent you a memorandum (a copy of which I attach for your convenience) in which I outlined, in paragraphs 5 to 7, the nature of the problem relating to Zaire's public investment program. In essence, a number of large and politically attractive public investment projects were conceived during the 1969-1970 period of abnormally high world copper prices. Now, at a time when these prices have returned to lower levels, these projects are reaching the point where implementation can begin. To this must be added the fact that during the fat years, the level of recurrent expenditures of Government, especially for personnel, has been allowed to increase substantially. Now that lean years are upon Zaire, these expenditures are very difficult to compress. The consequence of all this is that expectations in Zaire for large public projects are high but the Government will find it difficult to finance them.

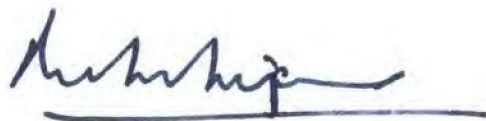
7. To meet the additional demand for electricity in Shaba (estimated at nearly 400 MW by 1980) the Government had a choice between first building locally an additional hydro-power station (Busanga) with a total capacity of 240 MW or going ahead right away with the construction of a direct current transmission line from Inga to the copper belt area. Busanga would cost about \$75 million and the transmission line about \$285 million, plus the investment at Inga to generate the necessary power. In December 1970, the Bank sent a one-man mission to the country to evaluate the comparative advantages of the two alternatives. This mission concluded that it would be more economic to build the Busanga dam and the Inga station first, and to postpone the construction of the transmission line by a few years. That solution would offer the advantage of being less costly (postponement of the transmission line alone would save about \$27.5 million at a 10 % discount rate, to which one would have to add any savings on the postponed development of the Inga station), while at the same time permitting the study of the economics and of the reliability of long distance power transmission under tropical conditions. We wrote to the Government along these lines in November 1970 (copy of our letter is attached) but have never received a reply. In the meantime, however, the Government has requested bids from a number of international firms for the construction of the line and seems determined to go ahead with its construction in the immediate future.

8. I do not think that we know enough about the proposed second phase of development of Inga (Inga II), nor about the potential uses for the power it would generate, to take a position at this time on the advisability of going ahead with the project or on our possible participation in the financing of the project. Before we can have a valid position on the feasibility of going ahead with it now we shall have to send experts to collect the facts.

9. I think that there is an additional, not to say a prior, question that needs to be raised. The Bank Group's lending program for Zaire during the next five years is purely an IDA program. If we were to decide to help finance Inga II, a first question will be whether we should use IDA money for that purpose, thereby reducing or eliminating other projects now in the pipeline. I would not recommend that solution since the projects in our IDA lending program deserve, in my view, a continued high priority rating. This therefore opens up the question of putting Bank money in Zaire for the first time since independence. We have not done so before, since we had enough IDA money for the high priority projects we have financed.

10. If we are to seriously contemplate Bank financing of Inga II, we shall have to take a very close look at Zaire's overall investment program to determine whether Zaire is, in our view, creditworthy to finance large projects of this kind on conventional terms. We would

have to know with greater precision the expected sources and terms of other financing, not just for Inga II but for the public investments program in general. If we should conclude after this review that the use of Bank money is not justified without additional guarantees, but that the project itself is worthwhile and deserving of the priority the Government accords it, we could always consider the "enclave" project approach, but there are important questions for Zaire and ourselves about the wisdom of undertaking lending on conventional terms secured by the proceeds of export sales of copper or aluminum. It does not strike me as the best way for Zaire to establish its credit, for if we demand security, so will others.

A handwritten signature in dark ink, appearing to be 'D. H. Knapp', written over a horizontal line.

cc: Mr. Knapp

MLLejeune/LEMoreau

5. This state of things suggests the need to review investment priorities. I hope that the discussions with the Government on our draft economic report -- which we hope to send to the Government in early September -- will demonstrate to the Zairans the need to proceed to such a general review and will provide the basic data needed. This should not prevent us, however, from expressing our real concern about the public investment question. Since my memorandum of July 3, we have computed the probable impact of large scale borrowings of the kind described in that memorandum, on Zaire's debt service ratio. The present debt service ratio is about 4.4% because Zaire has in the past obtained much of its aid under concessionary terms. However, assuming the total of about \$485 million for large projects, of which about \$250 million may be spent in the period 1972-75, the debt service ratio in 1976 would increase from 12.2% without these projects to 14.9% with them and in 1981 from 11.5% without to 17.5% with them. These assume copper prices to be stabilized around the 50 ¢/lb level (roughly as at present). A downward turn in world copper prices, to say about 45 ¢/lb, could boost the projected normal debt service ratio to about 16.7% in 1976 and to about 20% in 1981; the percentages with these projects would increase correspondingly.

6. The specific project which President Mobutu may ask the Bank to help finance is the second phase of development of the Inga hydro-power site. That site had been studied ever since before independence, but financing for the first phase of its construction (300 MW) was not acquired until the 1965-1969 period, partly with the assistance of the European Economic Community (FED) and with Italian suppliers' credits. The Inga site presents a large hydro-electric potential which could eventually reach 30,000 MW. The Government is now about to engage in the second phase of this expansion which would add 1,200 MW to the existing capacity. The cost of this expansion could range between \$40 million and \$100 million, depending on the number of generators installed. Power generated could be used:

- (a) by a prospective Kaiser aluminium-smelter project which at present is dormant;
- (b) by a possible aluminium-smelter project other than Kaiser's, which might treat the alumina from the Boké project in Guinea; and
- (c) by copper producers in Shaba (formerly Katanga) who, in addition to the state-owned Gécamines, will include, starting at the end of 1972, a Japanese-financed project and, starting in 1975 or 1976, a new mining project sponsored by Charter Consolidated. This last is the one in which Tempelsman has an interest.

Mr. Robert S. McNamara, through Mr. Knapp

July 3, 1972

Michael L. Lejeune

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Zaire

CONFIDENTIAL

1. On June 22, Mr. Robert S. Smith, Deputy Assistant Secretary of State for African Affairs, came to talk to me about various matters of concern to the U.S. Department of State in respect of Zaire, and I gathered from him that he had wanted to see me in anticipation of an early meeting between you and Mr. David D. Newsom, the Assistant Secretary.

2. There are two important questions on Zaire which Mr. Newsom may raise: (a) some problems have arisen in connection with claims by the Zairan Government to Union Minière's interests in affiliated companies doing business in Zaire; (b) the Zairan Government apparently plans to invest heavily in the near future in very large power and transportation projects, calling for a large amount of external financing, and there is some question whether they appreciate the impact of large scale conventional borrowing on their future debt servicing capacity. Mr. Smith talked to me only about the second question, but Union Minière officials have recently raised the first at a meeting with Mr. Knapp, and they have also seen Mr. Newsom.

3. As far as the Union Minière question is concerned, you will have seen my memorandum to files dated June 15 and Mr. Knapp's dated June 12 and June 16 (for your convenience, copies are attached). Since that meeting, we have studied the dossier relating to the 1969 settlement of the dispute between the then Congolese Government and Union Minière concerning the take-over of Union Minière's assets in Shaba (then Katanga) and elsewhere in Zaire. There are two significant questions:

(a) Did the Zairan Government, as part of the settlement, relinquish claims in respect of ownership of shares held before 1967 by Union Minière, either directly or through subsidiaries, in various companies doing business in Zaire? The answer is not clear. While various documents refer to the resolution of pending disputes, and those emanating from Union Minière and its affiliate Société Générale des Minerais, speak of full settlement and renunciation of further claims by both parties, we have found in our files no official document or set of papers dating from the period of the settlement (September 24, 1969), which specifically mentions the Government's claims to the Union Minière shareholdings now in question, nor is there a specific list of the matters in dispute immediately before the settlement. Therefore, unless there is something which is not in the dossier we have studied, it is difficult to have an opinion on the substantive point.

(b) Do you, as the person named in the September 24, 1969 agreement as conciliator in the event of a dispute, have any responsibility at this time in the matter? Here again, the answer is not completely clear. From the dossier, it can be taken that disputed matters of interpretation of the so-called Technical Cooperation Convention and Protocol thereto, both of 1967 (under which Union Minière's subsidiary, Société Générale des Minerais becomes managing agent for operating the mines) and of the 1969 amendments to the Convention and Protocol, are to be put to you for conciliation, but the mutual waiver of further claims is not contained in these documents but appears in separate letters exchanged between Union Minière and Société Générale des Minerais at the time of the settlement.

4. Nothing has been said either by the Union Minière officials who came to see Mr. Knapp or by Mr. Newsom, which suggests that Union Minière or the U.S. is going to ask you to intervene in your capacity as conciliator; however, you may wish to keep in mind the fact that this is in the background and may come to the fore at some point. I recommend that you refrain from raising this question with Mr. Newsom if he does not bring the matter up himself.

5. On the subject of the Zairan public investment program, the facts are:

(a) The price tag for the proposed major investments is very high: up to \$100 million for the second stage development (an additional 1200 MW) of the Inga hydro-power site; about \$285 million for the Inga to Shaba (Katanga) transmission line; and at least \$100 million for the Voie Nationale, the rail, river and ports combination of projects which would permit all traffic to and from Shaba to go over an entirely Zairan system. The total is about \$485 million.

(b) The public savings possibilities of Zaire are limited. In 1971, public savings were about \$27 million; projections for the 1972-1975 period, tentatively prepared by our recent economic mission in Zaire, show an average of \$60 million per year for public investments of all kinds excluding self-financed mining development by Gécamines, the Government-owned mining company. After 1975, the situation should improve, due essentially to the fact that Gécamines will no longer have tax concessions in respect of its increased production.

(c) Therefore, if the Government is determined to go ahead with these major investments, it will have to resort to extensive borrowings from external sources. Finding such financing may not prove impossible for Zaire. They have already obtained in the past \$57.5 million in total on the Euro-dollar market, and indications are that Zaire will continue to borrow on that market, at levels which might go as high as \$50 million in some years. In addition, I understand that Eximbank has expressed readiness to finance works, especially in relation to the Inga line, which would be carried out by American firms. Finally, the Government can make an extensive - and expensive - use of suppliers' credits; these might go up from \$39 million in 1971 to more than \$100 million in 1974 and 1975.

6. The main question about these major public investments is not so much whether they are worthwhile, but what their timing should be. At this time, and given the limited public savings potential over the next four years, the idea of postponing as much as possible to later years, when the new copper investments begin to become productive, and when tax revenues from mining increase markedly, is very appealing. The problems which the investments in question aim to resolve can be alleviated over the medium term. The energy gap expected in Shaba starting in 1975 can be met until 1979 or 1980 by building a hydro-power station with a total capacity of 240 MW at Busanga, in Shaba. The cost would be on the order of \$75 million. Transportation problems can also be largely met by alternatives which do not involve extensive railway construction.

7. If at the State Department they are concerned about this public investment question, as Mr. Smith indicates they are, we can certainly state that we share their concern. So far we have had enough IDA money to take care of the development projects which seemed to us of first priority, and Zaire's needs for external capital have not raised the question of its creditworthiness for large scale external borrowing on conventional terms. We are on the point of completing the first draft of the economic report of the mission which went to Zaire in March and soon we shall have ready calculations of the impact on Zaire's balance of payments of large scale borrowing of this kind. Much, of course, depends on the future price of copper, and we shall be making alternative assumptions. The present debt service ratio is about 4.4%, but has no significance for the future. It is bound to rise to a significantly higher figure, and if borrowing is extensive, will be well over 10% with copper at 50¢/lb (roughly as at present) and maybe twice as high with copper at, say, 45¢/lb.

Attachments.

cc: Mr. Knapp
Mr. Nurick

MLLejeune/LEMoreau:cc

Le 17 novembre 1970.

Monsieur P. Bisengimana
Directeur,
Bureau de la Présidence
Kinshasa
République démocratique du Congo

Monsieur le Directeur,

Nous avons maintenant été en mesure d'étudier les informations rapportées par M. Montfort, au cours de sa mission de septembre au Congo, dont le but était d'une part de faire le point sur la situation énergétique du Katanga, d'autre part de comparer les différents moyens envisagés pour satisfaire la demande d'énergie engendrée par la croissance rapide du secteur minier. Deux projets ont été conçus pour répondre à cette demande: le premier implique l'installation d'alternateurs supplémentaires à Inga et la construction d'une ligne de transmission d'environ 1800 km; le second prévoit une centrale hydroélectrique à Busanga, dans la province du Katanga, dont la puissance installée serait de 240.000 kilowatts.

Il s'avère que les données disponibles sur Busanga sont substantielles (des estimations de coût raisonnablement fermes ont été produites, et des programmes précis de construction ont été préparés pour mettre l'usine en service dès 1976); en revanche, celles concernant la ligne électrique sont purement provisoires et imprécises: les estimations de coût manquent de solidité, les plans détaillés des installations n'ont pas encore été arrêtés. De plus, on sait peu de choses sur le temps requis pour installer la ligne et ses équipements annexes, sinon qu'on pourrait peut-être les mettre en service en 1976. Pour notre part, nous avons de sérieux doutes que les questions techniques et autres restant en suspens en ce qui concerne la ligne haute tension, rendent alors très problématique la réalisation de la ligne dans le temps qui lui a été au prime abord imparti. Toutes choses égales d'ailleurs, le facteur temps apparaîtrait donc pencher en faveur du Busanga. Cependant, on doit, avant de prendre une décision dans ce choix, tenir compte de deux autres importantes considérations.

La première se rapporte à la fiabilité de l'installation. Busanga étant construit dans la zone même de consommation, constituerait une source d'énergie très sûre. Tandis que celle procurée par une ligne s'étendant sur 1800 km dépendrait du maintien en parfait état de fonctionnement d'un circuit démesurément long et peut-être partiellement inaccessible.

De surcroît, le projet basé sur la ligne électrique exigerait d'après les données disponibles un investissement beaucoup plus important, peut-être de 110 millions de dollars, contre 64 pour Busanga. Il serait vraisemblable que l'actualisation des dépenses en capital et des coûts de fonctionnement de ces deux projets comparés l'un avec l'autre tout au long de leur vie utile respective, ferait ressortir que la réalisation immédiate de Busanga apparaîtrait plus profitable, quitte à construire par la suite la ligne électrique.

Dans ces conditions, nous recommandons de donner priorité à la réalisation du projet de Busanga pour desservir le Katanga à partir de 1976.

Nous ne voulons pas dire que la construction de la ligne électrique doit être exclue, mais qu'elle devrait être considérée dans toutes phases ultérieures d'un programme à long terme de production d'énergie pour répondre notamment à la croissance rapide du Katanga.

Aussi nous apparaît-il important, compte tenu de la longueur de la ligne (la première de ce type à être construite dans un pays tropical), d'étudier à fond le problème de la fiabilité, et en particulier celui de l'accès pour l'entretien et les réparations. Il est essentiel de pouvoir absolument compter sur la ligne, compte tenu de l'énergie considérable qu'elle serait amenée à transporter. Nous recommandons donc la réalisation d'une étude de factibilité approfondie qui couvrirait entre autres les aspects suivants: spécifications, trajet, coût, droits de passage, fiabilité, capacité initiale, capacité finale de la ligne. Cette étude comprendrait une évaluation des facteurs conditionnant la vulnérabilité de la ligne. Alors seulement l'importance de cet équipement pour le développement énergétique de votre pays pourra être décidée en toute connaissance de cause. Nous pensons qu'il faudrait que vous obteniez le concours de consultants ayant une expérience de ce genre de problèmes. Il n'en manque pas dans ce secteur.

Nous serions très heureux, si vous le souhaitez, de vous donner des explications plus détaillées et de vous apporter une assistance quelconque à ce sujet.

Je vous prie de recevoir, Monsieur le Directeur, les assurances de ma considération la plus distinguée.

Michael L. Lejeune
Directeur
Département Afrique de l'Est

cleared with and cc: Mr. King
Mr. Montfort

cc: Mr. de Azcarate, Kinshasa

J. Beach/A. Gintzburger/G. de Guesignan/dw

Draft: revised by J. H. Williams

J. Beach/dw

November 16, 1970

Dear Mr. Bisengimana,

We have now had the opportunity to discuss with Mr. Montfort the findings of his visit to your country to review the power situation in the Katanga region and assess the alternative means planned for augmenting the supply to this region to serve the rapidly developing mining load. Two alternative schemes had been conceived to supply the power required: first, the installation of additional generators at Inga and the construction of a direct current transmission line about 1,800 km in length from the Inga powerhouse; and second, the construction in the Katanga region of the Busanga hydroelectric station with an installed capacity of 240,000 kw.

Mr. Montfort found that whereas for Busanga the information concerning the project was well developed (reasonably firm cost estimates were available and firm schedules had been planned for its construction so as to permit it to be in service by 1976) the information available for the direct current transmission line was only of a preliminary nature, and among other things, the cost estimate could not be considered reliable nor could the exact design of the facilities be said to be firmly set. Further there was little information regarding the period of construction required for the line and ancillary equipment other than the belief that it might be possible to have it in service by 1976. We have serious doubts that the technical and other questions involved in a transmission line project of this nature could be satisfactorily resolved within that time limit.

Other things being equal, the time factor would appear to favor Busanga. There are two other important considerations to be borne in mind in reaching a decision. The first is that of reliability. The power supply which would be provided by Busanga could be considered inherently very reliable, that is, a hydroelectric facility to be constructed in the area to be supplied. On the other hand, the direct current transmission line must go overland about 1,800 km so that power supply would be reliant upon keeping in continuous operation this long and perhaps in part inaccessible circuit. Furthermore, the information available indicated that the scheme incorporating the direct current transmission line would require a much larger initial capital expenditure, perhaps US\$110 million compared with the US\$64 million estimated for Busanga. It would appear likely that if these capital expenditures, together with operating expenditures over the lives of the two facilities, were to be compared on the basis of present values, there would be a marked saving in favor of proceeding with ~~with~~ Busanga now, possibly to be followed by the transmission line.

Under the circumstances we recommend that the priority should be given to the construction of the Busanga project in connection with the supply of power to the Katanga area commencing in 1976.

We do not suggest that the construction of the direct current line should not be contemplated, but rather that its construction should be regarded as a potentially important stage in a long run program to meet the needs for power in the Katanga region. In your further consideration of the line, it is important that in view of its great length and the fact that it would be the first of this type to be built in a tropical

country, the matter of reliability in general and of access for maintenance and repairs in particular should be thoroughly explored and assessed. It would be fundamental that the line should be absolutely reliable in view of the great amount of power it would of necessity have to carry. We would therefore strongly recommend that a full-scale feasibility study be made of the direct current transmission line scheme comprising design, cost estimate, right-of-way, reliability, initial and ultimate capacities together with an assessment of the security aspects. It would be then be possible to state with authority the importance that this facility could assume in the future development of your country's power system. For the purposes of this study we would strongly recommend that you obtain the services of consultants well versed in direct current transmission as verified by the fact that they would have already completed similar assignments. There are a number of consultants with such experience.

Should you require our further comments or assistance in this matter, we will be only too pleased to do our best to comply.

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: February 20, 1973

FROM: S. Shahid Husain, EACPII *ht*SUBJECT: Zaire: Meeting between Mr. McNamara and the
Governor for Zaire - September 27, 1972

Mr. Baruti wa Ndwali, Finance Minister of Zaire and Zaire's Governor to the Bank, called on Mr. McNamara on September 27, 1972. Messrs. Kochman, Knapp, Bell, Lejeune and Husain were present. This was the Minister's first visit to the Annual Meetings as Governor for Zaire and was in the nature of a courtesy call.

The Minister referred to the recent decline in copper prices and emphasized the need for expanded external assistance and lending from the Bank Group. The subsequent discussion centered around copper production and future prospects for it. Mr. McNamara asked the Minister as to what the copper production in 1972 was likely to be and what the Minister's estimates were for production five or six years hence. The Minister said that in 1972 Zaire expected to produce more than 400,000 tons of copper. The present plans of GECAMINES, SODIMIZA and the Tenke-Fungurume group call for expansion of copper production to about 700,000 tons by 1978. The Minister said that this would require investments not only in the copper mines but also in the infrastructure, such as electric power and transport. For these, according to the Minister, Zaire would look to bilateral and multilateral agencies for finance.

Mr. McNamara said that the Bank Group had been facing difficulty in mounting projects in Zaire and drew the Minister's attention to the considerable effort we had made to assist institutions and investments in transport. Mr. McNamara hoped that in future it would be possible to accelerate project preparation and execution in transport, agriculture and education.

cc: Messrs. Kochman
Knapp
Bell
Lejeune

SSHusain:pe

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 24, 1972

FROM: S. Shahid Husain *SH*SUBJECT: Zaire: Visit of Mr. Sorensen and Officials of
Societe Miniere de Tenke-Fungurume (SMTF)

Mr. Sorensen and officials of SMTF are meeting you today at 3 p.m. to discuss the Tenke-Fungurume project in Zaire. I had a meeting with them on October 17 re the possibility of Bank financing of a copper mining project in Zaire. The following is a brief description of their project and a resume of my discussions with them.

Background

^{16/}₂₃
Copper production in Zaire reached about 360,000t p.a. in 1969, produced entirely by GECAMINES, the national successor company to Union Miniere du Haut Katanga. GECAMINES is pursuing a ten-year program, providing for production increases to 460,000t by the end of 1974 and to 560,000t by 1980. Furthermore, two new ventures will add to higher copper output in Zaire. One is SODIMIZA (capital 85% Japanese, 15% Zairan), the production of which is expected to reach 100,000t p.a. between 1973 and 1978; the other one is SMTF (Societe Miniere de Tenke-Fungurume), created by a British, American, Japanese and French consortium, with an expected output of 100,000t p.a. by 1976 at the earliest. Thus, total Zairan copper production by 1980 would be in the order of 760,000t. However, latest and so far unconfirmed information indicates that GECAMINES plans to increase its production to even 900,000t in the early 1980's. Were this true, total Zairan output would reach 1.1 to 1.2 million t by that time, tripling the 1969 production.

A description of SMTF, its shareholders, mining project, production forecast, status of studies and a preliminary time schedule are given in Annex A.

Past contacts with SMTF and its group of promoters were mainly by IFC. I met with the promoters for the first time on October 17, during a visit of Messrs. Beville Pain, Finance Director, Charter Consolidated Ltd; Peter Burnell, Chairman of SMTF; J.W. Cozad, Vice President Financial Operations, Standard Oil Company; and J.C. Vredenburg, Director, Financial Planning and Financing, Standard Oil Company.

The SMTF Proposal

During that meeting we were asked to consider financing of the township required for the Group's planned mining venture, estimated to cost \$60 million.

The cost of the overall SMTF investment was given at \$300 million (including the township) to be financed as follows: \$50 million (20%) equity; \$100-125 million expected to come from EXIMBANK and other, mainly UK, sources and a balance of \$100-125 million still to be found.

The promoters thought that a possible Bank loan could be made to the Government and on-lent to a township construction company. Lease contracts between SMTF and the township company should provide the security required for the loan. SMTF would wish to maintain in one form or another management control over the township construction company, as well as of the township administration, to assure timely availability of the facilities and proper functioning.

Our visitors' comments on the general copper market outlook, price forecast (50 cents mentioned) and marketing arrangements were sparse and did not exceed what is given in the Annex. However, the importance, for their decision to invest, of having assured power supply via the Inga line was stressed repeatedly, as was the question of an acceptable but so far undetermined power price. Power requirements for a production of 100,000t p.a. were given at 80-120 MW, depending on the yet undetermined technological treatment process chosen.

Our Position

We found that the promoters came to us to ask for township financing on their own initiative and not because they had been asked to do so by the Government. On this point, the Zairan Minister of Finance had told us during the Annual Meeting that the promoters were supposed to line up all third party financing required for SMTF from their traditional sources of finance.

We said that Zaire was a country in which we had lent IDA funds so far; despite IDA shortage, we had been able to execute our program in the high priority sectors of transportation, agriculture and education. If we were asked to finance beyond this program, Bank funds would have to be

October 24, 1972

considered, requiring that we review with the Government its overall investment program related to copper, including Inga, the transmission line, and the Voie Nationale, investments easily running up to \$1 billion. Since there were competing claims on financing, it would be difficult, therefore, to take even a preliminary position on the township proposal. If we were to finance part of the copper related investments, we would try to do it where we could make the best contribution to the economy and to help the country attract other external finances. In the meantime, the promoters should explore whatever other sources of finance they might be able to open up. However, at the request of our visitors, we agreed that another informal and preliminary discussion could take place during my forthcoming mission to Zaire at the end of November.

SSHusain:pe

SOCIETE MINIERE DE TENKE - FUNGURUME

1. The Company.

The company was constituted on 22nd January 1971 under the name of Societe Congolaise de Tenke-Fungurume (Socotef) in accordance with the terms of a Convention signed between the Government of the Republic of Zaire and the founder members on 19th September 1970. The company's name was changed to Societe Miniere de Tenke-Fungurume (S.M.T.F.) on 19th November 1971, following the country's change of name from "Republique Democratique du Congo" to "Republique du Zaire". The company has its registered office at the Union Zairoise de Banque center in Kinshasa, the capital of Zaire.

The company, by virtue of an Ordonance-Loi, was granted a research permit over an exclusive research zone covering some 1400 sq. km. in Shaba - formerly Katanga - Province for all mineral substances excepting those minerals which at the date of signature of the Convention were classified as being "reserved" (i.e. uranium). The Republic of Zaire also granted S.M.T.F. the right to obtain exploitation rights for each discovery of a deposit which S.M.T.F. considers commercially and economically viable.

S.M.T.F. was thus created in terms of the Convention with the purpose of "prospecting for, discovering, investigating and exploiting mineral deposits in a zone containing the areas known as the Tenke-Fungurume polygon and Fungurume extension, as well as concentration, metallurgical and chemical treatment, transformation, marketing and exportation of the said substances and the substances deriving therefrom, as well as all operations relating thereto."

The original shareholders of S.M.T.F. are:-

	<u>Percentage Interest</u>
Charter Consolidated Zaire Ltd.	28
Amoco Minerals Inc.	28
Government of Zaire	20
Mitsui & Co. U.S.A. Inc.	14
Bureau de Recherches Geologiques et Minieres	7
Leon Tempelsman & Son Inc.	3
	<u>100%</u>

Charter Consolidated Zaire Limited has its registered offices at 11a Avenue de la Porte Neuve, Luxembourg. It is a subsidiary of Charter Consolidated Limited, 40 Holborn Viaduct, London, E.C.1., a major British Mining finance company closely affiliated with Anglo American Corporation of South Africa.

Amoco Minerals Company, having its principle office at 910 South Michigan Avenue, Chicago, Illinois, U.S.A., is a subsidiary of the Standard Oil company of Indiana.

Mitsui and Co. U.S.A. Inc. has its principal office at 200 Park Avenue, New York, N.Y. (U.S.A. and is a subsidiary company of Mitsui and Co. Ltd. of Tokyo, Japan.

Bureau de Recherches Geologiques et Minières, (B.R.G.M.), a French National Public Institution has its principal office at 74 rue de la Federation, Paris 15e.

Leon Tempelman & Son Inc. has its principal office at 529, 5th Avenue, New York (U.S.A.).

Since the creation of the company two transfers of shares occurred:-

Mitsui and Co. U.S.A. transferred its shares to Mitsui and Co. Ltd., having its head office at 2-9 Nishi Shimbashi Itchome, Minato-Ku, Tokyo, Japan.

B.R.G.M. transferred half of its holding to Omnium des Mines S.A., 280 Boulevard St. Germain, Paris, France, an affiliate of the Banque de Paris et des Pays-Bas.

Simultaneously, with the signing of the S.M.T.F. Convention and the creation of S.M.T.F., a second Convention was signed by the same partners and a second company S.I.M.Z. (Societe Internationale des Mines du Zaire) was created. S.I.M.Z. has been granted exploration rights over an area of 30,692 sq. km., of which half has already been returned to the Government of Zaire, in accordance with the requirements of the

Convention.

S.I.M.Z. is undertaking a longer term (5-10 year) basic geological exploration programme within its concession area where several interesting indications of mineralisation have been identified.

2. The Project.

(a) Location.

As will be seen from the attached maps the Tenke-Fungurume concession area is located in the so called "Copper Arc of Shaba" in the Republic of Zaire, specifically between the Western Group mines of Gecamines (Generale des Carrieres et des Mines du Zaire) at Kolwezi and the Central Group Mines of Gecamines at Kambove and Kakanda.

The Tenke-Fungurume area is 200 miles by macadamized road from Lubumbashi, which itself is accessible by plane from Kinshasa or by road from Zambia. The area has also railway (or rail-river) connections with Matadi in Zaire (2600 km.), Lobito in Angola (1880 km.), Beira in Mozambique (2356 km.), Dar-es-Salam in Tanzania (2356 km. and with various South African ports.

(b) Ownership.

The area over which S.M.T.F. holds rights formerly belonged to the Union Miniere du Haut-Katanga (U.M.H.K.). Since the early part of the 20th century, U.M.H.K. had undertaken a series of exploration programmes. These included a substantial amount of basic geological work and in the later years an important drilling programme. As a result of the latter, substantial tonnages of high grade copper and cobalt ore were located in a number of scattered deposits. Due, however, to the complicated geological environment and probably also to difficulties of metallurgical treatment by techniques known and available at that time, U.M.H.K. never embarked on an exploitation programme.

In January 1967 the Government of Zaire declared the nationalisation of all the assets and undertakings of U.M.H.K. and prolonged negotiations on the amount payable in respect of compensation for the assets taken over then ensued. On 15th February 1967 a management contract between U.M.H.K. of the newly formed Gecamines was announced; however, it was not until 24th September 1969 that the issue of compensation was finally settled between the parties. Following the announcement of this agreement, the participants in S.M.T.F. responded to an earlier invitation by the Zaire Government to enter into negotiations on rights to develop a major mining complex in the Tenke-Fungurume area. These negotiations resulted in the signature of the Establishment Convention referred to in the first paragraph of this memorandum.

3. The Establishment Convention.

The most important points covered in this agreement between the Government of Zaire and the shareholders of S.M.T.F. can be summarised as follows:-

- (i) The company is granted sole rights to explore and ultimately exploit known reserved mineral occurrences over an area of 14,025 sq.km. The concession is for 30 years, renewable for up to two further periods of 20 years each.
- (ii) The Government of Zaire is granted a 20% free interest in the equity of SMTF.
- (iii) The company is managed by a Board of at least eight Directors of whom six, including the Chairman and principal Executive Officer, are nominated by the foreign shareholders and two, including the Vice-Chairman by the Government.

The Board is currently constituted as follows:-

Chairman - representative of Charter Consolidated.
Administrateur Delegee - representative of Charter Consolidated.

2 representatives of Amoco Minerals
1 representative of Mitsui & Co.
1 representative of BRGM/OMNIMINES.

2 representatives of the Government of Zaire

Following the formation of the company, the Board of Directors invited Mr. Maurice Tempelsman, the President of Leon Tempelsman & Sons, to join the Board which now therefore consists of 9 members.

- (iv) S.M.T.F. has full exemption from all taxes, export and import duties and other imposts until the end of the fifth year of exploitation of each mine discovered, apart from nominal payments in respect of tenure of mining rights. Between the sixth and the end of twentieth year, the company is liable to an overall payment of 50% of annual taxable profits. This payment is made in advance in provisional amounts equal to 12.5% of the f.o.b. value of products exported by the company. These payments are under no circumstances reimburseable to the company. In the event that they exceed in aggregate in any one year, the amount payable in respect of the 50% tax liability, the balance may be carried forward and credited against taxes payable in any subsequent year when the advance payments amount to a lesser amount than the tax liability.

The fiscal and other benefits granted by the Convention are valid for 20 years following which the company becomes subject to the then existing law of the country.

- (v) S.M.T.F. may raise loans upon the decision of the Board of Directors, shareholders or third parties.

- (vi) The company is permitted to retain or transfer outside Zaire in foreign currencies all funds not required for payments to the Government or for local operating expenses.
- (vii) The company has freedom in the choice of its suppliers and contractors subject to giving preference to locally established organisations on equivalent terms.
- (viii) The company is permitted to sell its total production to the organisation (s) of its choice on the basis of going world market rates at the time, subject to first supplying the needs of the local market on the basis of a pro rata contribution by all of the companies engaged in mining copper in the country.
- (ix) The Convention has been promulgated as a law of Zaire and it is provided that wherever its provisions may conflict with those of present or future Zairois Laws or regulations, the terms of the Convention shall prevail.

4. The Feasibility Study.

In January 1971, S.M.T.F. entered into a "Technical Assistance" contract for 10 years with Charter Consolidated. In terms of this the latter undertakes to provide a full range of technical and administrative services to the company and to supply it with or procure for it the necessary technical personnel.

As soon as the formalities relating to the creation of the company were completed offices were established in Kinshasa, Lubumbashi and Fungurume and "feasibility" work commenced. The availability of camp accommodation for employees and the fact that access to a substantial number of known mineral occurrences in the area was immediately possible as a result of the work in earlier years, permitted a highly intensive drilling campaign to begin almost immediately.

There are at present 14 drilling rigs in operation and by the end of August 1972 some 278 boreholes totalling 17,886 meters had been completed. In addition an extensive concurrent programme of sample taking from pits, trenches and adits has been undertaken.

At 30th April, the date of the last public announcement of drilling results "probable and indicated" reserves amounted to 20 million metric tons grading 6.2% copper and 0.4% cobalt. In addition inferred reserves were 14.8m. tons. By the end of August these had risen to 32.2m. tons at 5.6% copper and 0.42% cobalt in the probable and indicated categories plus inferred reserves of 8.7m. tons. The latter figures having not yet been published must be regarded as highly confidential until the time of the next press release.

The target of this year's programme is to identify 50-55m. tons "probable", "indicated" and "inferred" reserves and we are confident of achieving this objective. Open pit operations only are anticipated for at least 10 years. Simultaneously with the geological programme extensive metallurgical studies have been undertaken in England, Zambia and South Africa. A number of processes and flow sheets have been examined in conjunction with alternative mining plans. As a result of this work it is likely that the plant will be designed for the treatment, in the early years mainly of high grade oxide ores from which good copper recoveries are obtainable by direct bulk leaching with sulphuric acid. Changes to the flow sheet involving important additional capital outlays for plant extensions could be necessary from about year 6 of production if it transpires that further reserves of this type of weathered near surface oxide ore cannot be located. Refined copper will be produced in cathode or wirebar form.

Preliminary engineering studies have been undertaken from which a capital expenditure estimate of approximately \$300 million for an operation producing initially 100,000 to 110,000 t.p.a. copper has been derived. This will be progressively refined over the next two to three months and must be regarded only as an order of magnitude at the present time. The estimate is in 1972 money values and excludes any provision for inflation. Feasibility expenditure

to end 1972 will amount to about \$20m.

An operation of this size would require approximately 2,500 employees of whom about 10% would be expatriates.

Extensive studies have been carried out inter alia in the following areas:-

- Township layout, architectural design.
- Road, rail and other infrastructure requirements.
- Water and power supplies.
- Raw materials availability.
- Transportation.

Financial projections, profitability studies and risk and sensitivity analysis based on the flowsheet developed from the results of metallurgical testwork to date will not be available until towards the end of 1972. We are confident, however, from earlier economic studies based upon highly conservative assumptions that these will confirm that the project meets the required levels of profitability. (X)

It is hoped that a decision to proceed with the construction phase of the project can be taken between April and June 1973. Commissioning of the plant could then be anticipated during the second half of 1976. The major potential source of delay to the above programme is the availability of electric power which is referred to separately in the following paragraph. (Y)

Concurrently with the completion of technical aspects of the feasibility study detailed investigations into sources of loan finance for the project and the possibility of securing long term contracts for the copper to be produced must begin shortly. It is probable that a firm of independent consultants will be appointed in the near future to examine and comment upon the results of all work undertaken to date and the conclusions drawn therefrom.

6. Power.

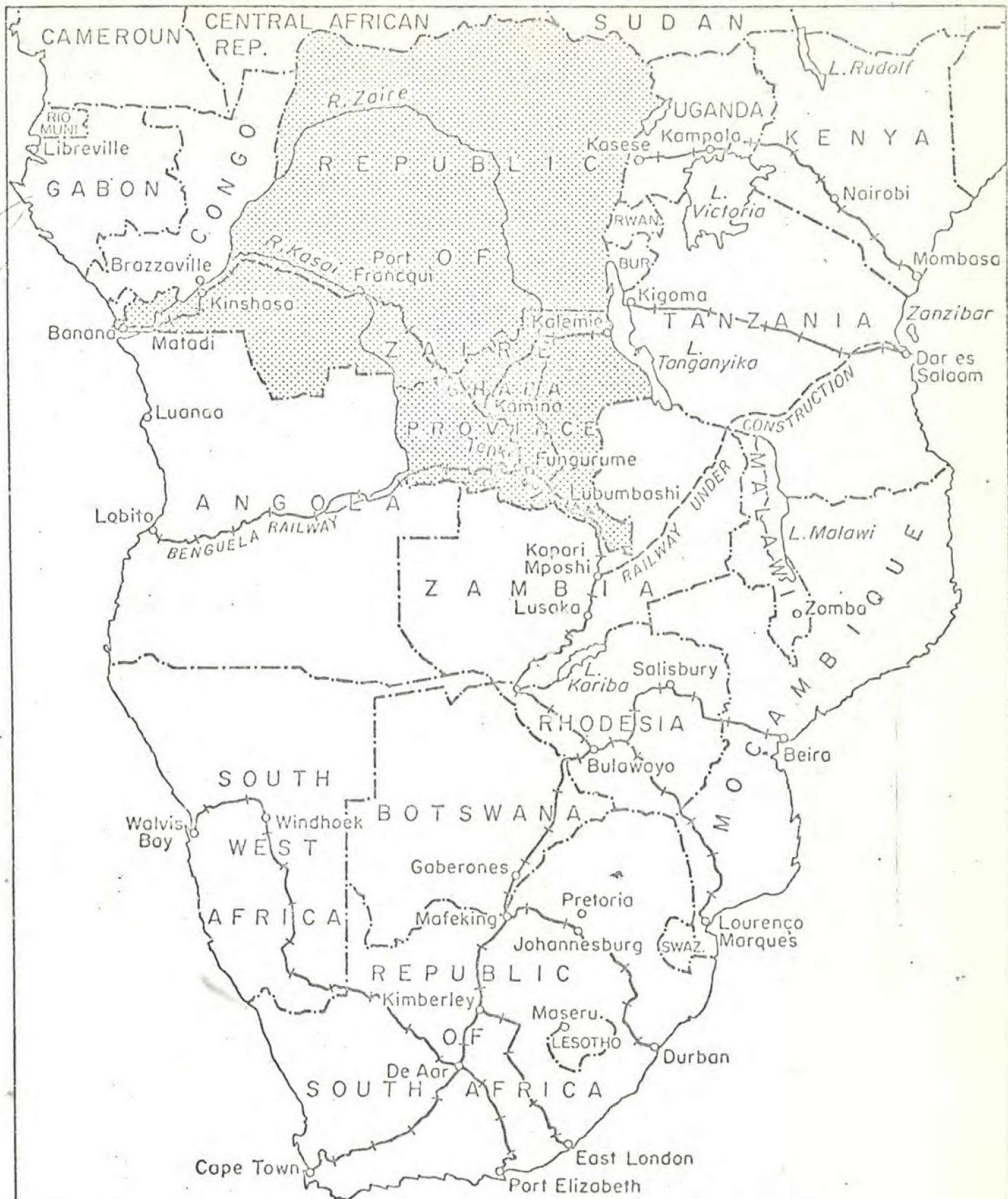
Shaba will have an increasing shortfall between demand for and supply of locally generated power from next

year onwards. After 1975 it is highly improbable that imports from Zambia will be sufficient to cover the deficit. The preferred scheme for doing so amongst local interests was the construction of a further hydro-electric station at Busanga. However, the Government have decided against this and in favour of bringing power from the Inga dam on the lower Zaire river, by high tension DC transmission a distance of over 1800 km.

If S.M.T.F.'s development programme is not to risk being held up, it is essential that the contract for the Inga line is awarded before the end of this year. Although bids are due to be received from an American and a European consortium before 31st October 1972, there must remain considerable doubt as to whether sufficient progress can thereafter be made before the end of the year. (X)

A further major cause of concern to S.M.T.F. is the question of the price at which Inga power will be provided. This is because the minimum offtake required to justify economically the construction of the line, appears to be far above the maximum deficit envisaged in Shaba for many years after 1976. Since power will be a major operating cost for S.M.T.F. even on the basis of present tariffs, this issue is clearly of vital importance and will have been completely resolved before a firm decision can be taken to proceed with production expenditure. (X)

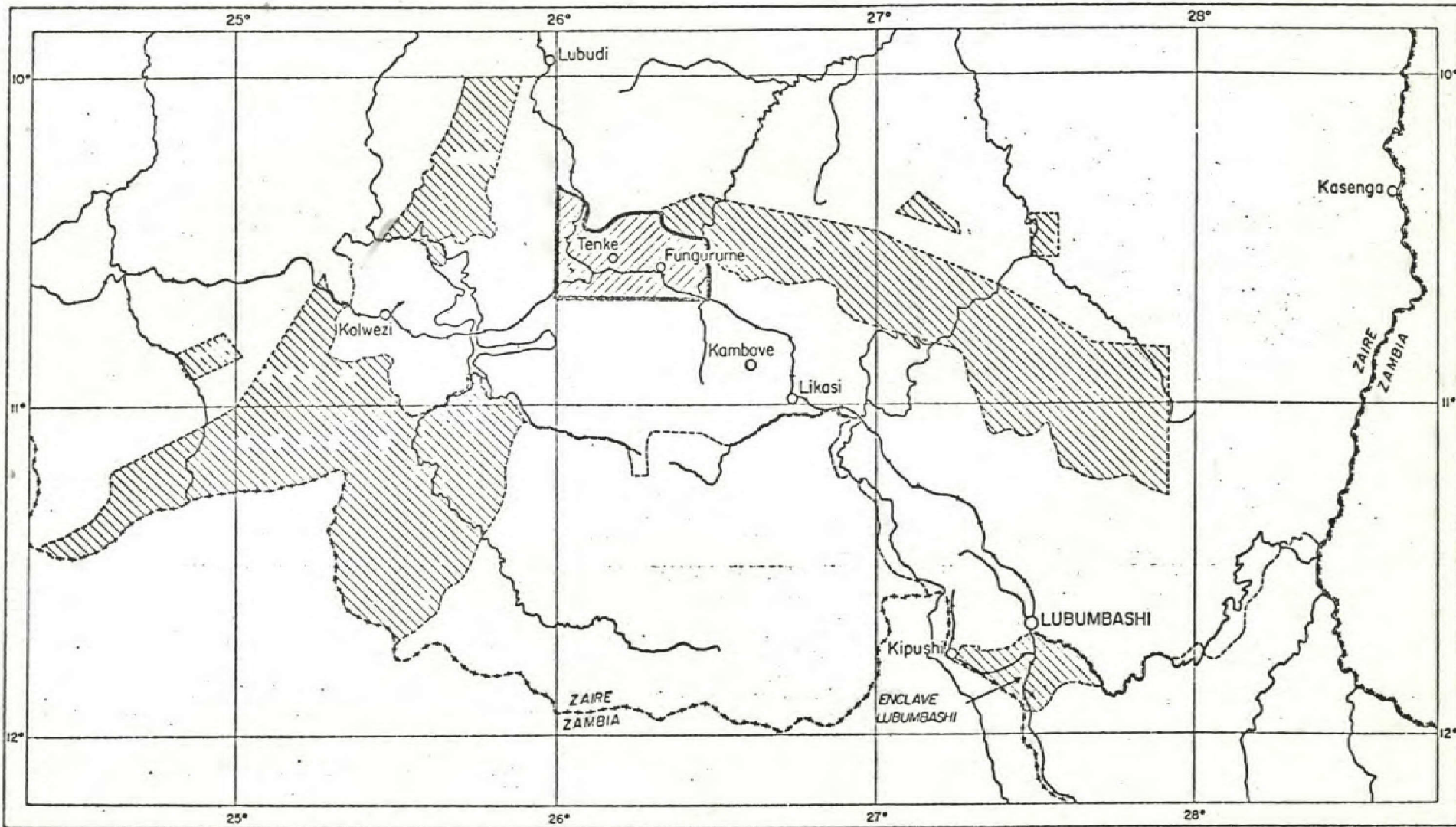
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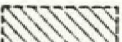


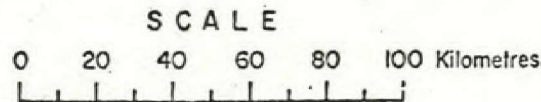
- +—+— Railway
- Projected Railway
- GECAMINES Mines
- ▲ SODIMIZA Mines

SOUTHERN AFRICA

0 200 400 600 Miles



-  S.M.T.F. Concession
-  S.I.M.Z. Concession



C.C.L. TECH. DEPT. LONDON

REPUBLIC OF ZAIRE
SHABA PROVINCE
SIMZ & SMTF
CONCESSIONS

Scale; 1:2000,000 Date; October 1972

GD-1593

INCOMING CABLE

DATE AND TIME OF CABLE: OCTOBER 18, 1972
LOG NO.: 255 TELEX/18
TO: MCNAMARA INTBAFRAD
FROM: PAULWEISS NEW YORK

ROUTING	
ACTION COPY:	MR. MCNAMARA
INFORMATION COPY:	MR. BELL MR. HUSAIN
DECODED BY:	MR. KIRMANI

TEXT:

DEAR BOB,

I WOULD PERSONALLY BE MOST GRATEFUL IF PRIOR TO YOUR DEPARTURE FOR ZAIRE YOU COULD FIND A FEW MOMENTS TO MEET IN YOUR OFFICE WITH ME AND MY CLIENT MAURICE TEMPELSMAN REGARDING PRESIDENT MOBUTU'S ECONOMIC DEVELOPMENT PLANS AND PROGRESS. AS YOU MAY KNOW, A TEMPELSMAN-LED GROUP NOW DEVELOPING THE MAN-MONTH TENKE-FUNGURUME MINING PROJECT WILL BE A MAJOR USER OF THE POWER, TRANSPORTATION AND OTHER INFRASTRUCTURE NOW PLANNED FOR ZAIRE. I THINK YOU MIGHT FIND SUCH A MEETING HELPFUL AND OF COURSE I WOULD ENJOY VISITING WITH YOU AGAIN.

MANY THANKS FOR YOUR CONSIDERATION OF THIS REQUEST ON WHICH I WILL CALL YOUR OFFICE SHORTLY.

SINCERELY,

TED SORENSEN

*10/20 Confirmed with Sorensen
10:30 am stay for Tues. Oct. 24,
3 to 3:30 here. B.*

*10/19
Peg
I'll set them -
Schedule a back-to-back
30 min. mtg
ee
Snow*

OFFICE MEMORANDUM

TO: The records DATE: December 26, 1972
FROM: Thomas U. Halbe *th* (through Mr. S. Shahid Husain)
SUBJECT: Zaire - Mr. McNamara's Visit to Kinshasa, November 19, 1972.
Minutes of Working Session With Group of Ministers.

1. After the briefing session at the OUA village (see minutes dated Dec. 15, 1972) and the departure for the presidential riverboat, Mr. McNamara - accompanied by Mr. Kochman - had a private meeting with President Mobutu followed by a working session with Messrs. Bisengimana, Director of the Office of the Presidency, Sambwa, Governor of the National Bank, Baruti, State Commissary in charge of Finance and Ndongala, State Commissary in charge of the National Economy. Mr. Kochman (E.D. for Zaire) attended, as did Messrs. Stevenson, Husain, Ljungh, de Azcarate, Sönmez and Halbe.
2. Mr. McNamara told the Ministers that he had a frank discussion with President Mobutu on Zaire's economic problems and that the President had stressed agriculture and transportation as the two sectors the development of which was of the highest priority. He also stated that the President had requested Bank assistance in building up the planning machinery in the Bureau of the Presidency. Mr. McNamara said that he was in full accord with the President's priorities and that the Bank would be prepared to help in all these areas provided that our efforts were complemented by the Government's own. Mr. McNamara invited the Ministers to let him have their views and to discuss what action should be taken and the role the Bank Group might play.
3. Mr. Baruti pointed out that agricultural production was insufficient. Zaire was still obliged to buy food abroad, for roughly \$44 million or about 16% of all imports. Mr. McNamara expressed his concern, adding that President Mobutu himself had termed it "disgraceful" that Zaire should still import sugar, maize, milk and a host of other foodstuffs. Mr. Baruti saw another problem in the distance between Kinshasa and the agriculturally rich areas (Haut Zaire, Kivu, and the North). Due to the lack of transportation infrastructure the Government is now using military planes to fly in food supplies from these areas.
4. Mr. Bisengimana felt that Zairian agriculture needed planning and financing. A planning unit would be established at the Ministry of Agriculture to give particular attention to priorities within the sector. Policies for industrial plantations (export crops) and traditional agriculture (food crops) were needed; producers were to be encouraged by better prices, and commercial channels to be reorganized. Moreover, investments in transportation infrastructure would have to be linked to agricultural development. Mr. McNamara agreed that rational and detailed planning would be a good first step to solving problems. He asked Mr. Bisengimana whether self-sufficiency in food production would be of the highest priority in planning. Mr. Bisengimana said it would.

5. Mr. McNamara stressed the importance of adequate price structures and particularly of producer prices as incentives for production; he wondered whether in this respect the Government's policies afforded adequate returns to farmers. Mr. Ndongala mentioned that producer prices for sugar, rice, cotton and coffee had been increased recently. However, prices for palm oil and meat had not yet changed. Mr. McNamara regretted these exceptions, particularly for meat, referring to IDA's planned livestock project. He noted Mr. Ndongala's statement that a decision on raising meat producer prices would be taken soon.

6. For financing of agriculture, Governor Sambwa sought Bank help to create an agricultural credit institution. It should have a wide scope of activity to cover all aspects of rural life, including village infrastructure and health measures. Mr. McNamara felt that indeed an agricultural bank would be required. He welcomed existing plans to create one and thought the Bank Group might be able to give assistance. However, in some cases agricultural development would have to be financed entirely from Government funds whereas in others Government resources would be needed to complement external finance. Governor Sambwa added that the National Bank had recently stimulated agricultural credit by granting commercial banks higher discount ceilings and lower discount rates. Whereas banks gave commercial credits normally at 12% p.a., they could now lend for agricultural projects at a preferential rate of 6% p.a.

7. Mr. McNamara then turned to another area of great mutual concern to President Mobutu and himself. Zaire's foreign exchange reserves have fallen by 50% over the last 18 months while at the same time external debt increased sharply, particularly debt with short maturities. This combination of dwindling reserves and rising debt at high interest rates and short repayment periods when Zaire planned large investments (Inga power, copper mines) and attached highest priority to agriculture was bound to create a serious problem. To solve it, a detailed and comprehensive programming of future investments was required, as was an external debt management program. Governor Sambwa said the Government was conscious of the problem and had set up an interministerial commission including the Office of the Presidency, the National Bank and the ministries of Finance and the National Economy. The commission now met once a week to check foreign debt and make recommendations to the Government. Mr. McNamara felt this was right as a first approach as long as it would lead to a more comprehensive management of the economy.

8. In the context of foreign debt, Mr. McNamara regretted the small amounts of IDA lending to Zaire. During the three years 1969-71 only \$18 million had gone to Zaire, a country that should have absorbed substantially more. This was largely on account of lags in preparation of projects suitable for IDA financing and in building up the management and technical capacity of institutions to implement projects. Every effort should be made to avoid a similar failure

in future. He asked Mr. Husain to have detailed discussions with each ministry to define the obstacles to lending and to agree with the Government on an action program for each project in the FY 1973-75 pipeline. He recognized that Bank Group requirements for project preparation and execution might appear heavy at times, if not irritating. However, the Bank as an instrument of its member countries had an obligation to its borrowers to advise on how to formulate and implement investments on a sound economic basis.

9. Finally, Mr. Baruti expressed the view that the preparation of agricultural projects with the help of the IBRD/FAO Cooperative Program should be geared to giving more rapid and concrete results than in the past. Furthermore, Bank projects should not be so small in size as to create pockets which it would be difficult to harmonize later with wider Government policies. Mr. McNamara agreed that precisely these questions should be discussed as part of a wider Government program for agriculture - to start with during Mr. Husain's stay and then during follow-up missions in early 1973 by which time Government planning for agriculture was expected to have progressed. The meeting ended with Mr. Bisengimana handing Mr. McNamara the English version, just off the press, of a Government prepared handbook on Zaire.

cc: Mr. Ljungh
Mr. Kochman
Mr. Bell
Mr. Husain
Mr. Barry
Mr. Stevenson
Mr. de Azcarate
PMEA

Th.U.Halbe:amm

NOTES OF CONVERSATION WITH PRESIDENT MOBUTU OF ZAIRE

November 19, 1972

1. The Inga projects (the 1800 kilometer transmission line and the second generating plant, which in total will cost approximately \$400 million) because of their size, and financial appeal, are becoming more and more a political issue. That is why he wants my advice. Pressured as he is by a multitude of foreign commercial and political interests, he has concluded that the only party he could trust would be an international organization, and particularly the Bank - especially its President.

I replied that, within the limits of our capacity, we would do everything possible to provide the technical assistance he needed.

2. Mobutu stated he believed relations between the top personnel of the Bank and the senior officials of Zaire are good but that we have problems at lower levels, implying that the lending program was unsatisfactory because of this.

I replied that the total of IDA credits granted in the three years FY '69, '70, '71, had been \$18 million, whereas it could have been \$90 million; further, that the total of credits granted in FY '73 was bound to be low. In contrast, lending in 1974 and in subsequent years could be high if action were taken now both to strengthen the project program and to remedy deficiencies in the management of the economy.

3. Mobutu stated he wanted a team of planning experts (to be selected by McNamara) to be assigned to the Office of the Presidency. The functions of the team would be similar to those performed by the team previously financed by France and the Bank.

I said we would support such a proposal. I stated that I understood he had asked UNDP to finance the project but that if UNDP found it impossible to do so, we would be willing to assist financially. He replied he wanted the Bank to finance the program.

4. Mobutu stated he has come to the conclusion that first priority in the development program must be given to agriculture and second priority to transportation.

I agreed, and stated the importance of the agricultural problem was illustrated by the increasing importation of food -- the weakness in the agricultural sector was both institutional and structural. (For example, meat prices which had first been raised and then lowered, were now too low to provide proper incentives for the expansion of production.)

He stated he wanted the Bank's assistance in organizing his agricultural sector, and I promised we would send an agricultural specialist to assist in this effort to our Resident Mission in February.

5. In conclusion, I stated:

- a. Zaire's foreign exchange reserves had declined 50% in the past 18 months;
- b. Debts owed to foreign parties have risen sharply;
- c. The terms of the outstanding debt have worsened.

I stated that to correct these conditions, Zaire must:

- a. Lay out in detail an investment program that both takes account of appropriate priorities and also is consistent with available resources;
- b. Set up a procedure to control and to manage foreign debt.

Mobutu agreed both with my statement of the problem and my recommendations for the action required, and said he would proceed accordingly.

Robert S. McNamara

OFFICE MEMORANDUM

TO: The records DATE: December 15, 1972

FROM: Thomas U. Halber (through S. Shahid Husain)

SUBJECT: Zaire - Mr. McNamara's Visit to Kinshasa, November 19, 1972.
Minutes of Briefing Session

1. In the morning of November 19, 1972, prior to his meeting with President Mobutu, Mr. McNamara held a briefing session at the OUA village. Present were Messrs. Husain, Stevenson, de Azcarate (Bank resident representative in Kinshasa), Halbe, Sönmez and Ljungh. The background material for the discussion were mainly Mr. Husain's memo to Mr. McNamara, dated October 30, 1972 and other documents contained in the briefing book prepared for the Kinshasa visit.

2. Regarding central planning at the Office of the Presidency, Mr. McNamara was prepared to offer President Mobutu IDA assistance to build up a planning mechanism and to envisage a Bank grant to finance the services of up to 5 or 6 expatriate planners. However, the possibilities of UNDP financing should be explored, too, with the Bank as executing agency. He noted the urgency for Zaire to program investments, the financing thereof, and the need to manage external debt. Work on the investment program which the Government had prepared for the first Consultative Group meeting in May 1971 had been interrupted since early 72. The 5-year investment total of \$1 billion targeted at that time lacked projects for roughly \$400 million and did not yet include the estimated \$150-200 million required to launch the large projects in power, mining and transportation infrastructure currently planned by the authorities.

3. The date for the next Consultative Group meeting should depend on the time by which investment priorities and a related program could be discussed usefully. Mr. de Azcarate reported that June/July 1973 rather than March would be a good date because the Office of the Presidency had started reworking the 1971 investment program with the help of a UN expert. By February 73 general policy and investment orientations should be sufficiently advanced to permit review with a Bank mission. The rigor of dates was hoped to help speed up work at the Presidency. Mr. McNamara agreed with the timing, subject to further follow-up with the Government on a timed work program and early agreement on the agenda items.

4. After \$36 million in FY72, IDA lending for FY73 would be clearly below expectations, because we would have only a livestock project for \$5-6 million and, possibly, another DFC project for about \$10 million.

A \$25 million river/rail project slipped into '75 due to difficult project preparation in ONATRA. FY74 lending should reach roughly \$50 million but would be unsatisfactory in that it contained no projects for agriculture. Disbursement under ongoing projects left much to be desired but Mr. McNamara recognized that almost all projects had a high technical assistance component for institution building. Now that experts have arrived in Zaire, bidding and contract award have progressed and will increase disbursements.

5. Regarding development priorities for Zaire, Mr. McNamara noted that agriculture and transport remained crucial. The country has a good pre-independence record for both export and food crops but at present production in both sectors is down to the point that even palm oil has to be imported. Among the major constraints are: insufficient transportation infrastructure; lack of agricultural policies for the mainly foreign-owned plantations and towards the traditional sector; a poorly staffed Ministry without a good planning unit; low budget allocations for agriculture; agricultural price control and policies which favor people in the cities; insufficient marketing channels; no agricultural credit mechanism - although a credit institution (SOFIDAG) is about to be set up now. Mr. McNamara underlined the need for drawing Government attention to these problems. Also for helping SOFIDAG and for seeing the Ministry of Agriculture effectively assisted in programming project preparation and policy making. He viewed the Bank's recent local aid coordination meeting on agriculture, based on the 1972 sector survey, as a step in the right direction to have the Government focus on the problems.

6. On transportation infrastructure, the difficulties surrounding institution building were discussed: the Office des Routes needs a new director general, an administrative and financial separation of the urban and general road sectors, and, mainly, the strengthening of the planning section in the Office, to arrive at a long-term road investment program. In the river/rail transport sector, programming and project preparation were equally constraints requiring full Government and Bank efforts. However, the situation in ONATRA should improve after the recent arrival of expatriates for key management positions and the start, in early '73, of a 3rd UNDP project for ONATRA, to restructure tariffs and reorganize accounts.

7. Mr. McNamara inquired about corruption in Zaire. Although certainly continuing, flagrant cases are now increasingly prosecuted, as shown by a number of recent trials.

8. Concerning the balance of payment situation, Messrs. Stevenson and de Azcarate reported that reserves stood now at about 1.5-2 months imports. This represented a reduction of reserves of about

50% over the last 18 months. The situation would have been worse without the \$40 million of compensatory financing and SDR drawings from the IMF, and the borrowings in the Euro-\$ market for about \$100 million in 1972. Debt management now finds more attention: a committee composed of a representative of the Office of the Presidency, the Governor of the National Bank and the Ministries of Finance and the National Economy has been created as a first step.

9. As another positive sign Mr. de Azcarate mentioned that results in implementing the current budget for 1972 were better than expected - thanks to a budget control committee of the same composition as the one mentioned in para 8, and also, thanks to lower current expenditures for the army. Nevertheless savings were greatly reduced. The Government will be unable to finance 50% of the 1971-75 public-investment program as it hoped in early 1971. One fifth would be a more likely estimate. It was noted that the center of economic decision making in Zaire still remained very much with the President and the Office of the Presidency. Some big investment decisions are still taken without too much concern about economic justification and financial consequences. The build-up of a good planning mechanism should help rationalize decision making.

Th.U.Halbe:acc

OFFICE MEMORANDUM

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TO: Mr. Robert S. McNamara

DATE: October 9, 1973

FROM: S. Shahid Husain *SH*

*I concentrate on external
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SUBJECT: Zaire: Briefing Memo for your Meeting with
President Mobutu Sese Seko of Zaire

You are meeting President Mobutu of Zaire at 4 p.m. tomorrow; he will be accompanied by Messrs. Nguza, State Commissioner for Foreign Affairs; Bisengimana, Director of the Bureau of the Presidency; Mokolo, Senior Adviser to the President; Bokana, Legal Adviser; and Lombo wa Manga manga, Ambassador to the United States. President Mobutu was recently in New York and addressed the General Assembly of the United Nations.

In the following paragraphs I indicate the main issues we face in Zaire. You may wish to discuss these with President Mobutu.

1. Planning Assistance

During your visit to Kinshasa last November, President Mobutu raised with you the need to build a planning mechanism and Bank assistance for it. Since then, we have had several discussions with the Government on the organization of this effort and have now reached agreement on a project under which eight experts in sectoral and general economic planning would be assigned to the planning unit of the Presidency. Training for Zairians would be an integral part of the project. The project would cover three years.

Financing would be by UNDP (\$1 million), a Bank grant (\$200,000) and Zaire (\$860,000). Documents for the UNDP assistance are under preparation. A proposal for a Bank grant is expected to be presented to the Board in late October. In the meantime, we are already initiating the recruitment of experts for the project.

Zaire faces serious manpower and financial constraints to development and elaboration of detailed development strategy, sector programs and a mechanism for the management of the balance of payments and external debt are of crucial importance. You may wish to emphasise to President Mobutu that we attach great importance to this project and that we and

other external lenders would increasingly focus on future development plans as a basis for our own operations.

2. Consultative Group

A Consultative Group is scheduled to meet in Kinshasa on November 13 and 14 following President Mobutu's request that the meeting take place in Kinshasa. Mr. Bell will chair the meeting. The major issues the Consultative Group is likely to focus on are, economic planning, external debt (see below) and development of agriculture. You may wish to mention to President Mobutu that while for this meeting the participants would focus on internal issues and policies, for future meetings, the Consultative Group would be productive only if it had before it a well prepared investment and financing program, with indications of projects for which external financing is sought. We hope that the planning project would make an important contribution to it.

3. External Debt

The external debt of Zaire has risen very sharply in 1972 and 1973, as indicated by the following figures:

Disbursed debt:	December 31, 1971	US\$310 million
	December 31, 1972	US\$485 million
	June 30, 1973	US\$532 million
Debt outstanding: including undisbursed:	June 30, 1972	US\$580 million
	June 30, 1973	US\$970 million

Although the exact maturity composition of this debt is not available, our estimate is that 70 percent of the outstanding debt was contracted on commercial terms on the Eurodollar market and from suppliers. This development is cause for considerable concern for two reasons. First, it is yet another symptom of the absence of macro-economic plans and priorities. Large amounts have been borrowed for financing general development and in some cases for non-developmental purposes. Second, servicing of this debt will very heavily preempt Zaire's future foreign exchange resources, impair its creditworthiness and in general retard the developmental effort. When I was in Zaire in early September, I raised the issue with the Finance Minister, the Governor of the Central Bank and the Director of the President's Office. While they all agreed that the rapid growth of external debt was undesirable, they were not clear about the future course of action. You may wish to mention to President Mobutu the need for better coordination of policies for external borrowing, in particular the need to contract debt for well designed economic projects, which in turn would create the capacity to service the debt. I consider this issue is one of the most important

October 9, 1973

we are facing in Zaire today and if the trend goes unchecked, there is a very clear possibility of Zaire getting into serious debt servicing difficulties in the not too distant future.

4. Bank Group Operations

Preparation of IDA projects is still very slow. This fiscal year, we expect to lend only for one project, namely, \$10 million for the DFC project. Our work in transportation has been retarded for reasons I will mention below.

During your visit to Kinshasa, President Mobutu indicated that his highest priorities were agriculture and transportation. The state of our efforts in the two sectors is as follows:

Transportation

a) Highways

The Bank has played the leading role in coordinating assistance from UNDP and various bilateral agencies for assistance in organizing the Bureau of Roads and rehabilitation of roads neglected during the post independence period. Under our last two credits we also initiated preinvestment studies for future highway projects. In the course of last year, serious problems have arisen in implementation of this program. For six months, until July of this year, the Bureau of Roads did not have a general manager and then at the Government's request we have recruited an expatriate for this position. The planning and project execution activities of the Bureau have also suffered from a lack of clear policy directions from the Ministry, as opposed to constant day to day intervention in personnel and management, which have led to the departure of a number of expatriate experts. We were preparing a project for rehabilitation for the current fiscal year and were hoping to appraise it in November. However, a mission to prepare the project, which visited Zaire in September, was informed by the Minister of Public Works that foreign assistance was not sought for rehabilitation and that it should be restricted to the construction of new projects. You may wish to mention to President Mobutu that rehabilitation remains a very high priority and while we would in future projects finance construction of new roads, investments on new roads at this point as opposed to improvement and rehabilitation for existing roads, is not probably the most economic use of resources.

*we don't oppose
new roads
high will be new
road but it
priority now is
rehab. of existing
roads & things like that.*

b) Rail River Transport

As in roads, we have been assisting Zaire in cooperation with other lenders in the rehabilitation of river transport and studies for investments in railways. During my last visit to Zaire, I discussed the matter at length with the Minister of Transport and have agreed that we would continue to intensify our efforts in this sector, and in particular in coordinating assistance for the Voie Nationale project (project to provide an all rail link from the copper zone in Shaba to the Zairian port of Banana). Towards this end, our next project, to be appraised in April, would include the immediate rehabilitation and investment needs for river transport and existing railways, as well as a study to determine the optimum year for the construction of the Ilebo-Kinshasa link in the Voie Nationale. You may wish to mention to President Mobutu that the studies so far indicate that a national route for the transport of copper, as distinct from the present route which goes through Angola, is probably the most economical solution and that we are prepared to assist Zaire in implementing this solution. The Zairians attach high priority to it and what we and they have to work for is an economic solution and optimum timing. The project is so large that we will not be able to finance it ourselves, but we should be prepared to take the leadership in organizing finance for it.

Agriculture

Recently the Government's policy towards agriculture has changed from neglect to concern for growth. Specific measures, however, are slow to develop, but work is proceeding on organization of credit and marketing and preparation of a number of projects. The most crucial unresolved issue is agricultural prices, which, except for meat, continue to favor urban consumers. We have incorporated in our last livestock project sufficient amounts for preparation of future agriculture projects and an IBRD/FAO mission is now in Zaire to identify projects for future preparation. The project immediately ahead is a cotton development project, scheduled for fiscal '75. The main issue in this project is organization of marketing and ginning. Most of the ginneries were Belgian-owned and have been closed or taken over by the Government. We are not concerned as to who owns these ginneries, but how they would be operated. You may wish to mention this to the President.

5. Resident Mission

You have decided to expand the size of the resident mission in Zaire and to delegate to it greater responsibilities for project preparation, appraisal and supervision. The implementation of this decision is awaiting Mr. Bell's discussions in Zaire early in November. The matter was raised by the Zairians with us in Nairobi, and we have informed them that we will proceed rapidly after Mr. Bell's discussions in Zaire.

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cc: Messrs. Knapp
Kirmani
Bell o/r
Moreau
Guetta

SSHusain:pe

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (Through Mr. B.R. Bell) ^{BRB} DATE: February 4, 1974

FROM: S. Shahid Husain ^{SH}

SUBJECT: Zaire: Courtesy Call by the New Ambassador

Ambassador MBEKA Makosso of Zaire, who has just been appointed Ambassador to the US, will visit you at 6.30 p.m. today. I understand this will be a courtesy visit and the Ambassador is unlikely to raise matters of substance.

Our relations with Zaire and communications with the Government have seen a steady improvement in the last year. Mr. Guetta, who took over as Chief of Mission, is working very closely with the Government, not simply on matters relating to the Bank, but on issues of development and finance. You have already approved the expansion of the Zaire office and we propose to staff it to a strength of 8 in the next fiscal year, so that much of our operations on Zaire can be conducted from Kinshasa. You may wish to mention to the Ambassador our appreciation of the cooperation we have had from the Government in expanding the office. You may also wish to indicate to him our satisfaction with the deliberation of the Consultative Group last November and the high level of Zairian participation in it.

President Mobutu attaches great importance to the strengthening of the Planning Office, for which the Bank and UNDP have approved assistance. You may wish to mention to the Ambassador that we are recruiting experts to send to Zaire and we hope that our effort to assist the Planning Office will be fully operational before the middle of 1974.

Regarding petroleum, our current estimate is that because of the increase in price, Zaire's import bill will go up by about \$80 million, i.e., close to 10 percent. However, the concurrent increase in copper price would very much soften the impact and Zaire's net capital requirements in 1974 may actually be less than in 1973. You may, however, wish to impress upon the Ambassador the need to diversify the source of capital. We know that initiatives are under way in Zaire to mobilise funds from Arab oil countries. You may wish to indicate to the Ambassador our readiness to work with Zaire in identifying and preparing projects which may attract substantial finance from other sources.

A brief biographical note on the Ambassador is attached.

cc: Mr. Knapp
Mr. Bell
Mr. Moreau

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President has seen

AMBASSADOR MBEKA MAKOSSO


Ambassador Mbeka has just been appointed Ambassador to the United States and presented his credentials to President Nixon on February 1st. He was born on May 12, 1932 in Kangu, Bas Zaire, and studied economics and finance at Lovanium University where he obtained his degree in 1959. After various Government positions, he was briefly Minister of Planning and Economic Affairs and of Mines in 1960-61. From July 1961 until September 1965, he was Zaire's representative to the European Economic Community and headed Zaire's Delegation to discuss the Belgo-Zairian "contentieux". In December 1965 he became President Mobutu's Director of Cabinet with primary responsibility for Economic Affairs. In July 1966 he became Ambassador to France, a post he left in March 1969 to become Vice Minister of Finance in charge of the Budget. In September 1970 he was Vice Minister of National Economy and in November of the same year became Minister of National Economy. In the cabinet shake-up of February 1972 he lost his cabinet position "to assume other important functions". In October 1972 he became Ambassador to Germany, a post he has held until his recent designation as Ambassador to the United States. Ambassador Mbeka is considered to have conservative views and an orthodox economic philosophy. He is a skillful negotiator. He is married and has five children and speaks almost no English.

EACPII - 2A
February 4, 1974.

OFFICE MEMORANDUM

TO: Records

DATE: October 7, 1974

FROM: Michael H. Wiehen, Director, EACPII SUBJECT: ZAIRE: Meeting with Mr. McNamara

1. Mr. Baruti, Minister of Finance of Zaire, called on Mr. McNamara at 2 p.m. on October 3; also present were Messrs. Knapp, Husain and Wiehen.
2. Mr. Baruti started by stating that he was happy that relations between Zaire and the Bank were continuing to improve; he said that machinery for a close working relationship as well as for a continuous preparation of projects had now been installed and he expressed his expectation that there would in future be a constant flow of bankable projects. In view of the limitation of IDA funds, his main question was when the Bank itself would start lending to Zaire.
3. With regard to sectors, Mr. Baruti said that in agriculture it appeared that Zaire and the Bank did not yet have a clear understanding of the other's intentions and objectives but he stressed the importance of investment in the agricultural sector. With regard to transport, he explained the urgent need for building the Voie Nationale. He explained that at present large amounts of the Zairian copper production are exported through Tanzania and Angola. However, he said that Zaire had to build its own route to the sea; in Tanzania there are already problems of port capacity as well as some difficulties of relations with the railways. In Angola, he said, there are similar capacity problems; furthermore, he felt that even once Angola is independent, the export route would remain less reliable than Zaire needs it to be for the export of this essential revenue earner. In addition, he said, that a new copper refinery is to be built near Kinshasa, using power from INGA, and for that reason also, a reliable internal transport route must be established.
4. Mr. Baruti also referred to the tremendous investment requirement of the power sector and suggested that the Bank might provide some assistance in the power sector as well as in transport and agriculture. He reiterated also the need for the construction of main highways as well as feeder roads to provide access for agricultural produce to markets. He said that without a solution to the transport problem, the provision of other incentives to agriculture would not be sufficient. He also referred briefly to the fact that there are other projects in the pipeline such as Water Supply and Population.
5. Mr. Baruti expressed his satisfaction at the establishment of the larger Bank office in Kinshasa and said he was also pleased that the planning team was now in the field.
6. Mr. Baruti ended his statement by saying that in view of all these factors it was now important for Zaire to know where the Bank stood with regard to Bank lending to the country.

7. Mr. McNamara replied that the Bank could consider lending in Zaire only if two major conditions were met: first, in view of the high priority of the agricultural sector in Zaire, a strong agricultural investment program had to be prepared; second, economic management had to be considerably improved. He said that on this latter point he had doubts whether Zaire could presently be considered creditworthy. He commented adversely on the mounting fiscal deficit and the rapidly rising current expenditures, the rapidly expanding external debt and the large subsidies required by public enterprises. He said that Zaire was basically an extremely rich country but that good management of the economy was essential to assure that these riches be adequately exploited in order to make the country creditworthy. He offered the full assistance of the Bank's staff in tackling and overcoming the economic management problems encountered by Zaire.

8. Mr. Baruti agreed with the facts stated by Mr. McNamara. However, he said that about half of all current expenditures were for salaries and explained that this was due to a very large overhang of unnecessary personnel from previous administrations which was a serious political and social problem. The Government is urgently looking for alternative jobs for public sector employees but he felt that people could not be laid off unless other employment could be offered to them. He said one important reason why Zaire expects help from the Bank in providing new capital investment is exactly the employment aspect of such investments.

9. With regard to the rapid increase of debt, he said the issue has been discussed at the Consultative Group Meeting and at every meeting with the Bank. He said a large portion of the debt increase during the last 18 months was due to old commitments. He said his Government was fully aware of the problem. A new system of debt control had just now been instituted (for which he gratefully acknowledged Bank assistance) and a Ministerial Committee has been set up to review all proposed new debt commitments to be incurred in the future.

10. Mr. McNamara said that he was concerned not only with the rapid rate of increase of debt in one year, but also with the absolute level of debt which was very high, and with the debt service ratio which on the basis of present debt was projected to reach rather high levels.

11. Mr. Baruti replied that he fully agreed with Mr. McNamara's concern, and explained that partly Zaire's situation was due to the inherent instability of the copper market. In response, Mr. McNamara offered the Bank's assistance in establishing criteria for fiscal performance, debt and debt service levels. Mr. Baruti gratefully accepted Mr. McNamara's offer.

cc: Messrs. McNamara, Knapp, Husain, H. Adler, Ljungh, Hablutzel, Maubouche, Guetta, Schott, Sonmez

MHW:cj

OFFICE MEMORANDUM

TO: FILES

DATE: November 28, 1975

FROM: Moeen A. Qureshi *MAQ*SUBJECT: ZAIRE: Tenke Copper Mining Project - Notes on Mr. McNamara's
discussions with shareholders

A group representing Tenke's principal shareholders (Messrs. Theodore Sorensen; Gavin Rally - Executive Director, Anglo-American; Murray Hofmeyer - President, Charter Consolidated; George Mayer - President, Standard Oil of Indiana; James Cozad, Financial Vice President, Standard Oil; Leon Tempelsman) visited Mr. McNamara on November 25.

Mr. Sorensen said that Tenke's costs had escalated by an estimated \$150-200 million due to a variety of factors, including inflation, higher energy costs and the Angolan situation. In addition, the deterioration in Zaire's financial affairs had made the banks apprehensive and created serious difficulties for Tenke's financial package. The shareholders had neither any responsibility for these developments nor any control over them. The IMF staff which had recently visited Zaire was persuaded of the economic importance of completing Tenke and President Mobutu was equally aware of the potential contribution of the project to any program of economic recovery. For these reasons there was urgent need for IBRD participation to finance the additional investment requirements of the project.

Mr. McNamara said that he considered it a part of the Bank's role to promote projects such as Tenke. Having said that, however, he felt it equally important to emphasize that it was the Bank's policy to apply hard criteria for its loans, that it had considerable experience in dealing with Zaire and that this experience had not been satisfactory. In fact, he had doubts as to whether Zaire, in its present financial situation, could be deemed creditworthy for Bank loans.

Zaire had seriously mismanaged its economy. For example, despite the country's enormous agricultural potential, little had been done to develop this sector and agricultural policies remained seriously deficient, causing a heavy drain on the country's foreign exchange resources. Repeated advice and technical assistance from the Bank had been ignored by the authorities. Just a week earlier, Zaire had withdrawn its officials from negotiations for an IDA loan, without giving any reasons. It was difficult to deal with a country which acted in this manner. The Bank borrowed in international capital markets and must, therefore, follow sound lending criteria. It must ensure that its loans were properly safeguarded and would be repaid.

Mr. Sorensen said that the shareholders of Tenke were seeking funds on a commercial basis. Safeguards for any additional investment would be available because copper proceeds would be withheld outside the country, and could serve as security.

Messrs. Cozad and Hofmeyer provided some financial data on the current status of Tenke: the original financial plan for \$661 million envisaged \$427 million to be provided by third party lenders -- \$200 million by a Chase-led banking consortium (of which \$130 million by US banks) and \$227 million by credit insurance agencies -- and the balance by the shareholders. The banking loans would not be guaranteed by Tenke's shareholders. The approach underlying the financial plan was that the lenders should take the political risk and the shareholders the commercial risk of the project. The responsibility of the shareholders was to provide:

- (i) the balance of \$234 million in equity and subordinated loans;
- (ii) guarantee completion of the project;
- (iii) guarantee purchase of copper production at a minimum price.

As a result of arrears on Zaire's debts, the commercial banks had become very apprehensive and the signing of the consortium loan had to be postponed. Three banks (First National of Chicago, Continental and Crockers) had been unwilling to sign while the others, although willing to sign, were unwilling to disburse. The shareholders had already spent close to \$200 million on the project and were currently spending at a rate of approximately \$5.0 million per week. They could not continue this rate of spending much longer and might soon have to stop operations.

Mr. McNamara enquired how much time the shareholders had to arrive at a decision. Messrs. Rally and Hofmeyer said that the nature of the project was such that cut-backs or a slowdown of expenditures was not practical. The only feasible alternatives were either to continue spending at the rate of \$5.0 million a week or to stop the project and "mothball" it for anywhere from 12 to 24 months. Stopping work on Tenke would inevitably have implications for some other major projects such as GECOMINES and the transmission line.

Mr. Tempelman added that he had recently visited Zaire and discussed the situation with President Mobutu. President Mobutu recognized the importance of Tenke in the context of the country's economic development plans. He also understood the importance of implementing the program suggested by the IMF as was confirmed in the speech he had delivered the previous day, November 24.

Mr. McNamara noted that President Mobutu's expression of support for the Fund program did not necessarily mean that he was in a position to effectively take the hard decisions that were required. Despite that, he did not wish to suggest that the Bank could not assist in Tenke, but it did mean that the Bank could do so only with a lot of safeguards.

Mr. Rally responded that the shareholders had reached the "end of the line". The banking syndicate appeared to be "twitching and twittering" indecisively on the sidelines. Zaire had serious economic and financial problems and the Angolan situation had further complicated matters. In these circumstances, the private shareholders could not go much further.

If it were not for the wide potential impact of closing up operations, they would already have done so.

On being asked what they wished the Bank to do, the shareholders said that they wanted the Bank to mobilize an additional \$200 million for the project -- partly in equity and the rest in the form of shareholder loans -- in a form that did not add to project and shareholders' risks. The additional amount would have to be raised without the guarantee of the shareholders.

Mr. McNamara said that the Bank's present resource picture was different from that which prevailed at the time the GECOMINES loan was made. The Bank was now "allocating" its funds to its various member countries. This meant that the Bank had only limited financial capability even if firm guarantees of loan repayment were to be available. The Bank was already allocating as much to Zaire as it could, and additional allocations would imply diverting resources from other countries. If the Bank were to take up the responsibility to repackage, say, \$150-200 million for Tenke, it would have to certify that there existed high prospects of repayment. Mr. McNamara said that he would be willing to think about the problem of whether the Bank would take up this job, and whether it could be done successfully.

Mr. Mayer asked whether Mr. McNamara could hazard a guess as to what his eventual decision would be. The money had to be raised without shareholders guarantees. From the point of view of the shareholders, there were too many uncertainties. The project environment was very difficult, and it was hard for them to continue spending additional money if they could not be sure that additional funds would be raised. Mr. Tempelsman added that the decision of the Export-Import Bank on financing a part of the additional costs of GECOMINES would hinge on the course of action that was adopted with respect to Tenke.

Mr. McNamara said he was not in any position to hazard a guess as to what his decision would be, nor to indicate the basis on which additional funds could be raised. It would be necessary to go thoroughly into the intrinsic of the project and its financial prospects. The situation with respect to the IMF program was still unclear. Moreover, a variety of external factors could affect the willingness of the commercial banks to finance Tenke and the Bank's ability to raise additional funds for it.

After some further exchanges of conversation in which various members of the shareholders group urged Mr. McNamara to give consideration to the critical role which the Bank could play in furthering this project, Mr. McNamara said that he would be willing to take a month to look into the project and the issue of whether an additional \$200 million or so could be raised. He would be willing to respond to the shareholders in January (and, if possible, he would try to do so in early January) as to (i) whether the Bank would be willing to take up this responsibility, and (ii) whether he thought it could be done successfully.

He emphasized that in his view the probability was low that his answer to these two questions would be in the affirmative, but he was willing to make the attempt if the shareholders were willing to continue with the project until January. The shareholders might wish to discuss this matter amongst themselves and convey to him their reactions later. The shareholders representatives expressed their appreciation to Mr. McNamara and said that they would react soon.

On the morning of November 26, Mr. Sorensen called Mr. McNamara to say that the major shareholders had discussed this matter and had decided to request Mr. McNamara to look into the possibility of assisting Tenke on the lines he had outlined.

cc: Mr. McNamara
Mr. von Hoffmann
Messrs. Kreuter/Gustafson

MAQ:gmb

OFFICE MEMORANDUM

TO: The Records

DATE: September 16, 1975

FROM: Michael H. Wiehen *MHW*SUBJECT: ZAIRE - Meeting of Finance Minister Bofossa with Mr. McNamara

1. Finance Minister Bofossa, accompanied by Mr. Muanda di Baziuki, Adviser, called on Mr. McNamara on September 5. Also present were Messrs. Razafindrabe, Husain, Guetta and Wiehen. Mr. Guetta translated.

2. Mr. Bofossa first transmitted a message of President Mobutu to Mr. McNamara thanking Mr. McNamara for the valuable assistance, financial and technical, and the understanding that the Bank had accorded to Zaire during the past year. He said the last year had clearly shown the inadequacy of his country's economic and financial management. This inadequacy had been exacerbated by the dramatic fall in copper prices. In order to deal with this situation, a program of draconian measures - largely in line with recommendations made by Mr. Husain to President Mobutu - has been put into effect and has already shown some success. On the budget side, a new system of controls has been established which should substantially curtail the deficit; indeed the overall deficit for 1975 was expected to be below \$200 million, as compared to a deficit of \$470 million in 1974. Regarding the balance of payments, severe import restrictions have been introduced and foreign exchange resources are allocated, according to strict monthly and weekly plans, in order of priority, with first priority being given to the servicing of foreign debt, essential imports and expatriates' salaries. He said his Government was deeply concerned about the volume of the external debt, that a new inter-departmental committee has been set up to follow all developments and that no new contracts with foreign parties can be signed without this committee's approval. A number of existing contracts, in particular in the transport sector, are under review. He also referred to the permanent working group set up among the Bureau of the Presidency, the Banque du Zaire and the Finance Ministry which has the task of recording all relevant data on external debt on a central basis; he gratefully acknowledged the help given to this working group by Mrs. Seip of the Bank staff. He also briefly explained the recent salary reform which included a reduction of all high salaries and some increases of the very low as well as all agricultural and education salaries. He reiterated the Government's determination to improve the management throughout.

3. Mr. Bofossa explained that the November 1974 nationalization measures did not affect those foreign investments which had been made under the Investment Code and that the country continued to have an open door for foreign investment. He admitted that the companies nationalized in 1974 had encountered management problems which had not yet been brought under control.

4. In conclusion, Mr. Bofossa explained that recently a permanent stabilization commission at Cabinet level has been established which will present to the IMF mission which is scheduled to visit Zaire on October 15 a stabilization program and which, after a program has been agreed with IMF, will also supervise the implementation of the program. For the longer term, he explained that his Government is redefining its priority needs and is preparing a plan document. He thanked Mr. McNamara for the valuable help the Planning Assistance Team, which was now fully involved and busy, was rendering in the preparation of such a Plan. Finally, he reiterated that Zaire continues to need help from the Bank Group beyond the amounts IDA can lend, and that, since the Bank's Office in Kinshasa has been expanded, an adequate pipeline of projects is available; he asked that the Bank Group consider expanding its Bank lending operations in Zaire. He commented on the excellent relations between Zaire and the Bank, and particularly with the Bank's Resident Mission.

5. Mr. McNamara, after thanking Mr. Bofossa for his interesting statement, said while Zaire was a very rich country, its economy has in the past been badly mismanaged with the result that the agricultural sector failed, food imports rose dramatically, fiscal deficits have mounted and the external debt has exploded. He explained that for these reasons the amounts IDA has lent to Zaire were limited and in fact have been substantially less than would have been justified by any criteria. He said that Mr. Bofossa's statement was indicating a major change in the situation, and that a Bank mission to Zaire in late October, immediately after the IMF visit, would review the whole situation. A positive outcome of this review was necessary as basis for carrying out the full IDA program now envisaged. Mr. McNamara inquired in particular whether the Government was prepared to assure IDA that all Bank Group supported projects would receive their full requirements of counterpart funds. He added that Bank staff would go over every project to determine the needs and to assess the arrangements made by the Government for the provision of local funds.

6. Regarding Mr. Bofossa's request for more Bank lending, Mr. McNamara replied that he did not think that Bank lending to Zaire was presently justified other than for Gécamines-type projects with special debt servicing arrangements. In fact he expressed serious concern whether even IDA could continue lending in Zaire. He said he found the Minister's report encouraging but that he would await the forthcoming Bank mission's return to determine whether continuation of the IDA lending program was justified.

7. Mr. McNamara referred particularly to the need to improve investment planning and analysis and to control operational expenditures. He expressed satisfaction about the Government's intention to prepare a stabilization program. In conclusion, he asked Mr. Bofossa to tell President Mobutu that he was delighted and encouraged by the Minister's statements.

The Records

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8. Mr. Bofossa thanked Mr. McNamara for his observations and explained once more that the Government has just now started a major program to improve economic management, to control the budget and to bring the balance of payments under control, and was determined to make it a success.

MHWiehen:lmm

cc: Messrs. McNamara
Knapp
Husain
Schott
Guetta

BIOGRAPHICAL DATA

Principal Members of the Delegation

- H.E. Bofosa W'Amb'ea Nkoso, Governor, State Commissioner of Finance. He was born on June 24, 1938 in Kinshasa. He has a degree in Economics from the University of Lovanium. Before becoming Commissioner of State in charge of Finance he was Director General and prior to that Director of Cabinet in the Ministry of Finance. Before joining the Department of Finance, Mr. Bofosa served as Counselor in the Cabinet of the Département de l'Economie Nationale.

- Mr. Muanda di Baziuki, Adviser, Senior Counselor in the Department of Finance. Mr. Muanda was born May 28, 1938 at Matadi. He has a degree in Sciences Financières et Commerciales from the Centre Universitaire de l'Etat (Antwerp, Belgium). He began his career in the Bank of Zaire's Department of Studies, was later appointed Director of Cabinet in the Ministry of Finance, now known as the Department of Finance.

- Mr. Bazundama Luwumbulu Mbandanu, Adviser, Director of the Internal Revenue Service. Mr. Bazundama was born September 4, 1938. He has a degree in Economics from the Université Libre of Brussels. Before being appointed to his present post, he was a Director for External Debt in the Treasury; before that he was Inspecteur des Finances and then Counselor in the Cabinet of the Ministry of Finance. He has also served as Deputy Director of the Planning Service.