

**Document of
THE WORLD BANK**

Report No. T 7502-COB

TECHNICAL ANNEX

ON A

**PROPOSED CREDIT
OF SDR 5.6 MILLION
(US\$7.0 MILLION EQUIVALENT)**

TO THE REPUBLIC OF CONGO

FOR THE

TRANSPARENCY AND GOVERNANCE CAPACITY BUILDING PROJECT

January 8, 2002

CURRENCY EQUIVALENTS
(as of December 12, 2001)

Currency Unit	=	CFA Francs
US\$1.00	=	CFA 736
SDR 1.0	=	US\$1.265

GOVERNMENT FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i>
BEAC	<i>Banque des Etats de l'Afrique Centrale</i>
CAIC	<i>Crédit pour l'Agriculture, l'Industrie et le Commerce</i>
CAS	Country Assistance Strategy
CCA	<i>Caisse Congolaise d'Amortissement</i>
CDC	<i>Cour des Comptes</i>
CEEAC	<i>Communauté Economique des Etats de l'Afrique Centrale</i>
CEMAC	<i>Communauté Economique et Monétaire de l'Afrique Centrale</i>
CENAGES	<i>Centre National de Gestion</i>
CFE	<i>Centre de Formalités des Entreprises</i>
CFO	Chief Finance Officer
CNCCME	<i>Commission Nationale de Centralisation et de Coordination des Marchés de l'Etat</i>
CNT	<i>Conseil National de Transition</i>
CNSEE	<i>Centre National des Statistiques et Etudes Economiques</i>
COBAC	<i>Commission Bancaire de l'Afrique Centrale</i>
COFIPA	<i>Compagnie Financière et de Participation en Afrique</i>
CORAF	<i>Congolaise de Raffinage</i>
CP	Committee of Privatization
CPAR	Country Procurement Assessment Review
DCA	Development Credit Agreement
DCMCE	<i>Direction Centrale des Marchés et Contrats de l'Etat</i>
DEP	<i>Direction des Etudes et Planification</i>
DGB	<i>Direction Générale du Budget</i>
DGC	<i>Direction Générale de la Comptabilité</i>
DGCF	<i>Direction Générale du Contrôle Financier</i>
DGD	<i>Direction Générale des Douanes</i>
DGI	<i>Direction Générale des Impôts</i>
DGT	<i>Direction Générale de Trésorerie et Paie Générale</i>
DOCI	<i>Direction de l'Organisation, Communications et Informatique</i>
EPIC	<i>Entreprise Publique à caractère Industriel et Commercial</i>
EU	European Union
FCFA	<i>Francs de la Coopération Financière en Afrique</i>
FIAS	<i>Foreign Investment Advisory Service</i>
FINMI	Financial Management Initiative
GoC	Government of Congo
GDP	Gross Domestic Product
GNP	Gross National Product
GPN	General Procurement Notice
HIV/AIDS	Human Immuno-Deficiency Virus/Acquired Immune Deficiency Syndrome
ICB	International Competitive Bidding

IDA	International Development Association
ILO	International Labor Office
IMF	International Monetary Fund
IRIC	Inter-ministerial Reform Implementation Committee
LCS	Least-Cost Based Selection
MoEFB	Ministry of Economy, Finance and Budget
MoHe	Ministry of Health
MoHy	Ministry of Hydrocarbons
NCB	National Competitive Bidding
NEAP	National Environment Action Plan
NGOs	Non-Governmental Organizations
OHADA	<i>Organisation pour l'Harmonisation des Droits des Affaires</i>
ONPT	<i>Office National de Postes et Télécommunications</i>
OSIW	One-Stop Investment Window
PA	Project Account
PCEP	Post-Conflict Emergency Program
PCU	Project Coordination Unit
PIM	Project Implementation Manual
PIP	Project Implementation Plan
PIPC	<i>Programme Intérimaire Post-Conflict</i>
PITCC	Project Inter-Agency Technical Coordination Committee
PCERC	Post-Conflict Economic Recovery Credit
PPF	Project Preparation Facility
PROSMIC	<i>Programme Statistique Minimum</i>
PSA	Production-Sharing Agreement
QCBS	Quality-Cost Based Selection
SNDE	<i>Société Nationale de Distribution d'Eau</i>
SNE	<i>Société Nationale d'Electricité</i>
SNPC	<i>Société Nationale des Pétroles du Congo</i>
SA	Special Account
SOE	Statement of Expenditures
SOTELCO	<i>Société de Télécommunications du Congo</i>
TEP-CONGO	Total Fina Exploration Production Congo (Elf)
TGCBP	Transparency and Governance Capacity Building Project
TPIN	Tax Payer Identifying Number
TSS	Transitional Support Strategy
UMEOA	<i>Union Economique et Monétaire de l'Afrique de l'Ouest</i>
UNDP	United Nations Development Program

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REPUBLIC OF CONGO
TRANSPARENCY AND GOVERNANCE CAPACTY BUILDING PROJECT
TECHNICAL ANNEX

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IBRD 28865	

I. COUNTRY BACKGROUND

1. Following independence in 1960, nearly three decades of centrally planned government, and almost one decade of conflict and continuous political strife (including three presidential coups and one presidential assassination), left the Republic of Congo politically tormented and performing economically well below its development potential.

2. The economy of the country is a mixture of village agriculture and handicrafts, an industrial sector based largely on oil, support services, and a government characterized by a bloated bureaucracy with recurrent budget cash-management issues. With a GNP per capita of US\$630 in 2000, the Republic of Congo ranks 12th amongst all Sub-Saharan African countries. Oil, which accounts for more than half of the country's GDP, has supplanted forestry as the mainstay of the economy. Large-scale investment but low-return projects financed by high oil prices in the 1970s could only be sustained subsequently through heavy borrowings. In the late 1980s, lower oil prices, fiscal imbalances and misalignment of the FCFA led to substantial economic decline.

3. In the mid-1990s, government's efforts to promote economic relief and stabilization were hampered by two civil wars. The Congolese economy was on the verge of stabilization when yet a third war erupted in 1998 with dramatic social, economic and institutional capacity effects as over 800,000 Congolese, nearly 30% of the population, fled their homes during the 1988-1999 conflict.

4. Following the cessation of hostilities in November 1999, the Government of Congo initiated the peace process with very little international assistance. The re-establishment of most of the people who were displaced during the war has already been accomplished. GoC is now committed to continuing the ongoing dialogue with all political parties. A referendum for a new Constitution is to take place soon and general elections for the Presidency and Parliament are scheduled for 2002.

II. SECTOR AND PROJECT BACKGROUND

5. Detailed information on the Congolese public sector environment (oil and gas industry, resources other than petroleum, privatization program and partnership among government, civil society and private sector) and sector issues to be addressed by the proposed project and strategic choices are provided in Appendix 2.

6. Economic rehabilitation will be difficult. Indeed, mismanagement of the economy and war have left the country heavily indebted, half of agricultural tools destroyed, 75% of livestock lost, insufficient and insecure urban and rural infrastructure and basic services, lack of appropriate health and education facilities, a high unemployment rate, a bankrupt financial system and less-than-satisfactory management of natural resources, particularly oil and forestry.

7. GoC's economic program, presented in its Three-year Interim Post-Conflict Program for the period 2000-2002, is built on a reform agenda that includes: pursuit of

sound macroeconomic policies and stabilization measures, particularly in the fields of public finance management; pursuit of the privatization program, improvement of governance, accountability and transparency, and improvement of the business regulatory framework.

8. Progress is underway on several fronts. Public finances are being rationalized through the launching of a computerized expenditure control system and measures to enhance revenue collection of the customs administration and the Treasury. The salary levels of civil servants have been frozen, and recruitment, except in health and education, has been suspended. Important reforms are also being introduced in the financial sector under the general umbrella of the government's privatization program.

9. Moving to a market economy requires simultaneous transitions on several fronts. New laws or regulations are required in nearly every sector, including forestry, labor relations, mining, telecommunications, energy and water. A new investment charter based on the CEMAC regional investment chart and drafted after broad-based consultations with both the private and public sectors will soon be approved by the Government.

III. PROJECT DEVELOPMENT OBJECTIVES AND PROJECT DESCRIPTION SUMMARY

10. **Project Development Objectives:** The primary project development objective is to increase efficiency of: (i) petroleum operations; (ii) MoEFB's financial operations; and (iii) Government's public enterprise reform and privatization process. The proposed project is an integral part of the reform action program supported under the Post-Conflict Economic Rehabilitation Credit.

11. The Project will address comprehensively the issue of transparency in the decision-making processes of the government and its agencies, assigning a high priority to the management and control of oil resources and state budgetary expenditure processes, including public procurement. The project will also be instrumental in achieving greater transparency of government's disengagement from productive activities in the economy, as it will help strengthen the Privatization Committee, help draft the implementation decrees permitting greater participation of the private sectors in the ownership and management of utilities. Finally, the project will help design an action plan for (i) strengthening partnership and dialogue among government, the private sector and civil society, and (ii) HIV/AIDS activities.

12. **Project Description Summary:** To achieve the project development objectives, the proposed project would have four components:

Component 1: Increasing transparency and improving the governance of oil and gas operations:

The project would provide local and foreign technical assistance, training and some equipment to improve Government's capacity to establish effective operational and fiscal control over the sector. This component would be carried out in two phases; (i) the first phase would concentrate on designing an action plan, based on results from the assessment and operational audit of the sector; (ii) the second phase would help MoEFB, MoHy and SNPC implement recommendations and activities scheduled during Phase 1.

Component 2: Increasing transparency and improving the governance of non-oil and gas operations:

The project would further increase transparency and improve the governance of decision-making in the MoEFB and its agencies by procuring technical assistance, some equipment and training for: (a) improving its three high-priority areas: (i) strategic planning, national statistics and public accounting, (ii) financial controls of the State and, (iii) resources mobilization; (b) a thorough review of the Central Commission for Public Contracts and strengthening of the *Direction Centrale des Marchés et Contrats d'Etat (DCMCE)*; and (c) strengthening the capacity of the *Cour des Comptes*.

Component 3: Increasing transparency and improving the governance of the privatization process:

The project would support the Borrower's public enterprise reform and privatization process by providing technical assistance, training and some equipment to: (i) strengthen the Privatization Committee and clarify the regulatory framework of the private sector; (ii) enhance the capacity of the *Centre de Formalités des Entreprises (CFE)* for the promotion of private investments in the country, (iii) assess the *Centre National de Gestion (CENAGES)*'s strengths and weaknesses and provide recommendations on the future status of the company; and (iv) strengthen the dialogue and partnership among Government, civil society and the private sector.

Component 4: Designing an action plan for the Africa Region's HIV/AIDS umbrella program:

The project would support the Borrower's efforts to design an overall strategy and action plan for the regional HIV/AIDS regional umbrella program financed by the Bank.

13. Appendix 2 provides a detailed description of each component's activities and the background of the related public sector environment.

IV. PROJECT COST AND FINANCING

14. The total cost of the proposed project is US\$10.82 million. IDA financing is estimated at US\$7.0 million (65%). It is expected that the African Development Bank

(ADB) would finance about US\$1.64 million, mostly on non-oil operations. The *Agence Française de Développement* (AFD) has already agreed to finance up to US\$857,000 of technical assistance to the MoEFB, mostly for budget administration and public expenditure control activities. A Project Preparation Facility (PPF), in the amount of US\$700,000, will help government finalize project preparation and set up the Project Coordination Unit. The credit will retroactively finance expenses in an amount not exceeding SDR 50,000 equivalent for expenses incurred after the pre-appraisal mission in July 2001.

15. Project Costs: The costs of the project's components (see Schedule A for Estimated Project Costs) are set out in the table below:

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-Financing (US\$M)	% of Bank-Financing
1. Increasing Transparency & Improving Governance of Oil and Gas Operations:		1.38	12.74	1.38	19.71
a. Short-term Capacity Building	Institutional Cap. Building	0.57	5.26	0.57	8.14
b. Medium-Term Capacity Building	Institutional Cap. Building	0.81	7.48	0.81	11.57
2. Increasing Transparency & Improving Governance of non-oil and Gas Operations:		5.74	53.01	2.67	38.14
a. Support to the MoEFB	Institutional Cap. Building	5.18	47.84	2.11	30.14
b. Support to the <i>Direction Centrale des Marchés et Contrats de l'Etat</i> (DCMCE)	Institutional Cap. Building	0.27	2.49	0.27	3.86
c. Support to the <i>Cour des Comptes</i>	Capacity Building	0.29	2.68	0.29	4.14
3. Increasing Transparency & Improving Governance of the Privatization Process		1.59	14.68	1.09	15.57
a. Support to Privatization Committee	Capacity Building	0.73	6.74	0.73	10.43
b. Promotion of Private Sector Development	Capacity Building	0.46	4.25	0.36	5.14
c. Partnership	Capacity Building	0.40	3.69	0.00	0.00
4. Designing an Action Plan for HIV/AIDS	Capacity Building	0.13	1.20	0.13	1.86
5. Project Coordination	Capacity Building	1.98	18.37	1.73	24.72
Total Project Costs		10.82	100.00	7.00	100.00
Front-end fee		0.00	0.00	0.00	0.00
Total Financing Required		10.82	100.00	7.00	100.0

V. PROJECT INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

16. The proposed project is planned to be implemented over a five-year period; its implementation, as adopted by GoC, would be guided by principles set out in the performance improvement framework, and would reflect options for participation of the public sector, civil society organizations, and the donor community.

Project Coordination and Management

17. The project manager will be the Director of Cabinet of the Minister of Economy, Finance and Budget. He will be assisted by a Project Coordination Unit (PCU) that reports to him and which will administer and coordinate project activities on a daily basis and be responsible for the project's financial management. This Unit will be financed by the project and administered by a Project Coordinator. The Government has already appointed the Project Coordinator, the Chief Finance Officer (CFO), and the Accountant. A high-level consultant, well versed in Bank-financed project management and implementation, would provide technical support on a semi-continuous basis to the PCU.

18. Because of the complexity for the MoEFB of the reforms contemplated under the Project, an **Inter-ministerial Reform Implementation Committee (IRIC)** would be created to monitor and control the implementation of the Project, provide technical leadership and assure overall coordination of the project's diverse components. The Director of Cabinet of the MoEFB, in his capacity as manager of the project, will chair the IRIC whose membership will include all the Directors General as well as those Directors reporting directly to the Director of Cabinet. All decisions concerning the Project, in particular, the selection of tasks to be carried out under the project, terms of reference for studies, contract awards and the selection of consultants would have to be approved by the Chairman of the IRIC on the advice of its members, before requesting IDA's no objection.

19. On-going evaluation of the project will be carried out by a **Project Interagency Technical Coordination Committee (PITCC)** whose members will be drawn from the Ministry of Economy, Finance and Budget and other Ministries, external bodies and agencies involved in the implementation of the project. The membership of the PITCC will also include representatives of the Private Sector and the Civil Society. Members will elect their chairman. The rationale for such an institutional arrangement is to foster conditions that will provide for better collaboration among the line ministries and agencies involved in the project. Non-governmental stakeholders would be represented by an independent professional in the PCU; he/she would be in charge of organizing consultative fora among the Government, Civil Society and the Private Sector.

Appendix 6 shows the project's Organizational Chart.

20. Responsibility for Project implementation would be assigned to the following ministries and agencies:

- Component I: - Ministry of Hydrocarbons (MoHy)
- *Société Nationale des Pétroles du Congo* (SNPC)
- Component II: - Ministry of Economy, Finances and Budget (MoEFB)
- Auditor General Office (*Cour des Comptes*, CDC)
- Central Commission for Public Contracts
- Component III: - Committee of Privatization
- *Centre de Formalités des Entreprises* (CFE)
- *Centre National de Gestion* (CENAGES)
- Component IV: - Ministry of Health (MoHe)
- *Programme National de Lutte Contre le Sida* (PNLS)

Financial Management, Periodic Reporting and External Audits

21. Accounting and financial management of the project funds will be the responsibility of the Finance Section of the Project Coordination Unit (PCU). The Section consists presently of a Chief Financial Officer (CFO) and an Accountant with adequate qualifications and experience to undertake their respective tasks. The PCU will monitor the pace of project implementation and increase the financial staff in accordance with the workload implied by increases in the volume and complexity of project transactions. The Finance Section will be responsible for the management of the Special Account, ensuring that project expenditures incurred for the purposes intended under the project, are in accordance with established procedures, and that adequate supporting documentation is retained for review or audit by supervision missions and external auditors. To this end, it will establish appropriate procedures for the disbursement of funds to the various implementing agencies, internal control procedures, accounting and periodic reporting of the use of project funds by such agencies.

22. IDA's requirement as regards submission of quarterly Financial Management Reports (FMRs) has been carefully explained to the financial staff and it has been agreed that the project will commence submitting FMRs beginning with the first full (calendar) quarter after effectiveness. IDA will provide further guidance to improve and bring these to a level acceptable to IDA. The CFO has commenced prospecting for appropriate accounting software capable of maintaining project accounts, as well as generating financial data and periodic reports required by IDA.

23. Semi-annual financial statements of the project will be audited by independent external auditors under terms of reference acceptable to IDA. The Finance Section will establish the procedures to ensure that project expenditures incurred by implementing agencies are submitted and consolidated in time for external audits. The audit report will include a management report and separate opinions on the use of SOEs; Special Account will be submitted to IDA within six months following the end of each financial year. A Special Account has been opened at a commercial bank acceptable to IDA.

24. Detailed information on procurement issues is provided in Appendix 4.

VI. MAIN CREDIT CONDITIONS

25. The credit will be effective after:

- (a) The Borrower has adopted the Project Implementation Manual (PIM) in form and substance, satisfactory to IDA.
- (b) The Borrower has established a financial management and accounting system within the PCU for the purposes of the Project, in form and substance, satisfactory to IDA.
- (c) The Borrower has prepared a Project Procurement Plan (PPP) for the first year, satisfactory to IDA

VII. ENVIRONMENTAL ASPECTS AND COMPLIANCE WITH BANK POLICIES

26. **Environmental Aspects:** As the proposed project is essentially an institutional and technical assistance capacity building operation, no adverse environmental impact is foreseen. In accordance with the Association's operational directives on environmental assessments (OD 4.01, Annex E), the proposed project has been placed in Category C and does not require an environmental assessment.

27. **Compliance with Bank Policies:** This project complies with all applicable Bank policies.

VIII. PROJECT BENEFITS

28. The project is an integral part of the reform program contemplated under the Bank's Transitional Support Strategy. The project will help finance the implementation of structural reforms envisaged under the accompanying Post Conflict Economic Rehabilitation Credit with financial and technical support going primarily to strategic agencies and entities in order to ensure economic recovery and rehabilitation as well as the attainment of long-term development objectives. In this context, the project will:

- (i) Improve the transparency of decision-making in the government and its agencies, with priority being given to the management of oil resources and to state budgetary expenditure, public procurement and control processes. It is expected that new procedures and controls will lead to increased public revenues.
- (ii) Be instrumental in achieving greater transparency of government's disengagement from the economy, as it will help strengthen the privatization program, and draft the implementation decrees permitting greater participation of the private sector in the ownership or management of public utilities.
- (iii) Strengthen partnership and dialogue among government, civil society and the private sector.

Schedule A

Table 1: Estimated Project Costs

Project Cost By Component	Local US\$ million	Foreign US\$ million	Total US\$ million
Increasing Transparency and Improving Governance of Oil and Gas Operations	0.36	1.02	1.38
Increasing Transparency and Improving Governance of non-Oil and Gas Operations	1.70	4.05	5.75
Increasing Transparency and Improving Governance of the Privatization Process	0.48	1.11	1.59
Designing Action Plan for HIV/AIDS	0.04	0.09	0.13
Project Coordination Unit	0.87	0.87	1.74
Total Baseline Cost	3.45	7.14	10.59
Physical Contingencies	0.08	0.07	0.15
Price Contingencies	0.08	0.00	0.08
Total Project Costs	3.61	7.21	10.82
Total Financing Required	3.61	7.21	10.82

Table 2: Detailed Project Costs
(by costs and categories of expenditures including taxes and duties)

Project Cost By Category	Local US\$ million	Foreign US\$ million	Total US\$ million
Goods	0.78	0.93	1.71
Vehicles	0.06	0.00	0.06
Equipment, Materials and Furniture	0.72	0.93	1.65
Advisory Services	2.32	6.17	8.49
Consultants, studies and audits	1.41	4.13	5.54
Training, Seminars and Study Tours	0.91	2.04	2.95
Operating Costs	0.51	0.11	0.62
Utilities and Maintenance (Vehicles, Equipment, Materials)	0.51	0.11	0.62
Total Project Costs	3.61	7.21	10.82
Total Financing Required	3.61	7.21	10.82

Schedule B

Table 3: Financial Summary
(in US\$ million including Contingencies)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment Costs	0.30	4.41	2.00	1.70	1.79	10.20
Recurrent Costs	0.12	0.13	0.12	0.13	0.12	0.62
Total Project Costs	0.42	4.54	2.12	1.83	1.91	10.82

Table 3-B: Financial Summary

Financing Plan during the Implementation Period
(in US\$ million including contingencies)

Years ending

	2001	2002	2003	2004	2005	Total
IDA	0.36	3.43	1.35	0.93	0.93	7.00
AFDB	0.05	0.53	0.28	0.19	0.59	1.64
France	0.00	0.25	0.43	0.00	0.00	0.68
GoC*	0.01	0.20	0.06	0.00	0.00	0.27
Others	0.00	0.13	0.00	0.71	0.39	1.23
Total	0.42	4.54	2.12	1.83	1.91	10.82

(*) The government contribution to this project is estimated through taxes.

Table 4: Schedule of Key Project Events

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	6	
First Bank mission (identification)	02/12/2001	02/12/2001
Appraisal mission (departure)	10/12/2001	10/12/2001
Negotiations	11/12/2001	12/10/2001
Planned Board Presentation	02/05/2002	
Planned Date of Effectiveness	06/30/2002	
Closing Date	12/31/2007	

This operation was prepared by a team led by Rudy Chizungu (Senior Public Sector Management Specialist, Team Leader, AFTI2) and including: Salomon Samen (Senior Country Economist, AFTM3); Abdul Haji (Senior Financial Management Specialist, AFTQK); Solange Alliali (Senior Counsel, LEGAF); Hans Wabnitz (Senior Counsel, LEGAF); Guy-Joseph Malembeti, Procurement Officer, AFTQK); Claude Sorel (Private Sector Development Specialist, AFTPS); Lucy Fye (Private Sector Development Specialist, AFTPS); Renée Desclaux (Disbursement Officer, LOAG1); René Costa (Consultant on Finance & Institutional Development, AFTI2); and Prosper Biabo (Consultant on Project Financial Management, AFTI2).

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Schedule D

Table 5: Statement of Loans and Credits

As of 12/31/2001

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Difference between expected and actual disbursements		
			IBRD	IDA				Undisb.	Orig.	From Rev'd
P074639	2	Emergency Demob. & Reintegration Project	0.00	5.00			0.00	5.00	5.00	5.00
P073316	2	Post-Conflict Econ. Rehab. Credit	0.00	37.50			0.00	0.00	37.50	0.00
Total			0.0	42.50			0.00	5.00	42.50	5.00

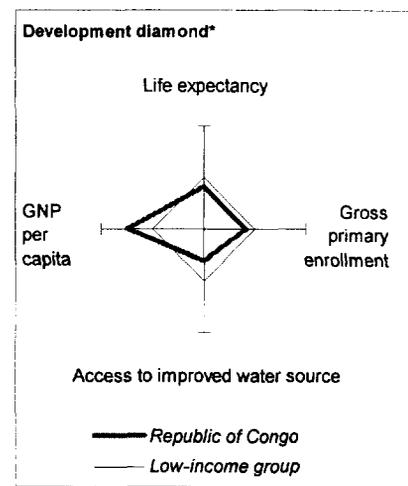
**Table 6: Statement of IFC's
Held and Disbursed Portfolio
As of 12/31/2000
In Million US Dollars**

FY Approval	Company	Committed					Disbursed		
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1995	Energy Africa	6.51	0	1.27	14.27	0.51	0	0	1.27
	Total Portfolio	6.51	0	1.27	14.27	0.51	0	0	1.27

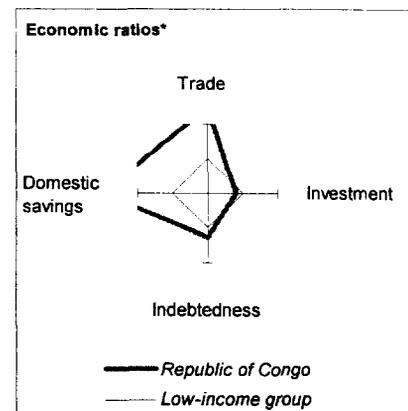
Republic of Congo at a glance

12/12/2001

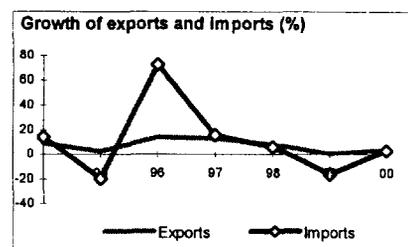
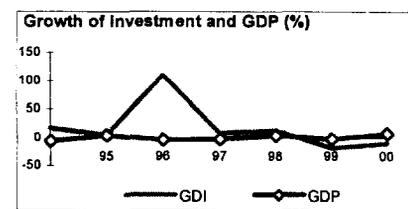
POVERTY and SOCIAL	Congo, Rep.	Sub-Saharan Africa	Low-income
2000			
Population, mid-year (millions)	2.9	643	2,417
GNP per capita (Atlas method, US\$)	630	490	420
GNP (Atlas method, US\$ billions)	1.8	316	1,008
Average annual growth, 1994-00			
Population (%)	2.8	2.6	1.9
Labor force (%)	2.6	2.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	70	..	..
Urban population (% of total population)	73	34	31
Life expectancy at birth (years)	49	47	59
Infant mortality (per 1,000 live births)	81	92	77
Child malnutrition (% of children under 5)	16	..	..
Access to an improved water source (% of population)	46	55	76
Illiteracy (% of population age 15+)	40	39	39
Gross primary enrollment (% of school-age population)	79	78	96
Male	82	85	102
Female	76	71	86



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1980	1990	1999	2000
GDP (US\$ billions)	1.7	2.8	2.2	2.8
Gross domestic investment/GDP	35.8	15.9	27.6	17.3
Exports of goods and services/GDP	60.0	53.7	72.4	83.2
Gross domestic savings/GDP	35.7	23.8	46.1	60.7
Gross national savings/GDP	26.2	6.8	13.0	18.3
Current account balance/GDP	-9.8	-9.3	-27.0	-12.0
Interest payments/GDP	2.2	4.3	22.0	14.5
Total debt/GDP	89.5	138.9	231.6	200.0
Total debt service/exports	10.6	35.3	23.4	21.0
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
	1980-90	1990-00	1999	2000
(average annual growth)				
GDP	3.3	-0.4	-3.2	7.6
GNP per capita	-0.1	-3.4	-6.1	4.8
Exports of goods and services	5.1	5.6	0.7	4.0



STRUCTURE of the ECONOMY	1980	1990	1999	2000
(% of GDP)				
Agriculture	11.7	12.9	8.4	5.4
Industry	46.6	40.6	61.3	71.9
Manufacturing	7.5	8.3	5.5	3.5
Services	41.7	46.5	30.4	22.7
Private consumption	46.8	62.4	36.9	28.1
General government consumption	17.6	13.8	17.0	11.3
Imports of goods and services	60.1	45.8	53.9	39.9
	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	3.4	1.3	-6.5	8.4
Industry	5.2	2.6	1.3	4.4
Manufacturing	6.8	-2.8	-5.5	20.9
Services	2.1	-5.5	-9.4	12.6
Private consumption	3.3	-1.5	-11.1	20.1
General government consumption	2.5	-6.6	-13.2	2.8
Gross domestic investment	-12.6	17.9	-19.0	-10.1
Imports of goods and services	-4.4	9.5	-16.0	3.0
Gross national product	3.1	..	..	..

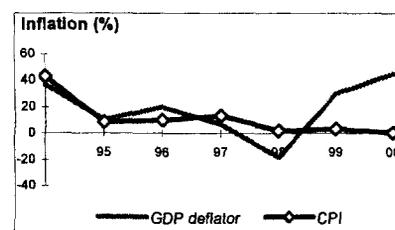


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete. Latest year for improved water source data is 2000.

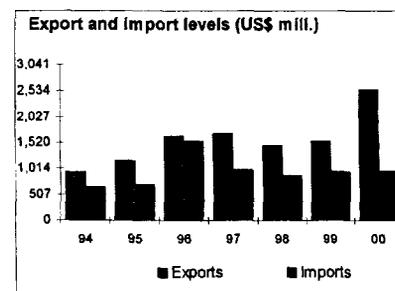
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	7.3	-4.8	3.1	0.3
Implicit GDP deflator	20.1	-0.9	30.2	44.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	27.4	26.9	27.0
Current budget balance	..	-2.4	0.3	8.2
Overall surplus/deficit	..	-6.6	-5.9	1.1



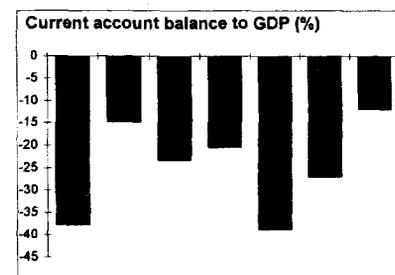
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	..	1,363	1,563	2,559
Fuel	..	1,050	1,434	2,403
Timber	..	161	147	156
Manufactures	..	35	..	..
Total imports (cif)	..	580	955	966
Food	..	30	21	23
Fuel and energy	..	129	221	229
Capital goods	..	237	412	353
Export price index (1995=100)	..	113	97	152
Import price index (1995=100)	..	96	90	92
Terms of trade (1995=100)	..	118	108	166



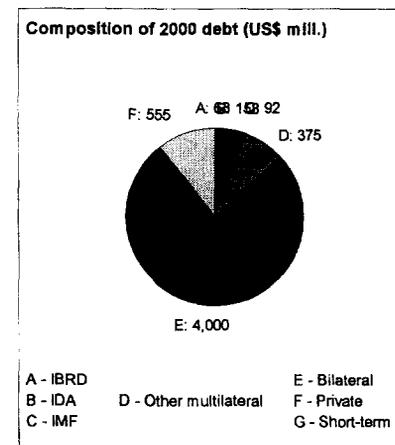
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	1,021	1,502	1,668	2,636
Imports of goods and services	1,025	1,282	1,480	1,636
Resource balance	-4	220	188	1,000
Net income	-162	-475	-771	-1,327
Net current transfers	-1	-7	5	4
Current account balance	-167	-261	-592	-346
Financing items (net)	226	261	551	168
Changes in net reserves	-59	0	41	178
Memo:				
Reserves including gold (US\$ millions)	93	10	45	223
Conversion rate (DEC, local/US\$)	211.3	272.3	614.9	709.0



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	1,526	3,889	5,460	5,243
IBRD	39	164	66	63
IDA	22	75	166	158
Total debt service	109	531	391	460
IBRD	8	18	6	3
IDA	0	1	2	8
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	88	55	-136	-146
Private creditors	400	-267	-179	183
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	35	16	0	0
Disbursements	3	2	0	0
Principal repayments	4	6	15	15
Net flows	-1	-5	-15	-15
Interest payments	4	13	5	4
Net transfers	-5	-17	-20	-19



APPENDICES
REPUBLIC OF CONGO
TRANSPARENCY AND GOVERNANCE CAPACITY BUILDING PROJECT

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project

Appendix 1: Project Design Summary

Sector-related CAS Goal	Sector Indicators	Sector/Country Reports	(from Goal to Bank Mission)
<p>To enhance good governance and transparency in the Republic of Congo reform process.</p> <p>Public debt arrears stabilized.</p>	<ol style="list-style-type: none"> 1. Significant annual reduction in corruption indices for oil sector; MoEFB and privatization process based on 2002 baseline. 2. At a minimum public debt arrears are stabilized by the end of the project. 	<ol style="list-style-type: none"> 1. Annual independent surveys. 2. National accounts statistics. 	<ul style="list-style-type: none"> * Political stability. * Government commitment to economic and social reforms. * Non-restrictive political dialogue is sustained.
Project Development Objective	Outcome / Impact Indicators	Project Reports	(from Objective to Goal)
<p>To increase efficiency of: (i) petroleum operations and (ii) MoEFB's financial operations and; (iii) increase transparency in the public enterprise reform and privatization process.</p>	<ol style="list-style-type: none"> 1. 20% increase in Central Bank revenues from SNPC by 12/31/04 compared to 2002. Total 40-50% increase by the end of the project. 2. 10% reduction in Treasury arrears by 12/31/02; Total 30-40% reduction by the end of the project. 3. 10% reduction in fiscal exemptions by 12/31/02; Total 30-40% reduction by the end of the project. 4. Establishment and operational (enactment of legislation/implementation decree and its institutionalization) sectoral regulatory agencies in telecommunication, electricity, water and transport. 5. Increased customer satisfaction with (i) SNPC operations; (ii) MoEFB financial operations and (iii) privatization process. 	<ol style="list-style-type: none"> 1. Annual SNPC and Central Bank reports. 2. Review of Treasury records. 3. Regular reports on collection of taxes and duties from DGI and DGD. 4. Privatization Committee monthly reports. 5. Client satisfaction surveys. 	<ul style="list-style-type: none"> * Impact of IDA Post Conflict Economic Rehabilitation Credit on public debt arrears (international, national). * Stability of international oil prices. * Positive dialogue among Government, Private Sector, Civil Society. * Positive outcomes with 2002 HPIC and Paris Club negotiations.

Output from Each Component	Output Indicators	Project Reports	(from Outputs to Objective)
<p><u>1. Increased transparency and improved governance of oil and gas operations:</u> Increased operational efficiency of SNPC.</p>	<ol style="list-style-type: none"> 1. First financial and operational audits of the SNPC (12/31/02); full and timely compliance to remedy breaches procedures or ethics. 2. Operational audit of the hydrocarbon sector (12/31/03); full and timely compliance to remedy breaches of procedures or ethics. 3. Management and operational model for oil production and revenues: Design: (12/31/02); Implementation: 12/31/03. 4. Oil sector staff trained and using new knowledge/skills on the job (12/31/05). 	<ol style="list-style-type: none"> 1. Monthly Project implementation reports from Project Coordination Unit. 2. SNPC Annual Audit Report. 3. Mid-term project implementation review. 4. Follow-up surveys and/or interviews with trainees six months after completion of training. 	<p>* Private oil producers to have a full independent audit of their production performance. (TEP-CONGO, AGIP, NOMECCO).</p>
<p><u>2. Improved Public Finance Management:</u> (a) Enhance Government's capacity to manage reforms</p>	<ol style="list-style-type: none"> 1. Creation of IRIC in MoEFB (08/31/02). 2. New planning process in place in MoEFB (06/30/04). 	<ol style="list-style-type: none"> 1. Monthly Project implementation reports and quarterly progress reports from IRIC; Mid-term project review 2. Ditto 	<p>Preparedness of Directorates to implement reforms.</p>
<p>(b) Transparency and Governance of Resources Mobilization and Use.</p>	<ol style="list-style-type: none"> 1. Updated National Accounting System (12/31/05). 2. Implementation of operational budget (<i>chaîne des dépenses</i>) (06/30/03) and its computerization (12/31/03). 3. Introduction of unique nomenclature: Budget-Treasury (12/31/02); new public accounting (12/31/02), and annual closing of accounts period 1994-2001 (12/31/02). 	<ol style="list-style-type: none"> 1. Monthly project implementation reports and quarterly progress reports from IRIC 2. Ditto 3. New Budget Basis documents for year 2003. 	

<p>(c) Increased MoEFB capacity to collect Fiscal revenues.</p>	<ol style="list-style-type: none"> 1. Audit DGI (06/30/03) 2. Audit DGD (06/30/03) 3. Introduction Unique Tax Payer Identification Number (12/31/02) 4. MoEFB staff applying new knowledge and skills and using new systems to improve revenue collection. 	<ol style="list-style-type: none"> 1. Audit reports; compliance reports and interviews with MoEFP officials. 2. Ditto 3. IRIC quarterly reports 4. MoEFB staff surveys and/or interviews 	<p>MoEFB's capacity to introduce remedies and increase collection of taxes and duties.</p>
<p>(d) Increased transparency and governance of public goods and services contracts.</p>	<ol style="list-style-type: none"> 1. New procurement law for goods and services (06/30/03). 2. On annual basis all contracts inspected by auditing body and meeting inspection standards. 3. Auditor General's Office (<i>Cour des Comptes</i>): comparative study of organic law with those of other countries in the region (06/30/03) - Changes introduced in organic law (12/31/03). 	<ol style="list-style-type: none"> 1. Enactment of a new law and regulations for public goods & service contracts. 2. Monthly project implementation reports from IRIC. 3. Monthly and Quarterly progress reports from IRIC. 	
<p><u>3. Increased transparency and improved governance of the privatization process:</u> Transparency in the public enterprise reform, privatization process and promotion of foreign direct investment in Congo.</p>	<ol style="list-style-type: none"> 1. Outplacement unit in privatization secretariat of CP operational (12/31/02). 2. Reinsertion fund designed and operational (06/30/03). 3. Asset inventory and evaluation completed for ATC, SNE, SNDE and ONPT (03/31/03). 4. Regulatory agency operational (12/31/02). 5. New Investment Code approved by Parliament (12/31/02). 6. Single investment window agency strengthened (06/30/03). 7. Implementation of Training Program for <i>Comité de Privatisation</i> and for One-Stop Investment Window (CP, OSIW) by (12/31/02) 8. CENAGES: Diagnosis and program restructuring (12/31/02). 	<ol style="list-style-type: none"> 1. Monthly project implementation report. 2. Mid-term project review. 3. Quarterly IRIC progress reports. 4. Ditto 5. Review of Investment Codes. 6. Supervision mission and IRIC quarterly reports. 7. Interviews and simple surveys to assess application of knowledge and skills on the job. 8. Diagnosis report; IRIC Quarterly progress report 9. Quarterly IRIC reports; stakeholder interviews 	<p>Political and vested interests do not obstruct the regulatory reform process.</p>

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project

Appendix 2: Detailed Project Description

Project Component 1: Increasing Transparency and Improving Governance of Oil Operations (US\$1.38 million)

The Sector of Hydrocarbons

The Production-Distribution-Commercialization Line- Congo is sub-Sahara's third largest oil producer (after Nigeria, Angola, Congo and Gabon), with estimated proven reserves of 1.5 billion barrels. The country's total production, on the rise since 1980, but now stationary, was 265,000 barrels per day (bbl/d) in 1999 and 2000 (13 million tons a year on average). Consumption in 1997 and 1998 of refined petroleum products was about 385,000 tons per year (8,000 bpd). Net oil exports were approximately 12.2 million tons in 1997 (245,000 bpd) and 12.8 million tons in 1998 (257,000 bpd). The Congo's main crude export markets are the United States and Italy. While most of Congo's crude oil exports are destined for Western Europe (mainly France) and the United States, Congo is seeking to increase its sales to Asian countries. Congo exported 53,000 bbl/d of crude to the United States during the first seven months of 2000, ranking this country as the 7th largest supplier of imported oil to the United States.

Congo's sole refinery, *Congolaise de Raffinage (CORAF)* was commissioned in 1974 and began operations two years later in Pointe Noire. The name plate capacity of the refinery is 21,000 bbl/d. Fighting from 1997 through 1999 severely disrupted the supply of CORAF fuel to the national market and led to an increase in fuel imports. Critical repairs were made to the refinery in early 2000, allowing CORAF to fully resume its activities in April 2000 for the first time in four years. In September 2000, fuel from the refinery was again able to reach Brazzaville due to the re-opening of the Pointe Noire-Brazzaville rail line. In June 2000, a South Africa-brokered financial arrangement was announced to pay for the dredging of the port of Pointe Noire. The port, equipped to a depth of 13 meters to enable large ships to dock, had silted up to a depth of only 7 meters for many years.

The Republic of Congo contains an estimated 3.2 trillion cubic feet of natural gas reserves. After Nigeria and Cameroon, Congo holds the third largest gas resource base in Sub-Saharan Africa. Although the majority of Congo's gas reserves are associated with oil deposits, the country benefits also from non-associated fields. Unfortunately, all the country's gas output is currently vented or flared for want of appropriate infrastructure. In 1999, the oil sector represented about half of GDP, and revenues from oil accounted for 72% of fiscal and 92% of export receipts. The sector is expected to continue to be the major contributor to GDP in the years to come. The many problems affecting the oil sector in Congo have placed the country at the lowest level of state revenue-generation amongst oil-productive countries in Sub-Sahara Africa.

Sector Organization - The Petroleum Sector in Congo is overseen by the Ministry of Hydrocarbons (Ministère des Hydrocarbures, MoHy), the National Oil Company (*Société nationale des Pétroles*, SNPC), the Refinery Company (*Compagnie de Raffinage*, CORAF), the private operators of oil fields, and the companies responsible for oil distribution and the trading of refined oil products.

In the course of recent years, the sector has gone through progressive but substantial reforms as the Government wanted to have effective operational and fiscal control over the sector. The most important transformations have been:

- i. Legislative reforms with the adoption of the Hydrocarbon Code in 1994 which substituted for the Mining Code of 1982 which itself had replaced the Mining Code of 1962. While the new Mining Code of 1982 provided for the transformation of existing *joint venture arrangements* (royalties) with foreign oil exploration companies into *production-sharing agreements* (PSAs), the Hydrocarbon Code authorized the use of PSAs with the two most important petroleum exploration companies in Congo, ELF-Congo and AGIP-Congo. Under the PSAs, foreign oil companies act as contractors for the national oil company, SNPC. The PSAs are intended to ensure a constant, minimum flow of oil revenues to the State, commensurate with similar agreements between other regional oil exporting states and major oil companies. Congo's PSAs commit foreign partners to carry out exploration and development within a predetermined time (usually three years for each phase). Contractors finance all investment costs, and recover their investments when production begins. Further revisions of this code are on-going and aim at a complete legislative overhaul that should facilitate the country's authorities access to basic information and the effective implementation of existing fiscal legislation.
- ii. Sector reorganization through the creation in 1974 of Hydro-Congo, that effectively provided for the separation of the regulatory functions of the State under the aegis of MoHy from petroleum operations under Hydro-Congo management. Petroleum operations were then privatized. In April 1998, the Government established a new national petroleum company, *the Société Nationale des Pétroles du Congo (SNPC)*. SNPC assumed both upstream and all functions of the former State Company, *Hydro-Congo*, when exploration and assets were formerly transferred to SNPC in February 2000. Hydro-Congo's distribution operations were privatized in June 2001 and in August 2000, SNPC assumed ownership of CORAF. At that time, SNPC assumed responsibility for the commercialization of the country's share of oil production. This measure was an important break with the past, when all production and commercialization were in the hands of foreign oil exploration companies. Three international oil producers/distributors currently ensure the distribution of gasoline in Congo.
- iii. Signature in June 2001 of an agreement between the Ministry of Economy, Finances and Budget (MoEFB) – MoHy and SNPC that defines the regulatory role of the State and of SNPC.

Sector Issues - There are three key issues in the oil industry in the Republic of Congo: the state's share of the country's total petroleum production, one of the lowest in the world; a large part of future oil production is secured (earmarked) for the payment of specific foreign debts and specific investments; all oil revenues are not centralized into the Government Treasury. Thus, despite the already important reforms accomplished, there are still serious problems relating to full control of the State over this non-renewable natural resource that represents the most important share of the country's GDP. There is an urgent need for the State to simplify the complex and intricate legal, technical and financial relationships the State has maintained with foreign oil producers. More specifically, the following issues affect sector operations transparency and governance:

- i. Concerns regarding the volume of production:
 - a. Lack of transparency in the procurement of works for oil field development and the awarding of big contracts.
 - b. Lack of control over oil production meters in sea-oil rig platforms
 - c. Separation of water from oil at the terminal and not at the platforms.
 - d. Losses during transportation of oil are not accounted for.

- ii. Concerns regarding the oil production cost and oil profits:
 - a. Linear depreciation of field development costs in 3 to 4 years versus 7 years stipulated in the General Tax Code (depreciation accounts for about 40% of total production costs).
 - b. Premiums being paid to operators at the time of signature of oil exploration permits.
 - c. Costs of goods and services exchanged between operators.
 - d. Advances made to SNPC on future oil revenues.
 - e. Exchange risk on foreign debts for the State as producers' financial accounts are held in US\$.
 - f. Weakness of the local financial system that is not able to handle financial transactions in the sector.

- iii. Concerns regarding fiscal revenues:
 - a. Fiscal privileges, such as unique, ring fenced taxable production for several rigs as compared to taxation of individual rigs, thus permitting tax mitigation.
 - b. Complex legal agreements and new clauses added to existing ones, making the whole set of legislation difficult to understand.

- iv. Concerns regarding the capacity of existing operations:

There is a chronic shortage of qualified personnel in the sector in all fields of expertise: finance, petroleum engineering, foreign languages, etc.

The Project - The Project would be instrumental in improving the transparency and governance of oil operations in the country, thus increasing the level of resource mobilization by the State. This component would be carried out in two phases, as follows:

First Phase - Consultants/Auditors would be engaged for the following activities:

- i. Financial and operational audit of SNPC (FY1999-2000) by an independent auditors.
- ii. Financial audit of AGIP (FY2000), TEP Congo (FY1999-2000) and NOMECCO (FY2000).
- iii. Finalization of the Oil Code and presentation of its implementation decree(s) to the Government. Finalization of the regulatory framework for the oil refinery, gasoline transport and distribution.
- iv. Complete operational audit of the SNPC as well as the entire hydrocarbon sector (MoHy, SNPC, refining, distribution and commercialization), more particularly:
 - a. Field inventory of on-shore and offshore oil production.
 - b. Analysis of production costs and profit levels on oil in every single oil field.
 - c. Review of fiscal legislation and fiscal exoneration in the oil sector.
 - d. Analysis of crude oil prices.
 - e. Review of SNPC's stock holdings in international oil producing companies.
 - f. Review of procurement guidelines for petroleum operations.
 - g. Review of all existing contractual arrangement and other complementary clauses concerning the State's obligations to oil producers as well as some of financial institutions and contractor companies.
 - h. Study of an oil production model facilitating the determination of oil revenues under different circumstances of oil production, rig operations, oil quality, transportation and storage (re: model prepared by the World Bank in 1994).
 - i. Assessment of training needs in the sector and presentation of a training program that the Association might partly finance.
 - j. Assessment of modern equipment needs for the line of production, cost accounting, oil profits, financial projections, and presentation to the Association of an investment program, part of which might be financed under the project.

The first phase is likely to last about 12 months with all tasks completed by December 31, 2002. Consultants and other related costs for this phase are estimated at US\$700,000. IDA will assume the full financing of this component discounting the facilities and amenities that local sector institutions might provide.

Second Phase - Consultants/Auditors would be engaged to help MoEFB, MoHy and SNPC implement the recommendations and activities scheduled during Phase one. Notwithstanding the conclusions of the consultants, Phase 2 would include:

- i. Implementation of the recommendations made by the operational audit of the hydrocarbon sector (MoHy, SNPC, refining, distribution and commercialization).
- ii. Renegotiations of existing conventions and contracts with a view to simplifying their execution and facilitating State control.
- iii. Finalization of the Gas Code and implementation decree(s).
- iv. Implementation of the model for oil production and revenue analysis.
- v. Continuation of the training program and purchase of equipment.

The second phase is likely to last about 24 months, with all tasks scheduled for completion by June 30, 2005. Costs for the second phase have been estimated at US\$680,000; discounting the local facilities the Government would provide to the consultants. IDA will assume the full financing of this component.

Project Component 2: Increasing Transparency and Improving the Governance of Non-Oil Operations (US\$5.74 millions)

Background - Rehabilitation of the non-oil public sector is a key objective and a high priority for the Government, given the continuing presence of a number of structural obstacles that could jeopardize economic recovery over the long term. These include the severe external and domestic debt problem, issues relating to the reconstruction and rehabilitation of economic and social infrastructure, the cost of demobilizing and reintegrating displaced populations and young combatants, and the destruction of government's information systems and databases. In addition, the state's highly complex financial operations are managed by staff that is often unprofessional, a situation that provides fertile ground for the vast system of extortion and State tax evasion. The government has designated MoEFB to take the lead to address these issues. The Government is also aware that transparent procurement rules and a fair judicial system would definitively enhance good governance. In Congo they are respectively the responsibility of the *Commission nationale de Centralisation et de Coordination des marchés de l'Etat* and of the *Cour des Comptes*. The second Project component will support some important reforms and provide technical assistance to these agencies.

Ministry of Economy, Finance and Budget (MoEFB)

MoEFB Organization – MoEFB is a large and powerful ministry; its responsibilities include the management of both the national accounts and public finances. This is partly the result of merging the previous two Ministries of Planning and of Finance, which led to the superposition of offices with similar responsibilities and, in part, the addition of new structures that could not always be justified in terms of efficient management.

The ministry is organized into twelve General Directorates, nine Support Divisions, one Inspection Directorate and the public financial institutions under the ministry's tutelage, including banks and insurance companies. The Minister's Cabinet ensures the coordination of the day-to-day operations of the ministry. *Caisse Congolaise d'Amortissement* (CCA) is a public financial institution with civil legal status and financial autonomy. A Management Board manages it. The chairman is the Minister of Economy, Finance and Budget. CCA's board includes representatives from the *Cour des Comptes*, DGT, DGCF, BEAC, and from MoEFB and personnel of the CCA itself. CCA is a key player in the management of the country's external and internal debt.

Resources to address organizational issues have been lacking. This situation is compounded by the Government freeze of recruitment in the public administration for the past ten years. In addition, there has been no easy access to any form of training in the country.

During the internal civil unrest and torment of the past decade, much of the efficient, pre-conflict administrative tissue disappeared, fiscal management was disrupted, budgetary procedures were abandoned and budget deficits were financed through the accumulation of arrears. Because of the country's heavy indebtedness, given the enormous cost of reconstruction, and despite increasing oil revenues, the State has been left without enough resources to even pay civil servants on a regular basis. Meanwhile, the authorities gave a high priority to urgent and pressing economic and financial problems rather than addressing the future. All attempts to set up any strategic programming in the Ministry were discarded.

Management of the Reforms – The Project would be the vehicle of management reforms in MoEFB. In order to carry out this responsibility and to ensure a high order of transparency in decision-making to address the complex list of the reforms contemplated under the Project, and as described in Section VI. Project Institutional and Implementation Arrangements (paragraphe 21), an ***Inter-ministerial Reform Implementation Committee (IRIC)*** would be created to manage the whole process.

National Accounts and Statistics - The cessation of any form of information and statistics gathering during the many years of internal conflict has created a vacuum in terms of available economic, financial and social information, including poverty data, for the preparation of national accounts and their analysis by decision-makers. The project would address these issues, as follows:

- i. Modernization of the preparation of national accounts with support from AFRISTAT.
- ii. Strengthening the coordination between the CNSEE and MoEFB for the preparation and use of national statistics.
- iii. Creation of a database on economic performance and poverty in the country.

Programming and budgeting - There is no multi-year programming system in place in the MoEFB. On the other hand, there is a large number of Directorships and Departments involved in the elaboration of statistics, conducting studies and gathering economic, financial and other accounting information. Without appropriate medium-range planning process, investment decisions are difficult and priorities are generally ill defined, particularly in terms of capital expenditures.

The Project would provide assistance to MoEFB for the following activities:

- i. Analysis of existing procedures and number of General Directorates and Directorates intervening in the programming of public revenues and expenditures.
- ii. Preparation and implementation of a new system of pluri-annual programming of public investments.

Public Accounting and Budget Implementation Process (*chaîne des dépenses*) – The public accounting and budget implementation processes are at the core of expeditious and efficient budget execution, budgetary control and the implementation of the investment program. During the past five years, the authorities have striven to rationalize the numerous legal texts that frame the management of public finances. The Fundamental Act of October 24, 1997 abrogates the Constitution of March 15, 1992 and defines the act of payment. The Organic law (*Régime financier de l'Etat*) was approved by the National Transition Council in February 2000. It defines the financial framework of the State (preparation of the Annual Finance Law and Budget execution). The Decree on Public Accounting (*Règlement général sur la Comptabilité Publique*) was signed in August 2000. It defines the rules governing the management of budgetary resources. Finally, the Accounting Instructions underline how the national Chart of Accounts (that follows the CEMAC Chart of Accounts) should be implemented.

The Inspectorate General of Finance (*Inspection Générale des Finances, IGF*) is responsible to verify that all ministries and agencies of government respect public accounting and financial rules and guidelines. To that end the IGF carries out the internal audit of public accounts and financial transactions. The role of the IGF to verify that public funds are managed with probity is particularly important.

Despite these positive developments, many issues still limit the good management of public finances. The most important is that MoEFB, in its role as *Ordonnateur principal*, is the only ministry authorized to approve expenditures. All ministries should normally have this authority. This additional control renders the whole budget implementation process more cumbersome. At the same time, the full implementation of the public accounting system, as recommended by CEMAC, is not yet complete, and the number of clearances requested during budget execution (*a priori* controls) and the complexity of each transaction have generated important delays in the processing of expenditures. The large number of advances (*comptes provisoires*) has also complicated the control over expenditures. In addition, in the absence of a common system for classifying accounts for the Budget and the Treasury, the processing of payments has led to

a high level of arrears as payments cannot be made, in principle, until the expenditures have been verified as being part of the budget. Meanwhile, without the closing of annual accounts for the past seven years, no serious control over investment expenditures has been realized.

The Project would address these issues as follows:

- i. The Government would:
 - a. Carry out a study of alternatives to MoEFB's being the single *Ordonnateur Principal*, to be completed by 12/31/03.
 - b. Undertake the closing of final annual accounts for the years 1994-2001. Start year 2002 on a new budgetary basis.
- ii. MoEFB would:
 - a. Carry out an analysis of the budget preparation and budget implementation process (*chaîne des dépenses*), with a view to simplifying it through the reduction of the number of clearances (*a priori* controls), the volume of documents required as proof, and the reduction of the number of advance accounts. It is expected that Government will introduce a new system for the classification of accounts and transactions for the budget and the treasury that would permit the integration of the budget implementation process, and the reduction of the number of advance accounts.
 - b. Undertake the analysis of payment and collection transactions in the Treasury with a view to reducing government arrears. Design and set up a new monitoring system for financial transactions.
 - c. Study and implement the computerization of the budget implementation process.
 - d. Finalize the implementation of public accounting following the chart of accounts recommended by CEMAC.
 - e. Prepare the chart of accounts for public enterprises.
 - f. Undertake the dissemination of accounting publications.

Resource Mobilization - The recurrent difficulties in raising sufficient revenue to pay back the country's heavy foreign debt and to cover the enormous cost of reconstruction, despite increasing oil revenues, are also at the top of the Authorities' concerns. Combating tax fraud and increasing tax revenues is thus a priority, along with economic diversification to reduce Governments reliance on petroleum revenues. The mobilization of national savings might be another promising avenue to raise additional resources.

The organs in charge of fiscal and customs matters are the General Directorate of Taxes (DGI) and the General Directorate of Customs (DGD). In spite of Government recent efforts to strengthen the DGI and the DGD (e.g., they were reorganized in October 1999), fiscal revenues are still far below their potential. This situation stems essentially from difficulties in correctly assessing the tax base of individuals and corporations, weak tax

legislation and, more generally, the administrations' lack of capacity (e.g., the rate of collection of taxes recorded by DGI and sent to TGP for payment is lower than 10%).

There are other more technical issues affecting the fairness of taxation and efficiency of tax collection. Among them, the large number of tax reductions and exemptions is certainly the most important. Indeed, tax reductions or exemptions are granted for certain imports and exports, by the investment code, by hydrocarbons code and by the derogation plans. Other important problems have been the delays taken by the administration in setting up a unique *Tax Payer Identification Number* (TPIN), the implementation of an urban land register (*Cadastré*) and an analysis of the informal sector, a growing sector that has thus far escaped the scrutiny of the administration.

The project would help MoEFB address these issues, more particularly to:

- i. Carry out of an operational audit of DGD.
- ii. Carry out of an operational audit of DGI.
- iii. The studies regarding the establishment of the TPIN have been completed. The TPIN would be introduced along with the computerization of DGI activities, which is ongoing.
- iv. Analyze the impact of fiscal reductions and exemptions on the budget of the State, including existing long-term contracts with petroleum companies containing fiscal reductions that cannot be revised for long periods. Prepare a plan to reduce exemptions and reductions.
- v. Based on the modalities of application of the VAT for the hydrocarbon sector that were signed on October 19, 2000, introduce the VAT in this sector early in 2002, i.e., through the Finance Law for this year.
- vi. Study of the informal sector in Congo. The 2002 Finance Law will bring new developments to increase tax collection from the informal sector; in particular, a simplified tax return declaration will leave the standard global taxation to small business enterprises.
- vii. Launch studies for the preparation of the urban land Register and the implementation of the land tax regime.
- viii. Organize and build up the capacity of *Direction des Correspondants des dépôts et Consignations*.

Central Commission of Public Contracts

Background

According to the present guidelines for public contracts for goods and services (Decree 82/329 of April 22, 1982), all bidding documents and contract awards are to be submitted to the *Commission Nationale de Centralisation et de Coordination des marchés des contrats de l'Etat* which, in turn, was replaced by the Decree No 2000/34 of March 20, 2000. This decree created a *Central Public Contracts Commission*. Because of national unrest during many years these Commissions never met. A more flexible *ad hoc* system was adopted under which the *Direction Centrale des Marchés et de Contrats de l'Etat (DCMCE)* centralizes all bid evaluations and ensures the day-to-day operations of due diligence and control. The Minister of Economy, Finance and Budget approves contracts of up to CFA.500 million (US\$715,000). Higher contracts are submitted to the Adviser for Economic and Financial Affairs in the Cabinet of the President.

Issues

The present guidelines are far from satisfactory and are not in line with the Bank-IDA Procurement guidelines. Well aware of these problems, a review of existing guidelines has been carried out by an Inter-ministerial Committee chaired by the MoEFB. New legislation has been prepared under which the Central Commission for Public Contracts would be replaced by several commissions with authority to act at the national, regional and local levels. A regulatory Agency would make sure that this framework and the guidelines are reviewed from time to time to in accordance with local and international trade and development and requirements.

The Project

Under the Project assistance will be given to DCMCE to carry out a thorough review of existing local procurement guidelines, and of the proposal made recently by the commission inter-ministerial for the modernization of these guidelines.

Cour des Comptes

Background

The *Cour des Comptes* (CDC) is the country's supreme independent audit institution and as such is responsible for the external audit of all bodies closely linked with the state. It thus oversees all public finances and accounts, including those of ministries, departments, public enterprises, financial institutions and the social security system. The CDC should be a key actor in ensuring a high level of transparency, accountability and good governance of public assets. The CDC was created in 1992, but never functioned as a result of the long civil unrest in the country. With the objective of enforcing budgetary discipline in the country, magistrates of the *Cour des Comptes* have recently been appointed by Presidential Decree on May 25 2001. Unfortunately, CDC has not yet started to function as the Government has not

find appropriate office space, and has not budgeted the office and data processing equipment and materials and the support staff needed.

Issues

A review of the CDC's responsibilities has revealed a series of anomalies regarding its independence, attributions and the dissemination of its reports to the media and the public. Magistrates are appointed by the President. Also, CDC should normally refer the Attorney General to the appropriate jurisdiction for serious offences found during the review of public accounts (particularly in cases of corruption). This does not take place in the Republic of Congo where the CDC identifies offences and defines the sanctions independently of the importance of the offence. Strangely enough, the CDC has special attributions in terms of the award of contracts and is empowered to sanction offences to administrative morale. It would be useful to assess whether CDC should have any role to play relating to administrative arbitration and whether it should be involved in any issues pertaining to moral misbehavior. In addition, its attributions should be larger than they are now. More particularly, CDC should be entitled to audit all organs of the State, not only state agencies but also private endeavors involving the State contractually. On the other hand, CDC has been given authority to audit the accountants in the ministries which authorize expenditures whereas its role ought to be the audit of state finances. In other words, the CDC should audit the work of the financial controllers of the MoEFB. The CDC annual report includes only comments on actions it deems useful, whereas the CDC report should normally be exhaustive, discussed by the Parliament and published widely so that each citizen can read it. CDC will not be able to start functioning without appropriate offices and until all necessary equipment is installed. Since no progress has been made along these lines so far, there is a present no external audit function in operation in Congo.

The Project

Under the Project, CDC's responsibilities would be reviewed and its capacity would be strengthened as follows:

- i. A comparative study of the responsibilities and the scope of his jurisdiction and of its autonomy as compared to similar countries in the world.
- ii. Once CDC is installed in suitable premises, strengthening it through the provision of communication and other equipment necessary to carry out its duties.
- iii. Complementary training of magistrates.

Equipment and Training

Issues

There is a chronic shortage of qualified personnel in the MoEFB in all fields of expertise: macroeconomic, finance, public administration, accounting, engineering and foreign languages. Likewise, there is an enormous lack of appropriate data-processing and communications equipment. The Government understands that its reform program will never be implemented if there is no solution to the chronic shortage of qualified personnel and equipment in MoEFB.

The Project

Equipment and training for the second component of the Project would be as follows:

- i. MoEFB, DCMCE and CDC would prepare and present to the Association a training program for their staff in a several fields including: public finance, taxation, public accounting, statistics and foreign languages. Study trips in other African countries might be considered.
- ii. These administrations would also prepare and present to the Association a list of hardware and software as well as communications and other equipment necessary to support institutional strengthening. Under this component, CCA would be entitled to acquire the software necessary to monitor the country's internal and foreign debt. IGF would also be entitled to acquire the computers it needs to undertake audits in the field. A library for the Supreme Court would be part of this component.
- iii. MoEFB would conduct a feasibility study that would lead to the establishment of a modern system of communications amongst the different Directorates General and Directorates of the MoEFB (Intranet).
- iv. MoEFB would carry out a feasibility study that would lead to the establishment an Internet connection system for all the MoEFB General Directorates and Directorates.

Project Component 3: Increasing Transparency and Improving Governance of the Privatization Process (US\$1.59 million)

Disengagement of the State

The disengagement of the State from the productive sectors of the country and the mobilization of new financial resources through foreign direct investment (FDI) are amongst the highest Governmental priorities as defined in its program of economic reforms that was launched in 1999 after the end of the civil war.

The rules governing the privatization program are defined in the organic law No. 21-94 of August 10, 1994, on privatization. An IDA Credit of US\$9.0 million was approved in September 1995 (Credit Number 27750 dated September 5, 1995) to help finance a *Privatization and Capacity Building Project* (total cost US\$11 million). The project was to help the Government prepare regulatory frameworks for five public enterprises in control of petroleum distribution, transportation, telecommunications, power and water distribution and open these sectors to competition, follow up with the privatization of these enterprises, liquidate other non-viable enterprises, and support regulation and competition in the financial sector and reforms in banking institutions. The Bank project was subsequently canceled in 1999 as a result of civil war. However, as soon as the hostilities ended the Government restarted its privatization program with the re-opening of the *Comité de Privatization (CP)* in charge of the privatization process for public enterprises, and the transfer of responsibility for processing privatization activities in the financial sector to the *Caisse Congolaise d'Amortissement (CCA)* under MoEFB. The Government program is ambitious but well underway.

The Minister attached to the Presidency and in charge of the President's cabinet and of State Control chairs the CP. The First Vice-Presidency is entrusted to the Minister of Economy, Finance and Budget and the Second Vice-Presidency to the Minister of Labor and Social Security. CP has a Permanent Secretariat of 13 officers with sector responsibilities who take care of day-to-day operations. Important decisions are normally submitted by CP to the Parliament. In the absence of a Parliament, the President takes decisions.

The Enterprise Reception Center (*Centre de Formalités des Entreprises – CFE*) was created in 1994 to help local private entrepreneurs create new enterprises that would generate employment for a growing urban population. To that effect, a “One-Stop Investment Window” (*Guichet unique*) was set up in Brazzaville in 1995 and another one in Pointe-Noire the following year. The CFE is an autonomous agency under the jurisdiction of the Ministry of Small and Medium Enterprises and Handicraft Promotion. The CFE's responsibilities consist of welcoming new entrepreneurs, providing them all relevant documentation on the business environment regarding their sectors, facilitating their inscription in the Tribunal of Commerce and other government agencies, ensuring that all necessary arrangements with other administrations are completed. CFE also provides for liaison with the Organization of Business Law in Sub-Saharan Africa. CFE has been very active in the publication of documentation on investment rules and management and the conducting of informative seminars. In 2000, the number of registrations for new enterprises reached 2727, compared with 2181 in 1999 and 1420 in 1988. However, CFE has neither the capacity nor experience to carry out an important program for the promotion of investment in the country.

The *Centre National de Gestion (CENAGES)* was created in the early 1990s to provide technical assistance to Ministries in matters of management and organization. CENAGES is an autonomous institution that has recently been granted the status of State-Revenue Enterprise (*Entreprise à caractère industriel et commercial – EPIC*). It is well organized and has a good team of competent experts in all fields of management of private and public enterprises. CENAGES has been providing its services at low rates relative to

those of other consulting firms in the country and has been able to cover its costs essentially through state budgetary allocations. During the civil war, budgets were reduced and CENAGES had to reduce its activities. This agency has requested Bank assistance and financing. Under the ongoing program for the disengagement of the state and the massive privatization program, there would be no justification to maintain an agency heavily depending on the State. On the other hand, the relocation of its staff in other public institutions or private firms might justify Bank support.

Status of the Privatization Program

Financial Sector

Structural adjustment of the financial sector is progressing quite well. Three state banks have already been restructured with negative assets being transferred to CCA management. These adjustments are coordinated with the Banking Commission of Central Africa (COBAC) and receive World Bank support. The current status is as follows:

- i. The *Union Congolaise des Banques* (UCB) has been privatized. Pending actions include the legal recording of accounts recording the split of assets between UCB (private healthy assets), COFIPA (state healthy assets) and CCA (negative assets). The opening balance sheet for COFIPA is not yet available.
- ii. BIDC: on October 18, 2001, the *Credit Lyonnais* (CL) management Committee approved the takeover of this bank.
- iii. CAIC: Negotiations with the *Banques Populaires*, a French commercial bank, are underway.

The structural adjustment of the financial sector is not part of the Project. The World Bank is directly supporting this process with its own experts and consultants.

PUBLIC ENTERPRISES

Sector Regulation - Sectors that cannot be subjected to market rules immediately should be regulated by the State in order to protect consumers from abuse by firms with substantial market power, to support investment by protecting investors from arbitrary action by government, and to promote economic efficiency by fostering technical expertise. These sectors are generally under the control of utilities and other public enterprises that enjoy complete a monopoly in their sectors. In the Republic of Congo, the need for sector regulation applies to water supply, electricity, post and telecommunications and transport (railways, ports and the use of waterways). CP has proposed the creation of a multi-sector regulatory agency for all sectors concerned. This would seem to be appropriate in Congo where the risk of failure of the multi-sector agency should not be too high considering the relatively small volume of public enterprises to be privatized. One single agency would provide for the sharing of scarce resources and expertise, would facilitate the transfer of

insights and experience among industries, would ease the adoption of a consistent approach to raise investment, and would reduce the risks of industry or political capture.

Main Issues

- i. The main problem concerning the privatization of public enterprises in the Republic of Congo is the lack of expertise and of qualified staff in sectoral regulation and in the supervision and monitoring of the privatization process. Bad management of a public enterprise being privatized might have important negative effects during the transition period that immediately preceded privatization. During this period, unjustified borrowing or purchase of equipment can be contracted, assets can be squandered and additional staff hired.
- ii. According to the Constitution, the President of the Republic appoints EPICs' general managers. Normally, this is the responsibility of the Board of Directors of such enterprises.
- iii. Problems regarding the promotion of investments in the country are both institutional and fiscal in nature:
 - a. Institutional, as CFE will have to be re-organized and its operational capacity built up. CFE activities have been limited to the country, and no international action has ever been considered. Finally, the lack of incentives and the shortage of qualified experts have certainly constrained new and innovative activity by the CFE.
 - b. Fiscal in the sense that the main purpose of the constantly growing number of new enterprises being registered is mainly to benefit from fiscal exemptions. As no record exists of enterprises being created or liquidated, many entrepreneurs have found this means to escape the control of the DGI.

The Project

The project will focus on three main lines of action: the program for the privatization of public enterprises, the promotion of investment in the country and the establishment of a partnership among the State, the private sector and civil society.

Public Enterprises

Regulatory Framework

- i. Prepare management guidelines for the transition period that precedes the transfer to new owners or concessionary companies, or the liquidation of a public enterprise. The CP should exercise financial and technical control over these enterprises during this period (*tutelle financière et technique*).
- ii. Definition of the role, responsibilities and functions of a multi-sectoral regulatory agency covering all public enterprises.
- iii. Creation of the regulatory agency.

Strengthening the Comité de Privatisation

The following studies would be financed:

- Evaluation of the net assets of the EPICS created in the wake of the liquidation of ATC.
- Evaluation of the assets of SNDE and SNE.
- Evaluation of the assets of ONPT.

Privatization Process:

- i. ATC: Preparation of a timetable for the whole restructuring process.
- ii. Establish guidelines for the appointment of general managers of newly created EPICs.
- iii. Organization of a round table in Paris to prepare a work program for the restructuring of postal services and telecommunications.

Social Window

- i. Seminars to be held on the issues of reinsertion of employees.
- ii. Creation of a Reinsertion Fund.
- iii. Organization of the Fund and appointment of manager.

Training and Equipment

- i. Training seminar on regulatory agencies for staff of all tutelage ministries , managing companies and syndicates.
- ii. Training seminars on the regime of concessions.
- iii. Training of staff in computing activities and computer programming.
- iv. Purchase of computers and communications equipment.

Promotion of Private Investment

- i. Analysis of the existing institutional and administrative structure for the welcoming of private investment in the country (one stop shopping), more particularly CFE.
- ii. Establish a new structure (or strengthen the existing one) for the promotion of foreign and local investment in the country in accordance with the terms of the new Investment Code that will modify the current Code / *Loi n0 9-92 of April 10 1992 modified by law 7-96 of March 6, 1996.*
- iii. Computer hardware and software according to needs defined by the analysis .

Assistance from the Foreign Investment Advisory Service (FIAS) will also be sought. FIAS helps governments to structure policies, programs and institutions to help them attract more beneficial foreign investment.

- iv. Study of CENAGES's strengths and weaknesses with a recommendation on the future status of the company.

Partnership among Government, the Private Sector and Civil Society

The Project would help strengthen the partnership among the Government, civil society and the private sector. This would be achieved through awareness-raising seminars and the setup of consultative groups with representatives from all stakeholders: ministries, NGOs and unions. This component will finance over three years the assignment of an expert to the Project Coordination Unit. The expert will ensure that this component is implemented on a timely basis. This will include the preparation and organization of seminars, and consultative fora, as well as the launching of a study on micro-enterprises, both activities to be financed under the Project.

Project Component 4: Designing an Action Plan for HIV/AIDS (US\$0.13 million)

The project contemplates financial assistance to the Government for its participation in the regional HIV/AIDS umbrella program, financed by the Bank. The action plan would qualify the country for such program.

Project component 5: The Project Coordination Unit (US\$1.98 millions)

Project coordination and management is described in Section VI. Project Institutional and Implementation Arrangements (paragraphs 19 through 23).

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project**Appendix 3: Summary Project Analysis***1. Economic:*

This is an institutional capacity building and technical assistance project. It does not lend itself to detailed cost-benefit analysis and rate of return calculations. Nevertheless, the project will be instrumental in the generation of new revenues for the State as well as in improving the collection and efficiency of revenue collection. Thus, the project is expected to have a high economic rate of return. Moreover, as more state expenditures will be possible as a direct benefit of the Project, the social impact of the Project is expected to be substantial.

2. Financial

Increasing transparency and improving governance in public sector management is bound to have an important positive effect on the sources of funds that Government will be able to mobilize. These objectives will be achieved through more effective control of oil production, the introduction of modern practices and procedures in the programming and budgeting process and of controls in the Ministry of Economy, Finance and Budget, improvements in the efficiency of the collection of income taxes and other taxes and duties, the progressive disengagement of the State from the economy, and the promotion of foreign investments in the country. Equity and justice in contractual engagements are to be achieved through more transparent procurement and judicial procedures.

3. Technical

The recent merger of the former Ministries of Planning and Economy, with Finances and Budget has created some duplication of effort and important delays in decision-making. Only a few government agencies have access to computers, and the flow of information is slow and cumbersome. The Project will provide executing agencies with modern technologies and equipment in the fields of communications, data processing, the intranet and internet connections. Appropriate training in these areas will also be provided.

4. Institutional

Three decades of centrally planned government, a low rate of participation of the private sector and civil society in the economy, a lack of training and weak public institutions have made the public sector in the country both overwhelming and inefficient. Institutional reforms are currently underway, particularly through the privatization program. Under the Project, the organization of the MoEFB would be assessed and the flow-of-information and decision-making processes of the newly created SNPC, the MoEFB, the Privatization Committee and the One-stop Investment Window for private investments would be revised and recommendations made and implemented to improve their efficiency.

On the other hand, progress in the updating current staff and the recruitment of new, qualified staff has been very slow. Thus, the chronic lack of competent staff is probably the

most important factor limiting Government's ability successfully to implement its economic recovery program. Under the project, special emphasis has thus been given to training. In fact about US\$1.7 million has been allocated to train executing agency staff at all levels, which is about 19% of total project cost. Training would consist of training trainers, sending top managers to seminars and on study visits abroad, on-the-job training and in-country training with international experts. In the long run, it would be useful to take into consideration other incentives that are presently missing (better salaries, work environment, etc.).

4.1 Executing agencies: and project management:

Detailed information on executing agencies and project management is provided in Section V on Project Institutional and Implementation Arrangements.

4.2 Procurement Issues:

Detailed information on procurement and disbursement arrangements is given in Appendix 4.

Institutional capacity in procurement is generally weak throughout the public sector. The State Contracting Law lacks corresponding regulations, thus promoting conflicting interpretations. No uniform organizational mechanisms and systems are in place to facilitate procurement transactions, and there are no standardized or computerized procedures. There is insufficient training of personnel responsible for carrying out public purchases and contracting.

4.3 Financial Management Issues:

From the financial management point of view, the main issue is the establishment of an effective financial management system that is compliant with OP/BP 10.02. The proposed solution is described in Section VI – Institutional and Implementation Arrangements (paragraphs 24 through 26). The approach proposed for procurement would be the same. The mechanisms that have been put in place and which have worked under similar projects would be used for the present project.

5. *Social*

5.1 Key social issues relevant to the project's objectives and social development outcomes:

The proposed operation does not have a targeted poverty focus, but the strengthening of the partnership among government, civil society and the private sector would have a positive, albeit indirect and influential effect on poverty related programs and poverty reduction. The Project has a special component to enhance a partnership through the setup of a soft consultative structure that would include NGOs, unions, employer's associations and representatives from the Ministries and agencies concerned. Consultative fora and seminars in the capital city and in the interior are scheduled to obtain a consensus on means to improve the dialogue among decision makers, stakeholders and the beneficiaries of government programs.

5.2 Participatory Approach: Participation of key stakeholders in the project:

Project beneficiaries are essentially public agencies, all of whom participated actively in the project design. The elements contained in the TSS have been widely discussed with stakeholders. In order to further the ongoing, unrestricted political dialogue the Government is pursuing during the current period of transition, an informal structure will be created under the PCU to enhance the participatory approach and coordination among the Government, the private sector and civil society, as regards implementation of the Project objectives.

5.3 Involvement of consultations or collaboration with NGOs or other civil society organizations in the project:

The project is helping Government disengage from the productive sectors of the economy, focusing on the privatization program; this will increase the participation of civil society in public resource mobilization and distribution. A consultative process would be established at the national level to enhance linkages among the public sector, the private sector and civil society.

6. *Safeguard Policies*: None of the following safeguard policies apply to the project:

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	No
Natural habitats (OP 4.04, BP 4.04, GP 4.04)	No
Forestry (OP 4.36, GP 4.36)	No
Pest Management (OP 4.09)	No
Cultural Property (OPN 11.03)	No
Indigenous Peoples (OD 4.20)	No
Involuntary Resettlement (OD 4.30)	No
Safety of Dams (OP 4.37, BP 4.37)	No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)	No

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project

Appendix 4: Procurement and Disbursement Arrangements

Procurement

GENERAL

1. A Country Procurement Assessment Review (CPAR) for Congo Brazzaville (Congo) showing that procurement procedures in Congo do not conflict with Bank Guidelines has not been carried out since 1987. No special exceptions, permits, or licenses need to be specified in the Credit documents, since Congo's procurement practices allow IDA procedures to take precedence over any conflicting provisions in local regulations. The Country's Procurement capacity has been weakened substantially following civil strike in 1997.

1.1. Substantial capacity rebuilding will be needed to recreate procurement proficiency at the central and sectoral levels. During the implementation of the Transparency and Governance Capacity Building Project (TGCBP), the capacity of the public procurement system will be thoroughly assessed and an action plan prepared to develop a training program and strengthen capacity in order to reduce the procurement risk level for future IDA financed investments. In 1982, a legal text created a procurement committee (*Commission Nationale des Marchés*) that was modified in 1989 and brought under the responsibility of the Prime Ministry and Ministry of Economy, Finance and Budget (MoEFB).

1.2. Several members of its staff are reportedly not familiar with Bank guidelines and procedures on procurement and disbursement. Therefore, it would be necessary for the PCU staff to receive intensive training in procurement. Although the PCU Coordinator and the CFO have experience in the execution of IDA financed projects, they have not been exposed to recent developments in Bank-financed procurement and would not in any event, be able to handle current, detailed procurement procedures. Therefore, a Procurement Specialist has just been recruited to assist in the preparation of requests for proposal, evaluation and contract management. The procurement specialist will be under the supervision of the PCU Coordinator.

Guidelines

2. No civil works are scheduled for the project. Goods financed by IDA will be procured in accordance with the Bank's Guidelines under IBRD Loans and IDA Credits (January 1995 revised in January and August 1996, September 1997, and January 1999). The Bank's Standard Bidding Documents, and Standard Evaluation Report will be used for ICB. National Competitive Bidding (NCB) advertised locally would be carried out in accordance with Congo's procurement laws and regulations, acceptable to IDA, provided that they assure economy, efficiency, transparency, and broad consistency with the key objectives of the Bank Guidelines. Under NCB, the procedures should ensure that: (i) methods used for the evaluation of bids and the award of contracts are made known to all bidders and not be

applied arbitrarily; (ii) any bidder is given adequate response time (four weeks) for preparation and submission of bids; (iii) bid evaluation and bidder qualification are clearly specified in bidding documents; (iv) no preference margin is granted to domestic manufacturers; (v) eligible firms are not precluded from participation; (vi) award will be made to the lowest evaluated bidder in accordance with pre-determined and transparent methods; (vii) bid evaluation reports will clearly state the reasons for the rejection of any non-responsive bid; and (viii) prior to issuing the first call for bids, draft, standard bidding documents prepared as annexes to the Project Implementation Plan will be submitted to IDA and found acceptable before credit effectiveness.

3. Consultant Services Contracts financed by IDA will be procured in accordance with the Bank's Guidelines for the Selection of Consultants by World Bank borrowers (January 1997 revised in September 1997, and January 1999). The Standard Request for Proposal, as developed by the Bank, will be used for appointment of consultants. Simplified contracts will be used for short-term assignments, i.e., those not exceeding six months, carried out by firms or individual consultants.

4. *Advertising*

Given the urgency of the project, a General Procurement Notice (GPN) for the first year of operations, has been prepared during the appraisal and will be issued in the United Nations Development Business (UNDB) web site without the need for hard-copy publication, as well as in the local newspapers to advertise for any ICB for goods and major consulting assignments to obtain expressions of interest. The requirement for printed publication of GPN has been waived by the RPA office. The GPN will also be issued in the national press for contracts to be let under NCB. The detailed GPN for the subsequent years will be prepared for the project and published in UNDB. It will be updated annually for all outstanding procurement. Specific Procurement Notices (SPN) and Expressions of Interest (EOI) for large contracts for consultants services (above US\$200,000 equivalent) will also be advertised in Development Business, and sufficient time will be allowed for responses to such specific notices (minimum 30 days) before preparing the short-list.

In order to accelerate project implementation, the Government wishes to proceed with the initial procurement steps before signing the related Credit Agreement. The procurement procedures, including advertising, will be done in accordance with the Guidelines in order for the eventual contracts to be eligible for Bank financing, and the normal review process by the Bank will be followed in accordance with the Procurement Guidelines for Goods and Consultants mentioned above.

5. *Procurement Implementation Arrangements*

The overall responsibility for the implementation of the TGCBP lies with the PCU. The PCU is responsible for carrying out the procurement for all Project Components. To ensure proper implementation, the PCU will include a project coordinator, specialists to coordinate implementation of project components, one procurement officer and one CFO. The PIM will define and specify the procedures for the internal control of procurement actions, the technical specifications in each case, as well as reference to model contracts as per the Bank's Standard Bidding Documents. The proposed project will build on that strength and on the fact that all the executing agencies of the project and the PCU and the administrative-financial unit which will be in charge of all procurement matters shall be familiar with IDA procedures. With respect to procurement, the PCU will act as a service provider for all executing agencies; it will receive the terms of reference, short-lists or specifications for goods or equipment to be purchased, and will prepare the letters of invitation and draft contracts and ensure that they are consistent with World Bank guidelines and approved by the CIER.

6. *Assessment of the Procurement Capacity of the Agency that is to Implement Procurement*

An assessment of the procurement capacity of the PCU to verify whether it will be able to handle the procurement workload under the project has been done. The process has also helped to set the parameters for prior review limits and the frequency of procurement supervision. Given the procurement workload during the first year and over the life of the project, an action plan has been established during preparation of the project to reinforce the PCU. This action plan was discussed during the negotiations to correct any management deficiency in the implementation agency's capacity to administer procurement efficiently and transparently. It involves (i) recruitment of a procurement proficient officer to ensure efficiency and effectiveness in the procurement process; (ii) procurement workshop training under Bank supervision; (iii) procurement training at the Regional Procurement Center in Dakar (Senegal); and (iv) on an exceptional circumstances basis, hiring of short-term consultants.

National bidding procedures for public procurement in Congo have not improved. A portfolio review including procurement matters of all on-going IDA-financed investment projects in Congo completed before 1997, has confirmed that procurement capacity is generally weak in the country; it has led, among other factors, to slowing the rate of disbursements and, in some cases, to the misuse of funds. However, the above-mentioned review has not uncovered specific weaknesses, except for the filing system that has already been addressed under the existing PCU.

The risks identified in the assessment include: lack of a procurement officer clearly responsible for project procurement; lack of procurement planning and lack of staff with planning skills; and some external influence on the appointment of individual consultants. The PCU will take actions to mitigate these risks, such as: revise PCU staff's responsibilities and functions; appoint a qualified procurement consultant for an initial

period of three months and provide further assistance through short-term visits during project implementation; and favor the appointment of consulting firms over individual consultants. In addition, the technical specialists in the PCU must submit a six-month procurement plan each semester to the PCU's procurement-proficient staff to facilitate project implementation. The PIM will include the procedures for the internal control of procurement actions, the technical specifications in each case, as well as reference to the model contracts as per the Bank's Standard Bidding Documents.

7. *Procurement Plan*

The procurement plan for the first two years was prepared during appraisal and has been finalized during negotiations. It is based on the initial needs of the project's components. Costs beyond the Project two first years are only indicative at the time of project appraisal. A draft procurement plan, developed by the Borrower for project implementation, provides the basis for the aggregate amounts for procurement. It has been revised by bank procurement staff during the appraisal missions. This plan will be adjusted as necessary with the assistance of the procurement consultant to be appointed by the PCU before credit effectiveness. At the beginning of each calendar year, the Borrower shall update the Procurement Plan with a detailed procurement schedule for the coming year. The procurement plan will be part of the Financial Management and Accounting Procedures sections in the PIM.

8. *Procurement Methods*

The methods to be used for procurement are described below, and the estimated amounts for each method are summarized in Table A. The threshold contract values for the use of each method are fixed in Table B.

Goods

9. Goods procured under this project will include computer equipment and software, electronic information systems, other office equipment and materials, training material and publications, vehicles and office equipment. This procurement would be preferably carried out under ICB. Procurement through IAPSO may be used for small items. Other goods (mainly furniture, office supplies and small equipment) locally available at economical prices and costing less than US\$50,000 per contract, up to an aggregate amount of US\$0.2 million, will be procured through National Competitive Bidding (NCB) under procedures acceptable to IDA. Equipment and software for the management of TGCBP, computer system for contract monitoring, and other goods to cost less than US\$50,000 per contract up to an aggregate amount of US\$200,000, will be procured through using shopping (National/International), by comparing at least three quotations obtained from reliable suppliers up to an aggregate amount of US\$0.1 million. These procedures would be based on a model request for quotations satisfactory to the Association.

Consultants Services and Training

10. Consulting services financed by IDA would be for: (i) Consultancies on technical matters regarding the "*Société Nationale des Pétroles du Congo*" (SNPC): review of fiscal legislation regarding the oil and gas industry, external audit, renegotiation of existing concession agreements, financial diagnosis and monitoring, preparation of a corporate training Program; (ii) Training, (iii) Support of project implementation, (iv) Financial management support and financial audits. Consultants financed by IDA, totaling US\$4,3 million, would be hired in accordance with Guidelines: Selection and Employment of Consultants by World Bank Borrowers, January 1997 revised September 1997, January 1999 (Consultant Guidelines). Selection would be based on competition among qualified short-listed firms through Quality-and Cost-Based Selection (QCBS) by evaluating the quality of the proposals before combining quality and cost evaluation by weighting and adding the quality and cost scores. The PCU would publicize procurement notices widely to ensure that all interested and able consultant candidates apply. The implementation unit will maintain and update a list of consultants, based upon agreed criteria, which will be used to establish short-lists.

11. Other methods would also apply. For audits and other services of a standard nature, up to an aggregate amount of US\$3,9 million, the Least-Cost Selection (LCS) would be the most appropriate methods. The firm with the lowest price will be selected provided its technical proposal received the minimum qualifying mark. Consultants' services for small and simple services (estimated to cost less than US\$50,000 per contract and up to an aggregate amount of US\$ 200,000 would be based upon Consultants Qualifications (CQ) that take into consideration the consultants' experience and competence relevant to the assignment. Services for lecturers and small studies estimated to cost less than US\$10,000, up to an aggregate amount of US\$100,000 per contract, will be procured under contracts awarded to individual consultants in accordance with the provisions of paragraph 5.1 through 5.3 of the Consultants Guidelines.

Firms

12. All contracts entered into with any firm must be on the basis of QCBS, LCS except for small and simple contracts that would be procured using CQ.

Individuals

13. Specialized advisory services (services for lecturers and small studies) which can be delivered by individuals, would be selected through a comparison of qualifications among Individual Consultants (IC) expressing an interest in the assignment or approached directly, and hired in accordance with the provisions of paragraphs 5 of the Bank's Guidelines.

14. Short-Lists of consultants for contracts estimated to cost under US\$100,000 may be comprised entirely of national consultants, if a sufficient number of qualified firms (at least three) are locally available at competitive costs. This would particularly apply to contracts for auditing services. However, if foreign firms have expressed an interest in those contracts, they will not be excluded from consideration.

15. **IDA Reviews.** Contracts financed by IDA above the threshold value of US\$100,000 equivalent for Goods will be subject to IDA's prior review procedures. The review process would cover about (70%) of the contract amount for Goods, and consultants. See Table B below. A selective, post-review of contracts awarded below the threshold level will apply to about one in five contracts, and will be carried out by Bank staff or using audits, (and other consulting firms), as necessary.

16. Bank staff will also review the selection process for the hiring of consultants proposed by the Borrower. Prior IDA review for the selection of consultants will include the review of budgets, short-lists, selection procedures, requests for proposals, evaluation reports, contract awards, and negotiated contracts. Prior IDA review will not apply to contracts for the recruitment of consulting firms and individuals estimated to cost less than US\$100,000 and US\$50,000 equivalent, respectively. However, the exception to prior IDA review will not apply to the Terms of Reference of such contracts, regardless of their value, for single-source hiring, for assignments of a critical nature as determined by IDA, or for amendments of contracts raising the contract value above the above-mentioned prior-review thresholds. For all consultant contracts subject to prior review (estimated above US\$100,000), the opening of the financial envelopes will not take place prior to receiving the Bank's no-objection to the technical evaluation.

17. Documents related to procurement below the prior review thresholds will be maintained by the borrowers for ex-post review by auditors and by IDA supervision missions.

18. For training abroad, the program, containing names of candidates, costs estimates, content of courses, periods of training and selection of training institutions, will be reviewed annually by IDA.

Frequency of Procurement Supervision

19. Frequency of procurement supervision missions proposed: One supervision mission to be carried out by the Association, every three months, will include special procurement supervision for post-review/audits in addition to the prior review supervision. This proposal is based on the capacity assessment of the PCU in accordance with the overall risk assessment. This review should cover a sample of not less than 1 in 5 contracts signed.

20. Modification or waiver of the scope and conditions of contracts. Before agreeing to any material extension, or any modification or waiver of the conditions of contracts that would increase the aggregate cost by more than 15% of the original price, the Borrower should specify the reasons therefore and seek IDA's prior no-objection for the proposed modification

Status of the Project Implementation Manual (PIM)

21. As a condition for effectiveness, the PCU will submit to IDA: (i) a PIM with a specific section on procurement, detailing procedures for planning, calling for bids, selecting

contractors, suppliers and consultants, and (ii) a Project Implementation Plan (PIP) and a Procurement Plan for the first year of operations. Internal organization will be incorporated to better serve as a practical guide describing procedures agreed within the DCA. It will be used for: (i) supervision and control, including operational guidelines defining the role of each executing agency, and reporting requirements and (ii) disbursement procedures. The PIM will be reviewed and adopted before credit effectiveness. It will be a condition for credit effectiveness. The draft PIP developed by the borrower has been discussed during the appraisal mission.

22. Before effectiveness, the Government will review and agree with IDA on: (i) the draft procurement plan for the first year, as prepared during the appraisal mission; (ii) a draft version of the Request for Proposals; (iii) standard bidding documents to be used under NCB procedures for goods; and (d) a training plan for the first phase of the project's life. The Government will also give assurance that it will (i) use the PIM; (ii) use the Bank's Standard Bidding Documents for ICB, the Standard Request for Proposals for the selection of consultants, and the Standard Bid Evaluation Reports; (iii) apply the procurement procedures and arrangements outlined above; (iv) update the procurement plan on a regular basis during annual reviews with IDA and other donors, to compare target times and actual completion, and transmit it to IDA, during implementation, with all procurement-related documents; and (v) carry out, during annual reviews, an assessment of the effectiveness of bidding procedures and performance, as they relate to the program's procurement experience, and propose for IDA and donors' consideration any modification to the current procedures to the extent that they would accelerate procurement, while maintaining compliance with the Bank's Procurement Guidelines and adequate control over contract awards and payments.

Guidelines and adequate control over contract awards and payments

23. In addition, the Government has given assurances, at negotiations, that it will take the measures necessary to ensure that procurement phases do not exceed the following target time periods:

Procurement Phases	Maximum number of Weeks
Preparation of Bidding Documents	4 (6 for large contracts)
Preparation of Bids by Bidders	4 (6-10 for ICB)
Bid Evaluation	2 (4 for large contracts)
Signature of Contracts	2
Payments	3

24. The proposed thresholds for prior review, based on the procurement-capacity-assessment of the project-implementing unit, are summarized in Table B.

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project

**Appendix 4: Table A – Project Costs by Procurement Arrangements
(in US\$ million equivalent)**

	International Competitive Bidding	National Competitive Bidding	Other (ii)	Consulting Services (ii)	N.B.F. (iii)	Total
Goods						
Vehicles	-	0.1 (0.1)	-	-		0.1 (0.1)
Equipment, Materials & furniture	0.6 (0.5)	0.4 (0.3)	0.1 (0.1)	-	0.5	1.6 (0.9)
Advisory Services						
Consultants, Studies, Audits	-		-	3.9 (3.9)	1.6 (0.0)	5.5 (3.9)
Training, Seminar. & Study Tour	-	-		2.8 (1.5)	0.2 -	3.0 (1.5)
Operating Costs						
Utilities & Maintenance	-	-	0.6 (0.6)	-	-	0.6 (0.6)
TOTAL	0.6 (0.5)	0.5 (0.4)	0.7 (0.7)	6.7 (5.4)	2.3 -	10.8 (7.0)

Note: (i) Figures in parenthesis are the amounts to be financed by the International Development Association. All costs include contingencies.

(ii) Other procurement methods include prudent shopping, selection of consultants following IDA guidelines (services of contracted staff of the project management office, training, technical assistance services), expenditures following Government's administrative procedures acceptable to IDA, and direct purchasing of goods, and incremental operating costs related to managing the project, and

(iii) N.B.F. = Not Bank-financed

Appendix 4: Table B - Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts Subject to Prior Review
1. Goods	More than 100,000 equivalent	ICB	All contacts exceeding the thresholds.
	Between US\$50,000 and US\$100,000	NCB	The first three contracts in an amount of less than US\$100,000 every year.
	Less than US\$50,000	National/International shopping	See above.
2. Consultants / Training			
a. Firms	In excess of US\$50,000	Quality-Cost Based Selection- And Least Cost Selection	All ToRS, short lists, drafts contracts, and Selection reports.
	Less than US\$50,000	Consultant's Qualification and Least Cost Selection	All ToRS, short lists, drafts contracts, and selection reports.
Routine/standard contracts	Less than US\$50,000	Least cost	All ToRS, short lists, drafts contracts, and Selection reports and all single source contracts.
b. Individuals	Less than US\$10,000	Individual consultants (Comparison of 3 CVs)	All ToRs, First three Drafts of contracts. Equal and more than US\$25,000 for individuals.

Overall Procurement Risk: A

An evaluation of the capacity of the PCU will be carried out before credit effectiveness. Once every six months (includes special procurement supervision for post-review and audits).

Prior review is required for:

- (a) all terms of reference for consultants, studies, and training; annual training and procurement plan;
- (b) short list, selection report, and contract with consulting firms of an equivalent value of US\$50,000 or more (for contracts of an equivalent value of US\$100,000 or more, technical evaluation report and copy of proposals, if requested, shall be furnished to the Bank)
- (c) short list, selection report, and contract with individuals of an equivalent value of US\$25,000 or more
- (d) amendments to contracts with consulting firms that bring the total value of the contract to US\$50,000 equivalent or above, and individuals that bring the total value of the contract to US\$25,000 or above.

Disbursement**Appendix 4: Table C - Allocation of Credit Proceeds**

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Goods		
a. Vehicles	0.05	100 of foreign expenditures
b. Equipment, Materials and Furniture	0.49	80 of local expenditures
2. Advisory Services		
a. Consultants, studies and audits	3.21	100
b. Training, Seminars, Study Tours	1.31	
3. Operating Costs		
Utilities and Maintenance	0.54	100 of foreign expenditures 80 of local expenditures
4. Refunding of Project Preparation Advance	0.70	
5. Unallocated	0.70	
TOTAL	7.00	

Assumptions: 10% of the total amount of the credit is considered unallocated.

The PPF amount is equivalent to US\$700,000.

Disbursement Mechanism, Flow of Funds and Risk Management

Proceeds of the credit will be disbursed from the IDA account to a Special Account (SA) opened at CAIC, a commercial bank, acceptable by IDA. Funds would subsequently flow from the SA to a Project Account (PA) to facilitate disbursements in local currency at each level of the project. Only amounts exceeding 25% of the amount advanced to the special account could be claimed through the direct payment procedure. The PCU would receive an initial advance to commence operations. The advance would be kept initially to a limited amount while project activities get underway, but would be increased once full execution begins and cumulated disbursements reach a predetermined threshold. The initial amount, the disbursement threshold, and the maximum special account amount would be agreed upon during negotiation. For subsequent disbursements, the PCU would submit appropriate justification on the use of amounts disbursed earlier (bank reconciliation statements and other reasonable documentation) to IDA. The SA would be audited annually by an external auditor acceptable to IDA. When replenishment of the SA is requested, the PCU should indicate on its reconciliation statement the location and amounts outstanding in any other project account.

Payments to the Beneficiaries would flow from the project account and would be made according to predetermined disbursement schedules to be specified in the respective proposals. Transfer payments would be effected expeditiously when due, and fund

management would follow transparent procedures that would be standardized across Executing Agencies and detailed in the PIM.

The use of Statements of Expenses (SOEs) would be contingent upon a satisfactory assessment of the PCU's financial management capacity, including the maintenance of proper accounts, the preparation of project progress reports, the ability to process and maintain SOE documentation, and satisfactory annual auditing arrangements. Provided these conditions are met, SOEs would be used for all expenses. Furthermore, all expenses related to contracts below prior-review thresholds would be claimed on the basis of SOEs, and the supporting documentation underlying all SOEs would be made available for review by Bank supervision missions at any time. Supporting documentation would be retained by the PCU. The primary responsibility for maintaining the records rests on the CFO. The satisfactory assessment of the financial management system would be one condition of effectiveness.

Use of Statement of Expenditures (SOEs)

Basic Principles

2.1 The Chief Financial Officer (CFO) of the PCU team would be entrusted with the Program's overall financial management and reporting and would serve as the principal contact for Bank disbursement purposes. Each Executing Agency would be in charge of reporting with respect to its own activities, and would be required to provide copies of its reports to the Head of the PCU. Payments to the Beneficiaries would flow from the PA and would be made according to predetermined disbursement schedules to be specified in the respective proposals. Transfer payments would be effected expeditiously when due, and fund management would follow transparent procedures that would be standardized across Executing Agencies and detailed in the implementation manual.

Use of Statements of Expenses (SOEs)

2.2 The use of SOEs would be contingent upon a satisfactory assessment of the PCU's financial management capacity, including the maintenance of proper accounts, the preparation of project progress reports, the ability to process and maintain SOE documentation, and satisfactory annual auditing arrangements. Provided these conditions are met, SOEs would be used for all expenses. Furthermore, all expenses related to contracts below prior-review thresholds would be claimed on the basis of SOEs and the supporting documentation underlying all SOEs would be made available for review by Bank supervision missions at any time. Supporting documentation would be retained by the PCU. The primary responsibility for maintaining the records rests with the CFO. The satisfactory assessment of the financial management system would be one condition of effectiveness.

Special Account

2.3 The Government has opened a SA in the name of the PCU at CAIC, a commercial bank, to which project funds will be deposited. The objective of the special account is that most, if not all credit funds be disbursed through this procedure, with the PCU relying as little as possible on direct payments from IDA in Washington. Only amounts exceeding 25% of the amount advanced to the special account could be claimed through the direct payment procedure. The PCU would receive an initial advance to commence operations. The advance would be kept initially to a limited amount while project activities get underway, but would be increased once full execution begins and cumulated disbursements reach a predetermined threshold. The initial amount, the disbursement threshold, and the maximum special account amount was agreed during negotiation. For subsequent disbursements, the PCU would submit appropriate justification on the use of amounts disbursed earlier (bank reconciliation statements and other reasonable documentation) to IDA. The Special Account would be audited annually by an external auditor acceptable to IDA. At the time when replenishment of the SA is requested, the PCU will indicate on its reconciliation statement the location and amounts outstanding in any other project accounts.

Project Account

To facilitate disbursements at each level of the project, the government has opened a PA at CAIC that would receive funds in local currency. PA is funded by the Special Account and will be managed according to the procedures specified in the PIM and in accordance with respective annual work programs and budgets. The consolidation of expenses will be effected by the PCU.

REPUBLIQUE DU CONGO

Projet de Renforcement des Capacités de Transparence et de Gouvernance

Appendice 5: Lettre de Politique de Développement du Gouvernement de la République du Congo pour 2001/2002

Au cours des années récentes, la scène politique et sociale a été marquée par des conflits armés successifs qui ont occasionné de fortes pertes en vies humaines, poussé plus d'un tiers de la population congolaise à désertier leur résidence habituelle, ébranlé l'infrastructure de base et détruit la plupart des moyens de production. Pour faire face à ces problèmes, le Gouvernement de la République du Congo a lancé un programme de redressement économique avec le soutien financier de la communauté financière internationale, et en particulier l' Association pour le Développement International (IDA) qui a récemment approuvé un Crédit de Redressement Economique Post-Conflit de 37.8 millions de dollars américains. Le Gouvernement est engagé à introduire des réformes recommandées dans cette opération. Plus précisément, le Projet proposé de Renforcement des Capacités de Transparence et de Gouvernance va pourvoir à l' assistance technique et de gestion nécessaire requise pour mettre en oeuvre ces réformes. Cette lettre de politique de développement donne une image générale de la manière dont le Gouvernement entend utiliser les ressources de ce nouveau crédit IDA.

Contexte politique et économique

Quand la guerre civile éclata en juin 1997, l' économie congolaise avait déjà été affaiblie par des années de gestion économique médiocre et de gouvernance précaire et par un conflit antérieur en 1993-94. Durant ces dissensions internes, les dépenses étaient réorientées pour faire face aux besoins de sécurité et à la demande urgente d' assistance alimentaire pour les personnes affectées par le conflit. En l' absence de financement domestique et externe adéquat, le déficit budgétaire était financé principalement par une accumulation d'arriérés, qui entraîna à la fois une détérioration de la balance des paiements et un épuisement des réserves en devises du pays. En conséquence, les arriérés de la dette extérieure à fin 1999 s' accrurent à un montant représentant 94 pour cent du PIB. Le PIB non pétrolier accusa un déclin de 19 pour cent sur la période 1997 -98 et les prix à la consommation fluctuèrent considérablement à cause du fait que les marchés étaient inadéquatement approvisionnés et l' infrastructure des transports et communications avait été endommagée.

Le Forum National pour l' Unité, la Réconciliation et la Reconstruction Nationale, tenu en janvier 1998, a convenu d'un retour à la vie démocratique, et, à cette fin, a proclamé une période de transition flexible de trois ans. Un Conseil National de Transition, avec 75 membres, a été mis sur pied par le Forum et il joue le rôle d'un organe législatif. Une commission constitutionnelle était créée pour rédiger la nouvelle Constitution qui sera adoptée en janvier 2002.

Les accords de cessez-le-feu signés le 16 novembre et le 20 décembre 1999 posèrent les bases pour un retour à la paix. Après de si nombreux épisodes pénibles et regrettables, le Congo retrouve à nouveau la voie de la paix et de la réconciliation consolidées par l'organisation harmonieuse du Dialogue National tenu du 17 mars au 14 avril 2001. Cette rencontre permit à près de 1.500 délégués venus de tous les horizons politiques et milieux sociaux de s'exprimer, d'échanger les points de vues et d'aboutir à un consensus sur les problèmes essentiels sous-jacents à un développement calme et paisible de la nation. Un référendum pour la nouvelle Constitution aura lieu en janvier 2002, et les élections générales suivront immédiatement conformément aux règlements en vigueur.

Le Gouvernement espère qu'une amélioration dans la situation politique et sécuritaire du pays va conduire au redressement économique en général et particulièrement dans les secteurs de l'agriculture, de la sylviculture, du commerce, des transports et des travaux publics. Le Gouvernement est aussi engagé à restaurer les services, plus particulièrement dans les domaines de la santé, des soins de santé de base, de l'éducation, de l'assainissement et de la justice. Il est prévu que l'investissement public et privé va s'accroître en réponse aux réformes structurelles, à l'amélioration du climat d'affaires, à l'accroissement des activités et efforts visant à promouvoir la bonne gouvernance et la transparence dans la gestion des affaires publiques. En dépit de la possibilité d'un ajustement continu à la fin du programme et le re-échelonnement probable avec les créanciers du Club de Paris sous les termes de Naples, de grandes insuffisances financières vont continuer durant toute la période de 2002-05, démontrant ainsi le besoin d'une assistance continue.

A la faveur du retour effectif de la paix, le Gouvernement a mis en oeuvre un Programme Intérimaire Post-Conflict (PIPC) pour la période 2000-02, qui était adopté par le Conseil National de Transition. Les principaux objectifs de ce programme sont: (a) la reconstitution et le renforcement des capacités institutionnelles et administratives, en posant la fondation pour une bonne gouvernance et l'application des règles de transparence; et (b) l'amélioration du cadre macro-économique et du climat social pour stimuler la capacité d'offre de l'économie et promouvoir la croissance économique. Pour atteindre ces objectifs, le Gouvernement congolais s'est engagé à poursuivre une politique de développement soutenue par le Crédit IDA de Redressement Economique Post-Conflict.

Par ailleurs, le Gouvernement est préoccupé par la reconstitution et la modernisation de l'administration publique. Pour cela il entend se concentrer sur la gestion des finances publiques, la gestion de l'économie, la planification stratégique et la gestion horizontale et verticale de toutes les ressources. Le Projet de Renforcement des Capacités de Transparence et de Gouvernance se propose de renforcer la capacité de gestion des structures administratives de l'Etat responsables du cadre macro-économique au Congo.

Le Projet de Gouvernance de Renforcement des Capacités de Transparence et de Gouvernance

Le Projet comprend trois composantes stratégiques: le secteur des hydrocarbures, l'administration publique et le désengagement de l'Etat de l'économie, il s'y ajoute un plan

d'action pour le VIH/SIDA. Chacune des trois composantes principales est développée ci-dessous avec une attention particulièrement donnée aux engagements de l'Etat.

Transparence et gouvernance dans le secteur pétrolier

La production du pétrole a été et restera pendant longtemps un facteur clef dans l'économie nationale et une force agissante pour le développement économique et social. Cependant, l'Etat ne tirera pas entièrement profit de ses ressources pétrolières tant que certaines questions importantes ne seront pas réglées. Le Gouvernement reconnaît que deux problèmes clef affectent le développement du secteur : la part de l'Etat dans la production pétrolière totale du pays est l'une des plus faibles au monde; et, le fait qu'une grande partie de la production de pétrole future est engagée au paiement de la dette extérieure. Ainsi, des réformes importantes devraient être entreprises pour permettre à l'Etat d'exercer un meilleur contrôle de ses ressources naturelles non-renouvelables qui représentent plus de deux tiers du produit intérieur brut du pays.

La transformation du secteur a été longue et douloureuse; cependant les changements prennent déjà forme. Des réformes législatives réglementant le secteur, avec l'adoption du Code d'Hydrocarbures en 1994, ont clarifié la séparation des fonctions régulatrices de l'Etat sous l'égide du Ministère d'Hydrocarbures (MoHy) d'opérations de pétrole sous la *Société Nationale des Pétroles du Congo (SNPC)*. La SNPC est une entreprise nationale autonome. Elle a été créée en 1998 pour reprendre toutes les activités d'exploration et de production du secteur jadis dévolues à Hydrocongo. Le désengagement de l'Etat se poursuit activement avec la privatisation récente de toutes les opérations de distribution et un peu plus tard de toutes les activités connexes.

Malgré ces progrès, il subsiste de nombreuses préoccupations quant au volume de production (par exemple, le manque de contrôle de compteurs de production du pétrole sur les plates-formes en mer), à la détermination du coût de production du pétrole, et du profit pétrolier (par exemple, l'utilisation de taux d'amortissement linéaire plus court appliqué aux dépenses de développement), aux nombreux privilèges fiscaux prévalant dans le secteur du pétrole, à la complexité des accords légaux et de nouvelles clauses supplémentaires ajoutées à celles existantes rendant ainsi la législation entière difficile à comprendre, et, finalement, au manque chronique de personnel qualifié.

Le Projet vise à servir d'appui pour le développement et la mise en oeuvre des mesures sous le nouveau cadre légal et l'introduction de nouvelles réformes dans le secteur pétrolier. Un programme d'action en deux étapes a été convenu entre le Gouvernement et l'Association. La première phase couvre toutes les mesures à mettre en oeuvre à court terme conformément à l'esprit de la convention récemment signée entre le MoEFB, le MoHy et la SNPC qui détermine le rôle et la responsabilité de chaque partie. Ces mesures comprennent:

- L'audit financier de la SNPC et le lancement de l'audit financier des trois principales sociétés de production de pétrole.

- L'achèvement du Code Huiles et textes d'application des conventions et contrats de partage de production du pétrole, la finalisation de la réglementation concernant la redistribution, le raffinage et le transport.
- L'audit opérationnel complet du secteur des hydrocarbures.
- La conception d'un modèle d'opérations de production du pétrole et de calcul des revenus dans chacune des zones de production.
- L'évaluation et le financement de la formation du personnel, du traitement de données et des équipements de télécommunication.

Pendant la deuxième phase les actions recommandées pendant la première période seront mises en oeuvre, a savoir :

- Recommandations faites par l'audit opérationnel du secteur des hydrocarbures (MoHy, SNPC, raffinage, distribution et commercialisation).
- Re-négociation des conventions et contrats existants en vue de simplifier leur exécution et faciliter le contrôle de l'Etat.
- Audit financier de la SNPC pour l'année fiscale 2002.
- Achèvement du Code du Gaz et du (des) décret (s) de mise en oeuvre.
- Mise en oeuvre du modèle pour la production du pétrole et l'analyse des revenus.
- Poursuite du programme de formation et d'achat d'équipements.

Transparence et gouvernance dans le secteur public non-pétrolier

La réhabilitation du secteur public non-pétrolier est un objectif clef et une priorité de gestion pour le Gouvernement, étant donné la présence d'un certain nombre d'obstacles structurels qui pourraient mettre en danger le redressement économique à long terme. Ceux-ci comprennent le problème grave de la dette extérieure et intérieure, des questions touchant à la reconstruction et à la réhabilitation de l'infrastructure économique et sociale, le coût de démobilisation et de réinsertion des populations déplacées et de jeunes combattants, et la destruction du système d'information et des bases de données. De plus, les opérations financières hautement complexes de l'Etat sont gérées par un personnel qui est souvent non professionnel, une situation qui fournit un terrain fertile à un système énorme d'extorsion et de fraude. Le Gouvernement a désigné le MoEFB pour prendre l'initiative d'aborder ces questions. Des règles transparentes de passation des marchés et un cadre juridique adéquat vont aussi améliorer d'une façon significative la bonne gouvernance. Au Congo, il y a respectivement la responsabilité de la *Commission Nationale de Centralisation et de Coordination des Marchés de l'Etat* et de la *Cour des Comptes*. Ensemble avec le MoEFB, ces agences vont bénéficier de la deuxième composante de Projet.

Ministère de l'Economie, des Finances et du Budget (MoEFB)

Le MoEFB est un ministère important ayant la responsabilité de gestion tant des comptes nationaux que des finances publiques. Sa lourde structure, est en partie le résultat de la fusion des deux Ministères précédents (Plan et Economie, Finances et Budget) qui a

conduit à la superposition des services avec des responsabilités semblables. Les ressources pour aborder les questions organisationnelles ont aussi fait défaut.

A cause de la complexité des réformes envisagées sous le Projet, le Gouvernement a consenti à créer un *Comité d'Exécution de la Réforme (CER)* au sein du MoEFB pour assurer la mise en oeuvre et le suivi du Projet. Le Directeur de Cabinet présidera le CER qui sera composé de tous les Directeurs généraux et des Directeurs rattachés. Toutes les décisions concernant le Projet, particulièrement toutes les décisions relatives au choix des tâches à effectuer sous le projet, aux octrois de contrats et au choix de consultants, devront recevoir l'approbation du CER.

Une des premières priorités du Ministère sera la constitution d'une base statistique nécessaire pour améliorer la gestion économique. En effet, l'interruption de toute forme d'information et de collecte statistiques pendant les nombreuses années de conflit interne a créé un vide en termes d'information économique, financière et sociale disponible, y compris le niveau de pauvreté, pour la préparation des comptes nationaux et leur analyse par des décideurs. Pour corriger cette situation, le Gouvernement sollicite l'appui de l'IDA pour moderniser ses comptes nationaux selon la norme SCN93 et ERETES, aussi bien que pour créer une base de données sur la performance économique et le niveau de pauvreté dans le pays. En même temps, les autorités ont l'intention de renforcer la coordination à l'intérieur du ministère pour la préparation et l'utilisation des statistiques nationales.

Un autre problème est la faiblesse au sein du MoEFB du système de programmation pluriannuelle qui permettrait d'élaborer une politique cohérente d'investissements publics. Les autorités ont conclu qu'une analyse des procédures existantes et du nombre de Directions Générales et des Directions intervenant dans la programmation des revenus et dépenses publics devrait être entreprise avec l'appui de l'Association pour établir aussitôt que possible un système de programmation au sein d'un processus décisionnel clairement défini.

Le MoEFB est aussi conscient que de nombreux facteurs négatifs affectent encore la bonne gestion des finances publiques. Les efforts vigoureux que le Gouvernement a déployés ces dernières années pour rationaliser tous les textes légaux qui encadrent la gestion des finances publiques sont loin d'être suffisants. Ces efforts doivent se poursuivre tant avec la mise en oeuvre de la comptabilité publique conformément au plan comptable recommandé par la CEMAC qu'avec la préparation d'un plan comptable pour les entreprises publiques.

En même temps, la simplification du processus d'exécution du budget (*Chaîne des dépenses*) devrait être lancée avec la réduction des autorisations, le volume des documents justificatifs et le nombre des comptes d'avance, aussi bien que l'introduction d'une nomenclature unique des comptes du Budget et du Trésor qui permettrait la pleine intégration du processus. La conception et la mise sur pied d'un nouveau système de contrôle des transactions financières au Trésor faciliteraient alors la réduction d'arriérés aussi bien que la clôture des comptes annuels finaux pour les années 1994-2001 et le début de l'année 2002 sur une nouvelle base budgétaire. L'informatisation du processus

d'exécution budgétaire devrait être étudiée et introduite au moment où les comptes et le processus budgétaire sont en train d' être mis en place.

Les difficultés récurrentes dans la mobilisation des ressources suffisantes pour rembourser la lourde dette extérieure du pays et pour couvrir les besoins de reconstruction, malgré l'augmentation des revenus pétroliers, font partie des préoccupations des autorités. Combattre la fraude fiscale et augmenter les revenus fiscaux constituent alors une priorité pour améliorer la part des recettes hors pétrole dans le PIB. Malgré les efforts récemment faits par le Gouvernement pour renforcer les administrations des douanes et des impôts, (par exemple, elles étaient réorganisées en octobre 1999), les revenus fiscaux restent en deçà de leur potentiel. Cette situation résulte de la difficulté d'évaluer correctement la base fiscale des individus et des sociétés, de la faiblesse de la législation fiscale et, plus généralement, de l'insuffisance des capacités des administrations.

Le Gouvernement a décidé de faire un diagnostic général (l'audit opérationnel) de ces deux Directions Générales en vue d'augmenter leur efficacité et leur capacité de produire davantage de revenus pour l'Etat. En même temps, des actions immédiates seront entreprises, y compris l'analyse de l'impact des réductions et exemptions fiscales sur le budget de l'Etat, et la préparation d'un plan pour corriger cette situation, la mise en oeuvre d'un *Numéro d'Identification du Contribuable (TPIN/NIC)* qui a été jusqu'ici limité aux plus grandes entreprises, le lancement d'études pour la préparation du bureau du cadastre urbain, et la mise en oeuvre du régime d'impôt foncier et une étude du secteur informel au Congo.

Les autorités sont aussi préparées à appliquer la Taxe sur la Valeur Ajoutée (TVA) sur toutes les entreprises et autres activités pour augmenter les revenus. A cette fin, le décret de son application au secteur des hydrocarbures a été signé le 19 octobre 2001 avec effet rétroactif dès janvier 2001. Les autorités ont aussi reconnu que la TVA ne devrait pas être utilisée comme une mesure de protection, mais, en même temps, ne devrait pas mettre les entreprises locales dans une position moins compétitive par rapport aux sociétés étrangères intéressées à être en concurrence pour les contrats locaux de biens et services.

Le Gouvernement entend faire appel à l'épargne nationale pour mobiliser des ressources complémentaires. Dans cet esprit, le Trésor a récemment créé une Direction spéciale appelée la *Direction des Correspondants des Dépôts et des Consignations*. En conséquence, le Gouvernement sollicite l'appui de l'IDA pour la mise en place et le fonctionnement de cette Direction.

Le Gouvernement est bien conscient que la bonne gestion des finances publiques requiert l'application de directives justes et équitables de passation des marchés des biens et services publics aussi bien que l'installation d'un système judiciaire capable d'assurer la transparence, la responsabilité et la bonne gouvernance des ressources publiques. Pour atteindre ces objectifs, le Gouvernement a initié une revue des directives existantes de passation des marchés par un Comité Interministériel présidé par le MoEFB, étant donné que les directives présentes sont loin de répondre aux exigences modernes d'affaires et de commerce international et ne sont pas conformes aux directives de la Banque-IDA. Une

nouvelle législation a été préparée sous laquelle la *Commission Centrale de Contrats Publics* serait remplacée par plusieurs commissions ayant l'autorité d'agir aux niveaux national, régional et local. Une Agence réglementaire s'assurerait que cette structure et ses directives soient passées en revue de temps en temps pour les mettre au niveau des standards internationaux. L'aide de l'IDA est demandée pour effectuer un examen minutieux de cette proposition.

La *Cour des Comptes* (CDC) est l'institution indépendante suprême d'audit du pays. Elle était créée en 1992 pour surveiller tous les comptes et finances publics, y compris les entreprises publiques, les institutions financières et le système de sécurité sociale. Malheureusement, la CDC n'a jamais fonctionné suite à la longue agitation civile dans le pays. Avec l'objectif de faire appliquer la discipline budgétaire, les magistrats de la Cour ont récemment été nommés. Cependant, un examen de ses responsabilités a révélé une série d'anomalies quant à l'indépendance de ses magistrats, les attributions de la Cour et le manque d'information au public sur ses décisions et jugements. Les Autorités ont donc décidé de conduire une étude comparative des responsabilités et la portée de la juridiction de la Cour et de son autonomie en comparaison à d'autres pays semblables dans le monde. Une fois que la Cour est installée, le renforcement de son organisation dans la communication et d'autres équipements nécessaires pour mener à bien ses obligations peut commencer.

Le Gouvernement comprend que son programme de réforme ne sera jamais mis en oeuvre si aucun remède n'est apporté au manque chronique de personnel qualifié dans tous les domaines d'expertise au MoEFB. De même, le besoin d'équipements modernes de traitement de données et de télécommunication est énorme. Le MoEFB et les autres agences impliquées dans le Projet ont convenu de préparer et soumettre à l'IDA un programme de formation de leur personnel sur un large éventail de domaines, comme les finances publiques, la taxation, la comptabilité publique, les statistiques et les langues étrangères. Ces administrations prépareraient aussi et présenteraient à l'Association une liste de matériel et de logiciel aussi bien que d'équipements de communications et autres nécessaires pour la réalisation des objectifs de renforcement institutionnel indiqués dans le Projet.

Transparence et gouvernance dans le processus de privatisation

Le désengagement de l'Etat des secteurs productifs dans le pays et la mobilisation de nouvelles ressources financières à travers l'investissement étranger direct sont parmi les plus hautes priorités du Gouvernement. Les règles régissant le programme de privatisation ont été définies dans la loi organique No.21-94 du 10 août 1994 sur la privatisation. Ce programme a été arrêté pendant la guerre civile. A la fin de la guerre, le Gouvernement a repris le programme avec la réinstallation du *Comité de Privatisation (CP)* responsable du processus de privatisation pour les entreprises publiques non financières. En revanche, le traitement du secteur financier (Banques et Assurances) a été confié au MoEFB.

L'ajustement structurel du secteur financier progresse d'une manière satisfaisante. Trois banques d'Etat ont déjà été restructurées avec leurs actifs négatifs transférés à la

gestion de la *Caisse Congolaise d'Amortissement*. La liste des entreprises publiques à privatiser a été publiée et les entreprises ont été classées en deux groupes appelés «périmètres». Le premier périmètre inclut les cinq plus grandes entreprises publiques du pays. Le deuxième périmètre couvre le secteur de l'agro-industrie, les sociétés de service, le secteur de sylviculture, le secteur des transports et de transit, et le tourisme (hôtels). Un volet social est inclus dans la loi de privatisation. Les réalisations principales jusqu'à présent dans le secteur du pétrole incluent le transfert des activités d'exploration et de production d'Hydro-Congo à la SNPC, et la privatisation en cours de la distribution du pétrole, des avoirs de GPL et de la *Congolaise de Raffinage*.

Dans les autres secteurs, le processus est en cours pour la signature d'accords concessionnaires dans les secteurs de l'alimentation en eau et en électricité pour lesquels plusieurs sociétés internationales ont exprimé déjà leur intérêt. De plus, le Code d'Eau et le Code d'Electricité ont été transmis au Conseil National de Transition pour approbation, et les structures réglementaires pour ces deux secteurs sont en voie d'achèvement. Dans le secteur des transports, l'ATC a été scindée en trois entreprises publiques. Aussi 17 sociétés ont-elles exprimé leur intérêt de soumissionner pour un contrat de mise en concession du CFCO; et les termes de référence pour la restructuration des transports par voies navigables (VNPTF) ont été préparés. Dans les Services Postaux et de Télécommunications, le Ministère des Postes et Télécommunications a publié en décembre 2000 une Lettre de Politique Sectorielle sous-jacente à l'accord de Gouvernement pour la dissolution de l'ONPT, la dissolution de la Caisse Nationale d'Epargne et la création des Services Postaux et de Caisse d'Epargne du Congo (SOPECO).

Quant au deuxième périmètre, sept sociétés publiques sont en voie de privatisation ou sont en cours de liquidation dans le secteur d'agro-industrie; deux sociétés de service sont en cours d'évaluation par des consultants internationaux; dix entreprises de sylviculture sont en train d'être évaluées à des fins de liquidation; trois sociétés dans le secteur des transports et transit sont en voie de privatisation et six hôtels ont été évalués par des cabinets de conseil internationaux à des fins de privatisation.

Les principaux problèmes posés par le programme de privatisation des entreprises publiques demeurent le manque d'expertise et de personnel qualifié dans la réglementation des secteurs et dans la surveillance et le contrôle du processus de privatisation. Autant que la promotion d'investissements dans le pays est concernée, les problèmes sont d'une nature à la fois institutionnelle et fiscale. Pour renforcer l'ensemble du processus et la capacité de privatisation, le Gouvernement est décidé à mettre en oeuvre une série de mesures, et plus particulièrement:

- Définir le rôle, les responsabilités et les fonctions d'une agence de réglementation multi-sectorielle couvrant toutes les entreprises nationales que le Gouvernement va créer pour contrôler son programme de privatisation
- Préparer des directives de gestion pour la période de transition qui précède le transfert à de nouveaux propriétaires ou des concessionnaires ou la liquidation d'une entreprise publique.

- Organiser des séminaires de formation au sujet des agences de régulation et du régime des concessions, pour le personnel de tous les ministères, des entreprises publiques et des syndicats.
- Organiser un programme de formation pour le personnel du Comité de Privatisation et d'autres agences, dans les opérations informatiques et de programmation.
- Préparer un calendrier sur tout le processus de restructuration du secteur des transports et organiser une table ronde pour faciliter la préparation d'un programme de travail pour la restructuration des services postaux et de télécommunications.
- Chercher l'aide du *Service Consultatif des Investissements Etrangers (FIAS)* pour la définition des politiques, programmes et institutions qui peuvent attirer beaucoup plus d'investissements étrangers avantageux.
- Etablir une nouvelle structure (ou renforcer celle existante) pour la promotion d'investissements étrangers et locaux dans le pays en concordance avec les termes de la nouvelle charte nationale des investissements qui attend son adoption par le Gouvernement.
- Conduire une revue des forces et des faiblesses du *Centre National de Gestion (CENAGES)* et faire des recommandations sur le statut futur de ce centre et de son personnel.
- Préparer une liste d'équipements de traitement de données et de télécommunications nécessaires pour mener a bien le programme de privatisation.

Partenariat entre le Gouvernement, le Secteur Prive et la Société Civile

Le Gouvernement s ' engage a accroître son partenariat avec la société civile et le secteur prive. A cette fin, le Gouvernement soutiendra fortement la tenue de séminaires d'information et l'installation de groupes consultatifs avec des représentants de toutes les parties intéressées: ministères, organisations non gouvernementales et syndicats de travailleurs.

Information, Education et Communication relatives au VIH/SIDA

Le Gouvernement demande l'assistance de l'IDA pour sa participation dans le programme cadre régional VIH/SIDA finance par la Banque Mondiale.

Brazzaville, le 22 Octobre 2001

Le Ministre de l'Economie,
des Finances et du Budget

Machia DZON

REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project**Appendix 5A: Letter of Development Policy
From the Government of the Republic of the Congo for 2001-2002**

In recent years, the social and political scene has been marked by successive armed conflicts which have resulted in heavy losses of human life, caused over one third of the Congolese population to flee their usual place of residence, undermined basic infrastructure and destroyed much of the means of production. To address these issues, the Government of the Republic of Congo has launched an economic rehabilitation program with the financial support of the international financial community, in particular the International Development Association (IDA) that recently has approved a Post Conflict Economic Rehabilitation Credit of USD37.8 million. The Government is committed to introduce the reforms recommended in this operation. More precisely, the proposed Transparency and Governance Capacity Building Project will provide the technical and management assistance necessary to implement these reforms. This letter of Development Policy provides a general picture of how the Government intends to use the proceeds of this new IDA credit.

Political and Economic Context

When civil war broke out in mid-1997, the Congolese economy had already been weakened by years of mediocre economic management and poor governance and by an earlier conflict in 1993-94. During the internal strife, expenditure was redirected to meet security needs and the urgent demand for food aid for persons affected by the conflict. In the absence of adequate domestic and external financing, the budget deficit was financed mainly by the accumulation of arrears, which resulted in a deterioration in the balance of payments and exhaustion of the country's foreign currency reserves. As a consequence, external debt arrears increased, amounting to 94 percent of GDP by the end of 1999. Non-oil GDP declined by 19 percent over the period 1997-98 and consumer prices fluctuated considerably because markets were inadequately supplied and transport and communications infrastructure had been damaged.

The National Forum for Unity, Reconciliation and National Reconstruction, meeting in January 1998, had decreed a return to democratic life and, for that purpose, proclaimed a flexible three-year transition period. A National Transition Council, with 75 members, was established by the Forum and acts as the legislature. A constitutional commission was set up to draft the new Constitution. At the conclusion of the all-inclusive National Dialogue, a preliminary draft of the Constitution was adopted by all Congolese men and women at home and abroad.

The agreements on a cease-fire in the Republic of the Congo signed on November 16 and December 20, 1999 laid the foundations for a return to peace. After so many painful and regrettable episodes, the Congo is back on the road to peace – a peace consolidated by the smooth organization of an all-inclusive national dialogue from March 17 to April 14, 2001. These meetings enabled almost 1,500 delegates from all backgrounds and shades of opinion to talk, exchange views and achieve consensus on the essential issues underlying a calm and peaceful course for the nation. A referendum for a new Constitution is to take place in early

2002 and general elections for the Presidency and Parliament will follow immediately in accordance with existing regulations.

The Government expects that improvement in the country's political and security situation will lead to economic recovery in general and particularly in the sectors of agriculture, forestry, trade, transport and public works. As far as the social sectors are concerned, the Government is committed to restoring services, particularly in the areas of health, primary health care, education, environmental sanitation, the judiciary and highway maintenance. Public and private investment is expected to rise in response to structural reforms, improvement in the business climate, increased activity and efforts to promote good governance and transparency in the management of public affairs. Despite the possibility of a continuous adjustment after the end of the program and a probable rescheduling with Paris Club creditors under Naples terms, large financial shortfalls will continue throughout the period 2002-05, demonstrating the need for continuing aid.

In the wake of these positive developments, the Government had already drawn up an Interim Post-Conflict Program (PIPC) for the period 2000-02, which was adopted by the National Transition Council. The main goals of this program are: (a) reconstitution and strengthening of institutional and administrative capacities, by laying the foundations for good governance and the application of rules of transparency; and (b) improvement of the macroeconomic framework and of the social climate to stimulate the economy's supply capacity and promote economic growth. In order to reach these objectives, the Congolese Government is committed to the pursuit of a development policy backed by a Post-Conflict Economic Rehabilitation IDA Credit (Post-Conflict ERC).

With a view to restoring a modernized public administration, the Government has set itself to concentrate on management of public finances, direction of the economy, strategic planning and horizontal and vertical management of all resources. The Governance and Transparency Capacity Building Project will strengthen the management capacity of the State's administrative structures responsible for the macroeconomic framework in the Congo.

The Governance and Transparency Capacity Building Project

The Project includes three strategic components, the hydrocarbon sector, public administration and the disengagement of the State from the economy; a small fourth component will prepare an action plan for the HIV/AIDS program. Each of the three main components is discussed below with particular attention given to the State's commitments.

Transparency and Governance in the Oil Sector

Oil production has been and will remain for a long time a key factor in the national economy and a driving force for economic and social development. Yet, the full potential of the petroleum sector, more particularly the generation of additional revenues for the State, will not materialize until important issues are addressed. The Government recognizes that two key problems affect sector development: the State's share of the country's total petroleum production, one of the lowest in the world; and, the fact that a large part of future oil production is

secured (earmarked) for the payment of foreign debt. Thus, important reforms should be undertaken to put the State in full control of this non-renewable natural resources that represent the most important share of the country GDP.

The transformation of the sector has been long and painful, yet changes are already taking shape. Legislative reforms regulating the sector, with the adoption of the Hydrocarbon Code in 1994, have clarified the separation of the State regulatory functions under the aegis of the Ministry of Hydrocarbons (MoHy) from petroleum operations under the *Société Nationale des Pétroles du Congo (SNPC)*. SNPC is an autonomous public enterprise. It was created in 1998 to take over all sector exploration and production activities. State disengagement is being pursued actively with the recent or ongoing privatization of all distribution operations and of the refinery company CORAF.

Despite this good progress, there are still serious concerns regarding the volume of production (e.g., lack of control of oil production meters in deep-sea oil-rig platforms), the determination of oil production cost and oil profit levels (e.g., the shorter linear depreciation rate used to depreciate field development costs), the many fiscal privileges prevailing in the petroleum sector, the complexity of the legal agreements and the many new clauses added to existing ones making the body of legislation hard to understand, and, finally, the chronic shortage of qualified personnel.

The Project is to serve as the focal point of support for the development and implementation of measures under the new legal framework and the introduction of new reforms in the oil sector. A two-stage program of action has been agreed upon with the Association. The first phase covers all measures to be implemented over the short term in keeping with the spirit of recently signed agreements between the MoEFB, the MoHy and SNPC that stipulate the role and responsibility of each ministry and agency. It will include:

- A financial audit of SNPC and of the three major oil production companies.
- Finalization of the oil code and the issuance and implementation of all regulatory texts relating to refining and transport
- A complete operational audit of the hydrocarbon sector.
- The design of an operations model of oil production and revenue generation.
- An assessment and financing of staff training, and data-processing and telecommunications equipment.

During the second phase, the actions recommended during the first period would be implemented, that is:

- Recommendations made by the operational audit of the hydrocarbon sector (MoHy, SNPC, refining, distribution and commercialization).
- Renegotiation of existing conventions and contracts with a view to simplify their execution and facilitate State control.
- Financial and operational audit of SNPC for FY 2002
- Finalization of the Gas Code and implementation decree(s).
- Implementation of the model for oil production and revenue analysis.
- Continuation of the training program and purchase of equipment.

Transparency and Governance in the Non-Oil Public Sector

Rehabilitation of the non-oil public sector is a key objective and management priority for the Government, given the continuing presence of a number of structural obstacles that could jeopardize economic recovery over the long term. These include the severe external and domestic debt problem, issues relating to the reconstruction and rehabilitation of economic and social infrastructure, the cost of demobilizing and reintegrating displaced populations and young combatants, and the destruction of the information system and databases. In addition, the state's highly complex financial operations are managed by staff that is often unprofessional, a situation that provides fertile ground for the vast system of extortion and State tax evasion. The government has designated MoEFB to take the lead to address these issues. Transparent procurement rules and a fair judicial system would also definitively enhance good governance. In Congo they are respectively the responsibility of the *Commission nationale de Centralisation et de Coordination des marchés de l'Etat* and of the *Cour des Comptes*. Together with MoEFB, these agencies would benefit from the second Project component.

Ministry of Economy, Finance and Budget (MoEFB)

MoEFB is not only a powerful but also a large ministry, for its responsibilities include the management of both national accounts and public finances. It has a heavy structure, partly as the result of merging the previous two Ministries of Planning and of Finance which led to the superposition of offices with similar responsibilities, and partly because new, unnecessary structures have been added. Resources to address organizational issues have also been lacking.

Because of the complexity of the reforms contemplated under the Project, the Government has agreed to create an ***Inter-ministerial Reform Implementation Committee (IRIC)*** within MoEFB to follow up on the good and timely implementation of the Project. The Director of Cabinet would chair the IRIC, which would be composed of all the Directors General and the Directors reporting directly to the Director of Cabinet. All decisions concerning the Project, in particular, all decisions regarding the selection of tasks to be carried out under the project, contract awards and the selection of consultants will have to receive RIC approval.

One of the first priorities MoEFB would like to address is to further the statistical base needed to enhance economic management. Indeed, the interruption of any form of information and statistics gathering during the many years of internal conflict has created a vacuum in terms of available economic, financial and social information, including the poverty level, for the preparation of national accounts and their analysis by decision-makers. To correct this situation, the Government is seeking the help of IDA to modernize its national accounts according to SCN93 standard and ERETES, as well as to create a database on economic performance and the poverty level in the country. At the same time, the authorities intend to strengthen the coordination between the CNSEE and MoEFB for the preparation and use of national statistics.

Another issue is the lack of any multi-year programming system in MoEFB that would enable it to prepare a coherent public investment program with defined priorities. This, despite the large number of Directorships and Departments intervening in the elaboration of statistics, the conduct of studies and the gathering of economic, financial and other accounting information. The authorities have concluded that an analysis of existing procedures and of the number of General Directorates and Directorates intervening in the programming of public revenues and expenditures should be undertaken with the Association's support in order to establish as soon as possible a programming system within a clearly defined decision-making process.

MoEFB is also aware of the many deficiencies affecting the good management of public finances. The strenuous efforts the Government has made during the recent past to rationalize all the legal texts that frame the management of public finances are far from sufficient. Fundamental changes should follow with both the full implementation of public accounting in accordance with the chart of accounts recommended by CEMAC and the preparation of a chart of accounts for public enterprises. At the same time, the simplification of the budget implementation process (*Chaîne des dépenses*) should be launched with the reduction of clearances, the volume of documents required as proof and the number of advance accounts, as well as the introduction of a unique nomenclature of accounts for the budget and the Treasury that would permit the full integration of the process. The design and set up of a new monitoring system of financial transactions in the Treasury would then facilitate the reduction of arrears as well as the closing of final annual accounts for the years 1994-2001 and to start year 2002 on a new budgetary basis. Computerization of the budget implementation process should be studied and introduced while the accounts and the budget process are set up.

The recurrent difficulties in raising sufficient revenue to pay back the country's heavy foreign debt and to cover the enormous cost of reconstruction, despite increasing oil revenues, are also at the top of the Authorities' concerns. Combating tax fraud and increasing tax revenues then becomes a priority to diversify the economy from petroleum revenues. The General Directorate of Taxes (DGI) and the General Directorate of Customs (GDD) are the two administrations within the MoEFB in charge of fiscal and customs matters, respectively. In spite of efforts recently made by the Government to strengthen these two administrations (e.g., they were reorganized in October 1999), fiscal revenues are still far below their high potential. This situation stems from the difficulty to correctly assess the tax base of individual and corporations, from weak tax legislation and, more generally, from the administrations' lack of capacity. The Government has decided to carry out of a general diagnostic (operational audit) of these two general Directorates with a view to enhance their efficiency and ability to generate more revenues for the State. At the same time, immediate actions will be undertaken, including an impact analysis of fiscal reductions and exemptions on the budget of the State, and the preparation of a plan to correct this situation, the implementation of the unique *Tax Payer Identifying Number (TPIN)* that, so far, has been limited to the largest enterprises, the launching of studies for the preparation of the urban land Register and the implementation of the land tax regime, and a study of the informal sector in Congo.

The authorities are also prepared to apply the Value Added Tax (VAT) to all enterprises and businesses to increase the revenues it generates. To that end, the modalities of its application to the hydrocarbon sector have been signed on October 19, 2000 and the tax will be introduced in this sector next year, i.e., through the finance law for this year. The authorities have also agreed that the VAT should not be used as a protection measure but, at the same time, should not put local enterprises in a less competitive position vis-à-vis foreign companies interested in competing for local contracts of goods and services.

Calling on national savings might be another promising avenue to mobilize additional resources. It is with this objective in mind that the Treasury in the Republic of Congo has recently established a special Directorship called *Direction des Correspondants des Dépôts et Consignations*. Considering the lack of expertise in this area in the country, the authorities have called for the project to help establish this new Directorship.

The Government is well aware that good management of public finances calls for fair and equitable procurement guidelines for public goods and services as well as the setup of a judicial system that can ensure transparency, accountability and good governance of public assets. To reach these objectives, the Government has commissioned a review of existing procurement guidelines by an Inter-ministerial Committee chaired by MoEFB, as the existing ones are far from responding to modern international trade and commercial requirements and are not in line with the Bank-IDA guidelines. New legislation has been prepared under which the present Central Commission for Public Contracts would be replaced by several commissions with the authority to act at the national, regional and local levels. A regulatory Agency would make sure that this framework and guidelines are reviewed from time to time to upgrade them to international standards. Assistance from IDA is being requested to carry out a thorough review of this proposal.

The *Cour des Comptes* (CDC) is the country's supreme independent audit institution. It was created in 1992 to oversee all public finances and accounts, including public enterprises, financial institutions and the social security system. Unfortunately, CDC never functioned as a result of the long period of civil unrest in the country. With the objective of enforcing budgetary discipline, magistrates of the Court have recently been appointed. However, a review of its responsibilities has revealed a series of anomalies regarding the independence of its magistrates, the attributions of the Court and the fact that information is not provided to the public about its decisions and judgments. The Authorities have therefore decided to conduct a comparative study of the responsibilities and the scope of the Court's jurisdiction and of its autonomy as compared to similar countries in the world. Once the Court is installed, strengthening its organization and the provision of communication and other equipment necessary to carry out its obligations can start.

The Government understands that its reform program will never be implemented if no remedy is brought to the chronic shortage of qualified personnel in MoEFB in all fields of expertise. Likewise, the needs for modern data processing and telecommunications equipment are enormous. MOEFB and the other agencies involved in the Project have agreed to prepare for submission to IDA a training program for their staff in a large range of fields, such as, public finance, taxation, public accounting, statistics and foreign languages. These administrations would also prepare and present to the Association a list of hardware

and software as well as communications and other equipment necessary to achieve the institutional strengthening objectives contemplated in the Project.

Transparency and Governance in the Privatization Process

The disengagement of the State from the productive sectors in the country and the mobilization of new financial resources through foreign direct investment are amongst the highest Governmental priorities. The rules governing the privatization program were defined in the organic law No. 21-94 of August 10, 1994 on privatization. This program was stopped during the civil war. However, as soon as the hostilities ended the Government restarted the program with the re-assigning of the *Comité de Privatisation* to be charge of the privatization process for public enterprises, and the transfer of responsibility for processing privatization activities in the financial sector to the *Caisse Congolaise d'Amortissement*. The Government program is large but well underway as discussed below.

Structural adjustment of the financial sector is progressing satisfactorily. Three state banks have already been restructured with negative assets being transferred to CCA management. The list of public enterprises to be privatized has been published and the enterprises have been classified into two groups within agreed parameters. The first group includes the five largest public utilities in the country. The second covers the agro-industry sector, service companies, the forestry sector, the transit transport sector and tourism (hotels). A social window is included in the privatization law. Main achievements to date in the petroleum sector include the transfer of exploration and production activities of Hydro-Congo to SNPC, and the ongoing privatization of petroleum distribution, GPL assets and *Congolaise de raffinage*.

In the utility sectors, good progress is being made with respect to obtaining signatures for concessionary agreements in the water supply and electricity sectors for which several international companies have expressed already their interest. In addition, the Water Code and the Electricity Code have been transmitted to the National Council of Transition for approval, and the regulatory frameworks for these two sectors are being finalized. In the transport sector, the ATC has been split into three revenue-earning public enterprises, 14 companies have expressed their interest to bid for the management contract for CFCO and the terms of reference for the restructuring of waterways transport have been prepared. In the Postal Services & Telecommunications, the Ministry of Postal Services and Telecommunications published a Letter of Sector Policy in December 2000 setting out the government's agreement on the dissolution of ONPT, the dissolution of the National Savings Bank and the creation of the Postal Services and Savings Bank of Congo (SOPECO).

Regarding the second group, seven public companies are being privatized or going into liquidation in the agro-industry sector, two service companies are being assessed by international consultants, ten forestry enterprises are being evaluated for liquidation, three companies in the transport and transit sector are being privatized and six hotels have been evaluated for privatization by international consulting firms.

The main problems concerning the privatization program of public enterprises in the Republic of Congo are the lack of expertise and of qualified staff in sector regulation and in the supervision and monitoring of the privatization process. As far as the promotion of investments in the country is concerned, problems are of both an institutional and fiscal nature. In order to strengthen the whole privatization process and capacity, the Government is determined to undertake a series of measures, and more particularly to:

- Define the role, responsibilities and functions of a multi-sector regulatory agency covering all public enterprises that the Government will create to monitor its privatization program
- Prepare management guidelines for the transition period that precedes the transfer to new owners or concessionaires or the liquidation of a public enterprise.
- Organize training seminars on regulatory agencies and the regime of concessions for staff of all ministries, public enterprises and syndicates.
- Organize a training program for CP and other agencies' staff in computing activities and programming.
- Prepare a timetable on the whole restructuring process of the transport sector and organize a round table to facilitate the preparation of a work program for the restructuring of postal services and telecommunications.
- Seek assistance from the *Foreign Investment Advisory Service (FIAS)* for the definition of policies, programs and institutions that may attract more beneficial foreign investment. Establish a new structure (or strengthen the existing one) for the promotion of foreign and local investments in the country following the terms of the new national investment charter that is awaiting adoption by the Government.
- Conduct a review of the *Centre National de Gestion (CENAGES)*'s strengths and weaknesses and recommend on future status of company and of its staff.
- Prepare a list of data processing and telecommunications equipment necessary to carry out the privatization program.

Partnership among Government, the Private Sector and Civil Society

The Government is committed to enhance the partnership among the Government, civil society and private sector. To this end, the Government will strongly support the holding of awareness seminars and the setup of consultative fora and groups with representatives from all stakeholders: ministries, NGOs and unions.

Action Plan for HIV/AIDS

The Government is requesting IDA assistance for its participation in regional HIV/AIDS umbrella program, financed by the World Bank.

Brazzaville

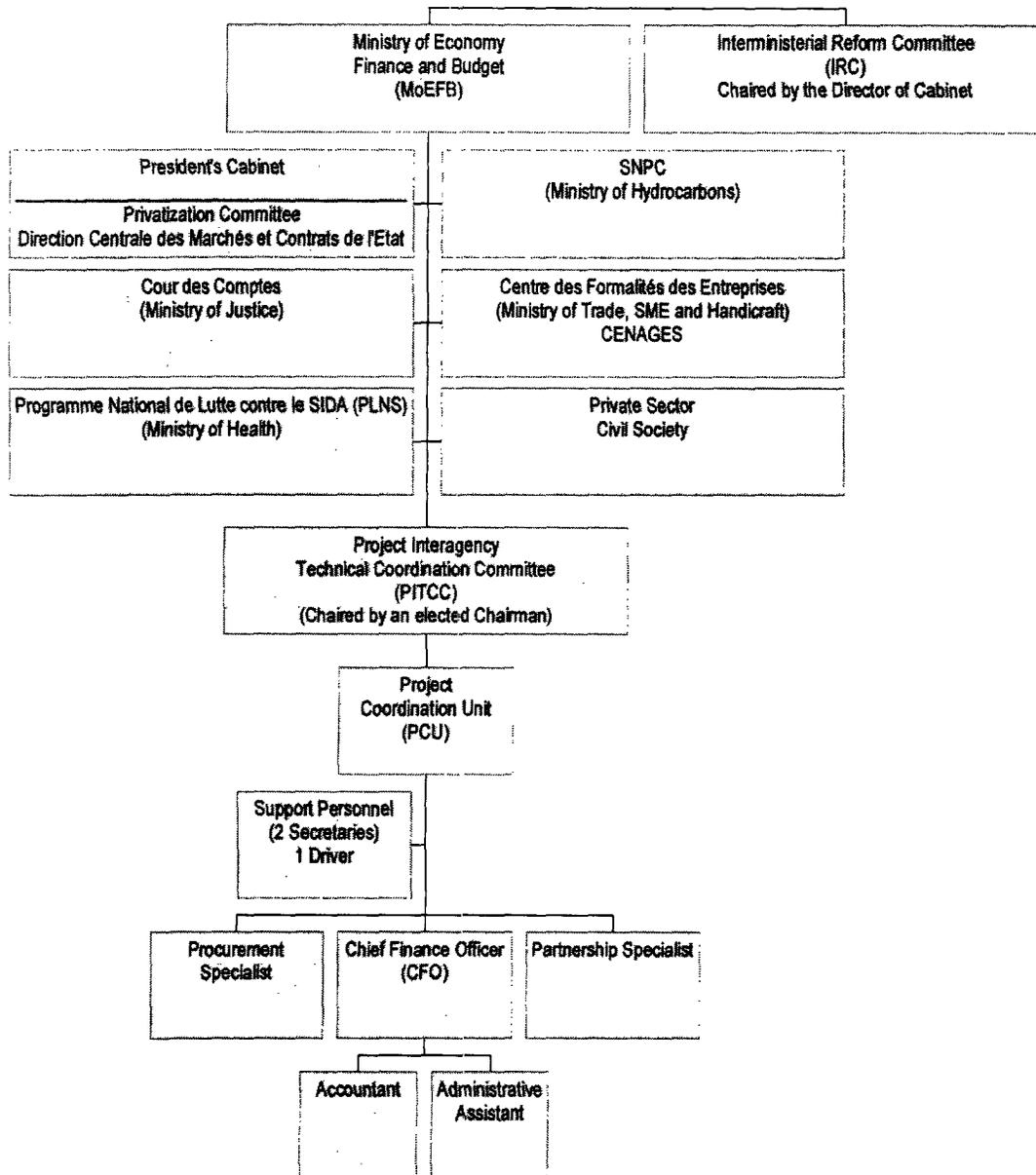
October 22, 2001

Mathias DZON

Minister of Economy, Finance and Budget

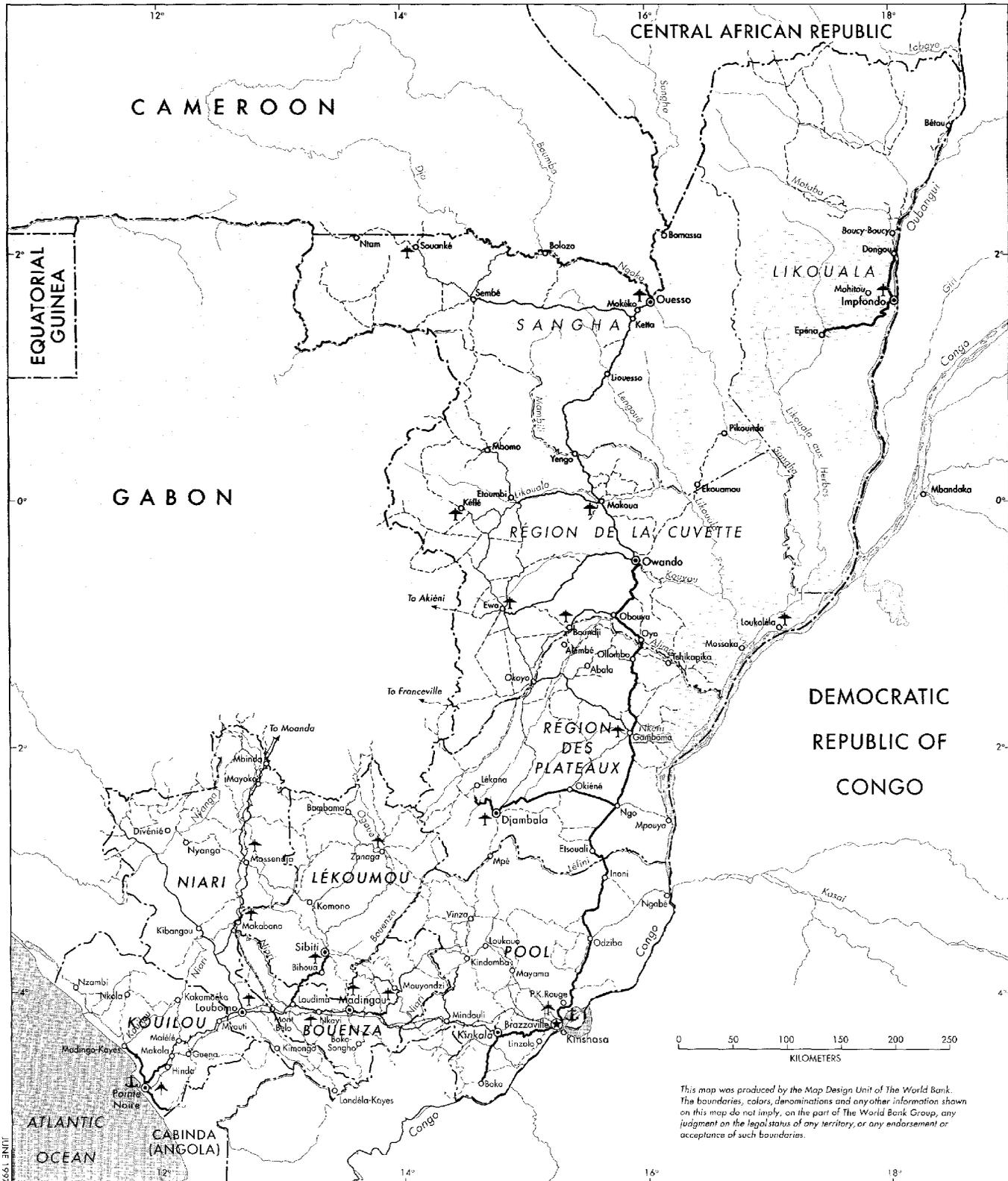
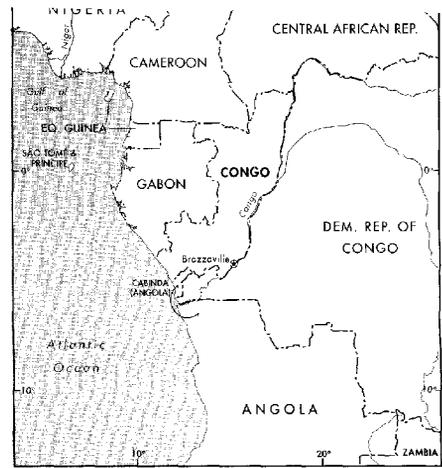
REPUBLIC OF CONGO: Transparency and Governance Capacity Building Project

Appendix 6: Organizational Chart



CONGO

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|--|--------------------------------|--|--------------------------|
| | PRIMARY PAVED ROADS | | INTERNATIONAL AIRPORTS |
| | PRIMARY GRAVEL AND EARTH ROADS | | OTHER AIRPORTS |
| | SECONDARY ROADS | | PORTS |
| | TRACKS | | RIVERS |
| | RAILROADS | | MARSH |
| | REGION CAPITALS | | REGION BOUNDARIES |
| | OTHER SELECTED TOWNS | | INTERNATIONAL BOUNDARIES |



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