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**Transitional Support Strategy
for the
Democratic Republic of Congo**

July 9, 2001

Country Department 9
Africa Region

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CURRENCY EQUIVALENTS

Currency Unit	=	Congolese Franc (CF)
CF 50	=	US\$1 (average 2000)
CF 345	=	US\$1 (June 11, 2001)

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BCC	<i>Banque Centrale du Congo</i>
DDR	Disarmament, demobilization and reintegration
DRC	Democratic Republic of the Congo
EERP	Emergency Early Recovery Project
ERC	Economic Rehabilitation Credit
EC	European Commission
EU	European Union
FAC	<i>Forces Armées du Congo</i> (national army of Congo)
FAO	Food and Agriculture Organization
FY	Fiscal year
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IFI	International financial institution
IMF	International Monetary Fund
JPFC	Japan Post-Conflict Fund
MONUC	United Nations Observer Mission in Congo
NGO	Non-governmental organization
PCF	Post-Conflict Fund
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
SMP	Staff Monitored Program, IMF
TSS	Transitional Support Strategy
UNDP	United Nations Development Program

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DEMOCRATIC REPUBLIC OF CONGO TRANSITIONAL SUPPORT STRATEGY

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DEMOCRATIC REPUBLIC OF CONGO TRANSITIONAL SUPPORT STRATEGY

EXECUTIVE SUMMARY

1. The Democratic Republic of Congo (DRC) has begun to emerge from a long and devastating conflict. About 16 million people are starving or malnourished and 1.5 million have died, out of a population exceeding 50 million. Seventy percent of the population lives on less than one dollar per day.

2. This Transitional Support Strategy (TSS) responds to a window of opportunity created by recent and positive political developments to establish a lasting peace in the DRC, to end decades of devastation and to put measures in place to tackle the country's economic problems. The process of social and economic recovery will be long and difficult and will require significant financial and technical support from donors. A new Government is now developing a comprehensive recovery strategy, while at the same time addressing urgent priorities among which are:

- **Restoring macro-economic stability** through an interim program covering the period June 2001-March 2002, monitored by IMF staff, aimed at breaking hyperinflation and stabilizing the economy. Good performance could lead to support under the Poverty Reduction and Growth Facility (PRGF).
- **Improving governance** to lay the way for recovery, including through democratization, promoting justice, partnership with the private sector, transparency and accountability in public transactions, reforming the fiscal system and rebuilding institutional and human capacity. Although it is urgent to begin measures to improve governance, full implementation will be a lengthy process.

3. In addition, the Government is asking donors to provide about US\$155 million to finance other priority activities necessary to solidify and deepen the stabilization effort. With limited financing available from multilateral creditors until arrears are cleared, the DRC's immediate financial needs will need to be met primarily by bilateral donors. The Bank is in the process of re-establishing Consultative Group meetings for the DRC and held an early information meeting with donors on July 3, 2001.

The challenges ahead

4. Consolidating peace, starting the process of recovery and reducing the risk of renewed conflict requires a program that:

- ***Meets basic and urgent needs***, by supporting social service delivery and social infrastructure, halting the spread of HIV/AIDS, and reintegrating ex-combatants;
- ***Rebuilds effective public institutions and policies*** to strengthen transparency, accountability and participation and lays the groundwork for broad-based growth with disincentives to corruption and a new role for the State;
- ***Revitalizes economic activity*** through reconstruction of essential infrastructure, assistance to agriculture, incentives for private investment and community-driven development; and
- ***Rebuilds implementation capacity*** capable of transparent and honest administration.

5. Meeting these needs will require substantial efforts on the part of the government and its development partners. Actions to ensure that the efforts by the government and donors address the key priorities and are well coordinated will be of critical importance.

Bank strategy

6. The TSS proposes to respond to these needs with a program of assistance focused in areas where the Bank has a comparative advantage. The one-year program targets the provision of exceptional post-conflict IDA grant support for urgent rehabilitation measures, the planning and development of a comprehensive recovery program, and donor coordination in the period before arrears are cleared (which could take up to 12 months). This assistance would be consistent with OP 2.30. If there is satisfactory progress on the DRC's program with the IMF and on the transition to peace, then after arrears to IDA and IBRD have been cleared the Bank will present an updated TSS. This second phase would support the implementation of the recovery program with regular IDA credits, and provide debt-relief through the HIPC Initiative after DRC meets the decision point criteria.

7. Restoring relations with external creditors and securing debt-relief through the HIPC will be critical to the implementation of a viable program focused on stimulating economic growth and reducing poverty. The DRC has been in non-accrual status with the Bank since 1993 and by end-2000 had arrears of US\$119.6 million to IBRD and US\$160.8 million to IDA; these stand at US\$306 million today. Arrears to other multilaterals include about US\$500 million to the IMF and about US\$800 million to the AfDB. While both the Bank and the Fund have viable strategies for clearing DRC arrears, the size of arrears to AfDB may require the use of exceptional mechanisms. The Bank is already engaged in an effort with these creditors to ensure an orderly arrears clearance process.

8. The TSS also proposes to support the DRC's efforts to begin to establish a satisfactory track record of sound economic policies and performance necessary to qualify for HIPC debt-relief. DRC would benefit greatly from having an early decision point. Indeed, without interim period debt-relief on payments due after arrears clearance the DRC may again go into non-accrual status.

9. In addition to financial support, initially on a grant basis, and then through regular credits after arrears clearance, the Bank will provide:

- *Policy and technical advice.* The Bank is already assisting the Government on its reform of the mining code and investment code, has initiated assistance in public enterprise restructuring. The Bank will help with a Public Expenditure Review and provide support to the preparation of the I-PRSP.
- *Support for aid coordination.* In addition to regular coordination with donors and funding agencies, the Bank will cooperate with agencies that have mandates in promoting stability and in conflict resolution. It will collaborate with other key actors inside and outside the DRC.
- *Direct implementation support* from a field office to be created in response to requests from the DRC government and the international community.

Benefits, risks, benchmarks and exit strategy

10. The key benefits of early Bank assistance would be to reinforce the stabilization of the situation in the DRC (and by implication, in the Great Lakes Region), which again would

help create the conditions under which the DRC can resume pro-poor social and economic development. Furthermore, Bank involvement would play a catalytic role for other donors to resume assistance, and to the private sector to restart key economic activities.

11. While risks inherent in the proposed strategy are substantial, they are outweighed by the high risk to DRC and the sub-region of missing the window of opportunity now opened by the peace and reconciliation process and a reform-oriented government. Key risks include:

- *A reversal of the peace process.* There is no guarantee that the conflict will not flare up, or that the inter-Congolese dialogue will reach a fruitful conclusion. This risk underlines the importance of early and concerted support from the international community.
- *Insufficient capacity.* To address the capacity concerns the Bank strategy has a strong and early focus on capacity building and technical assistance. The Bank would support the use of management arrangements including turnkey contract with reputable international contractors, partnering of local and international companies and delegated contract management.
- *Inadequate financial flows to support recovery.* Early normalization with multilateral creditors, combined with early access to HIPC and Paris Club debt relief should be sufficient to ensure substantial positive inflows. Yet strong support from bilateral and other donors will also be necessary; as will efforts to improve mobilization of domestic resources and the effectiveness with which resources are used.

12. **Benchmarks and indicators.** Progress of the DRC's path to recovery, and the effectiveness of the activities implemented under the TSS, would be assessed on a regular basis against a set of benchmarks.

13. The **exit strategy** would aim at incremental disengagement depending on the seriousness the security situation and/or of the Government's failure to meet the benchmarks and the progress indicators.

14. **Schedule for Board Consultations.** The Bank would prepare an update on TSS implementation to the Board after 12 months. Should the situation stabilize sufficiently by mid-2003, the Bank intends to initiate a regular Country Assistance Strategy at the beginning of FY04.

DEMOCRATIC REPUBLIC OF CONGO TRANSITIONAL SUPPORT STRATEGY

1. The Democratic Republic of Congo (DRC) is emerging from a terrible war that has seen the military involvement on Congolese soil of seven other African countries and at least eight militias. Since January 2001, the Congolese authorities have taken a number of important steps to help implementation of the Lusaka Peace Accord and the inter-Congolese dialogue called for under the Accord, liberalize political life and address key economic issues. They have also engaged in a constructive dialogue with the Bank and the IMF.
2. This Transitional Support Strategy (TSS) outlines a program of Bank assistance to the DRC for about the next 12 months. The TSS, which builds on the experience acquired by the Bank both in the DRC and in other post-conflict countries, will enable the Bank to respond to the needs of the Congolese population for peace, economic stability, and re-engagement with the international community. The strategy focuses on the speedy restoration of normal relations with the Bank, and on the provision of exceptional IDA grant support for urgent rehabilitation measures and technical assistance in the pre-arrears clearance phase. Other key objectives include catalyzing a broader effort by the international community to address the social and economic development needs of the DRC and contributing to efforts to promote peace and stability in Central Africa.

I. POLITICAL AND ECONOMIC CONTEXT

3. The DRC has a population of around 50 million, fourth in Africa and growing at more than 3 percent a year (marred by deaths of 1-3 million from deprivation caused by the 1997-2001 conflict). Seventy percent of the population lives at a level of less than one dollar per day. A highly urbanized population is distributed over 2.3 million square kilometers (more than two thirds of the European Union); Kinshasa, the capital, has a population exceeding 8 million.
4. The DRC is potentially one of the Africa's richest states, with extensive agricultural, mineral, and energy resources. Its regional importance, with its internal waterways and land-links to nine states, make the DRC a potential motor for regional growth as significant as Nigeria or South Africa. However, the promise has been repeatedly thwarted. A succession of governments have been able neither to translate this potential into satisfactory living conditions for the Congolese nor to discourage the corruption facilitated by the "curse of natural resources." The regime of Mobutu Sese Seko (1965-97) was marked by corrupt mismanagement leading to a series of economic crises and the near-disappearance of government support to social infrastructure. The collapse of the State was punctuated by riots and plundering by an unpaid military (1991, 1993), which destroyed much of the productive capital. Since the early 1990s most bilateral and multilateral institutions, including the World Bank and the IMF, suspended economic assistance.
5. The overthrow of the Mobutu regime by the forces of Laurent Kabila in 1997 first led to a hoped-for peace and signs of revival but shortly thereafter to renewed conflict. Civil war broke out anew in 1998 and drew in the Government, the rebel groups *Front de Liberation du Congo* (FLC) and two factions of the *Rassemblement Congolais pour la Democratie* (RCD), and six other nations and several militias opposing governments in the Great Lakes region. Although detailed data are lacking, about 200,000 persons, mostly civilians may have

been killed by armed groups, while the mortality associated with the collapse of physical and social infrastructure caused by the conflict could be as high as 1.5 million death since 1997.

6. In August 1999 the Government, the three rebel factions and their five principal military backers signed an accord in Lusaka, Zambia, while called for a ceasefire and troop standstill, disarmament of the militias (“negative forces”) by the de facto administration in each region, and the initiation of an inter-Congolese dialogue leading to reunification and political solution to the conflict. The Lusaka Accord was widely violated by all parties.

7. Following the assassination of Laurent Kabila, in January 2001 all parties observed a spontaneous cease-fire. Frontlines have since stabilized. The standstill places approximately 30-40 percent of the land area with a population of 18 million under rebel control, and 32 million people in Government-controlled areas. The Congolese army (FAC) numbers around 200,000 soldiers of which a third is combat-capable. It is backed by approximately 19,000 soldiers from allied countries primarily providing operations of mechanized weapons, logistics and maintaining civil security. It is estimated that the rebel groups have around 45-55,000 combatants supported by around 18,000 mostly non-mechanized but highly mobile allied infantry backing the RCD, and a little less than half that number providing training and officer leadership to the FLC.¹

8. The international community is offering strong support for peace. Special envoys from several nations and the European Union have participated in the Lusaka process. Humanitarian assistance has been significant, however insufficient for the needs. African leaders from the entire continent have provided assistance in the effort at reconciliation. The United Nations has deployed nearly 500 military observers supported by 1,660 troops under Security Council Resolutions 1341 and 1355, which redefine the mandate of the *Mission d’Observation des Nations Unies au Congo* (MONUC). The cease-fire continues to be respected, troops redeployed away from front lines, and foreign troops begun to be withdrawn. By the end of May 2001 MONUC had verified 60 percent of the redeployments and in June re-opened river transport on sections of the Congo River crossing the front lines. The new president, Joseph Kabila, has stated his support for the Lusaka process and the inter-Congolese dialogue and his willingness to work with the facilitator, former president of Botswana Sir Ketumile Masire. President Kabila’s initial address also affirmed his commitment to improving living conditions in the country and to liberalizing the economy, and requested the resumption of international assistance. A new cabinet has placed respected technocrats in key economic and social positions. Political parties have been permitted to operate freely. The ban on political parties was lifted, and the preparatory meetings for the inter-Congolese dialogue are scheduled to begin July 16, 2001.

9. Overall, the degree of consensus achieved both internally and externally, and the level of Government commitment to dialogue and reform is much stronger than ever before. Since Independence the Congolese have developed a strong sense of nationhood among geographically widespread peoples of different ethnic origins, which has contributed to a national solidarity on the need for a healing political process rather than partition. The government is beginning to address economic and social problems in a systematic way.

¹ These figures are only indicative and based on secondary sources. As the demobilization, disarmament and reinsertion process begins better information will become available.

10. The DRC is facing a deep economic crisis (see Box 1). The Security Council wrote to the World Bank on June 6, 2001 “the deployment of MONUC in the DRC will be genuinely successful only if the people of that country see that progress in the peace process is accompanied by an improvement in their day-to-day living conditions.” Greater donor involvement at this time is essential. The Lusaka process may fail if conditions on the ground do not improve. The lack of economic opportunities, as well as the continued deterioration of living standards may fuel social instability and jeopardize the opportunity to build and consolidate peace. The FAO estimates that about a third of the population (16 million people) is starving or malnourished. In areas impacted by conflict a spot survey found a neonatal mortality rate exceeding 10 percent while 11 percent of pregnancies have resulted in maternal death. Transport infrastructure has effectively collapsed, so markets are no longer connected; in many parts of the country, farmers can no longer commercialize their surplus while urban food prices are high. The dislocation of public administration has allowed for large fiscal evasion, in particular for duties on exports. Government resources have shrunk to 5-7 percent of GDP. These resources have been largely allocated to the military to finance the war effort to the detriment of social sectors, while the civil service pay scale has fallen to about US\$0.40-4.00 a month (compared to about \$150 a month needed to feed an average household in Kinshasa). These conditions, plus the involvement of the international community described in Part III below, make the country eligible for a transitional support strategy under the recently approved World Bank OP 2.30 (see para. 33).

Box 1: Key Indicators of a Severe Economic Crisis	
GDP (1999):	About US\$3.9 billion, compared to about US\$10 billion in 1990.
GDP per capita (1999):	About US\$78, compared to US\$250 in 1990.
GDP growth (1999):	- 15% (agriculture: - 16%, manufacturing: - 46%, mining: - 34%, services: - 21%).
Balance of trade (1999):	- US\$104.5 million, compared to + US\$679.2 million in 1997.
Exports (1997 – 1999):	-45% (diamonds: -31%, gold: -42%, copper and cobalt: -79%, crude oil: -43%, coffee: -21%, wood: -80%), officially recorded exports only.
Budget deficit (1999):	117% of receipts, compared to 50% in 1998 and 15% in 1997.
Money supply growth (2000):	502%
Inflation:	in excess of 500% in 2000, in excess of 2,000% (annualized) in January 2001.
Interest rates:	Central Bank rediscount rate = 120%, commercial bank lending rates = 160-200%.
Bank deposits:	below 18 percent of M ₁ (currency held outside of the banking sector grew by 440% in 2000).
Official exchange rate	(Congolesse franc to US\$): 50 (May 15, 2001; 1.35 on June 30, 1998).
Parallel exchange rate	(Congolesse franc to US\$): about 345 (mid June 2001) – compared to 200 at end March 2001, 50 in June 2000, and 1.35 on June 30 1998.
Debt:	US\$12,860 million, as of December 31, 2000, (about 325% of GDP and 900% of exports). 25% of this debt is due to multilateral institutions, 72% to the Paris Club members, and 3% to non-Paris Club members and commercial creditors.
Arrears:	75% of the debt, including about US\$300 million to the World Bank, US\$550 million to the IMF, and US\$800 million to the African Development Bank Group.

11. The economic and political conditions in the DRC pose a problem in the sub-region and beyond. The conflict and instability in the DRC and the involvement of others have had a devastating impact on the stability of all the countries concerned, on their fiscal viability and their prospects for economic development. In particular, the DRC’s natural resource wealth has not contributed to development. Natural resources have long attracted foreign investors to the DRC and provided a significant proportion of government revenues. They have also long led to abuse and corruption on an international scale. The need of parties to the current

conflict to finance their military activities has led to unorthodox practices in the licensing and exploitation of mineral resources; this in turn has created a separate conflict that cannot be simply resolved by resolution of the political conflict. (See Box 2).

Box 2: War and Natural Resources

Recent reports have cast some light on the interplay of war and natural resources in the DRC:

- ***Predominance of natural—especially mineral—resources, in national income is associated with conflict.*** Economies relatively dependent on exploiting mineral resources have a high probability of civil conflict.² Cronyism and corruption links control of the state (or a *de facto* administration) with control of natural resource wealth.
- ***The DRC conflict has become self-financing.*** Armed groups have acquired access to natural resources to finance their troops and equipment. These groups—armed forces, rebel factions and militias termed “negative forces” in the Lusaka Accord—no longer depend on external financial support (as they can demonstrate to donors concerned with HIPC budget allocations), and can go on fighting indefinitely.
- ***The appropriation of mineral resources, once begun, has become an independent objective of some parties to conflict.*** A number of key actors in the conflict are alleged to be exploiting the DRC’s mineral wealth for personal benefit. Such individuals have little interest in the restoration of peace and stability.
- ***Mismanagement of natural wealth is at the origin of conflict.*** For more than a century, the benefits associated with mining activities remained concentrated in the hands of a small minority—only slightly mitigated by their provision of social infrastructure to local populations—while the vast majority of the population continued to live in poverty.
- ***Information provided by political actors limits our understanding of the problem.*** Economic activities continue to function under the *de facto* regimes and the Central Bank continues to record them (based on estimated data), but these are recorded as illegal transactions along with those which are truly illegal.

Transparent and legal allocation of mining and other resource rights and proper management of the revenues generated by exploitation of resources will be key to the DRC’s sustainable stabilization, recovery and growth.

12. The DRC can harness important potential sources of growth for its recovery and development. Among these are (i) mining, historically an important source of employment, raw material for industry and export revenue (described in Box 3 below), (ii) export agriculture, the commercialization of which is interrupted by the front lines of the conflict, and (iii) forestry resources which require a modern forestry code and the means of its enforcement. Its significant hydroelectric resources serves local industry with some export to the Southern Africa Power Pool, to Congo-Brazzaville, and (before the conflict) to Rwanda, but with investment in new units could become a significant source of export revenue and regional energy. Its businessmen and women have long been considered among the most entrepreneurial in Africa. The central location of the DRC and its extensive inland waterways offer potential for trade throughout the region, with its natural resource and human resource wealth the DRC could become a motor for sustainable regional growth. Sustainable growth within the region requires stability, security, and short-term financial assistance that will enable the creation of an environment that supports investment.

A window of opportunity

13. A window of opportunity has been created. The continued adherence by the warring parties and others to the Lusaka Accord with the broad agreement of the international community provides a possibility for peace, stability and economic growth not just in the

² Paul Collier (2000), “*Implications of New Models of Civil War in Africa, with special reference to Congo DR and Congo Brazzaville*”.

DRC but in the region. Because the government lacks the financial resources to support reconstruction and growth, to avert further erosion in living conditions, external support is critical at this time to: (i) create the small impetus necessary to keep the peace process on track at a critical time; (ii) send a signal to all Congolese and the region that the end of violent conflict will bring international support during a period of peaceful conflict resolution; and (iii) provide the necessary financial resources for amortizing social shocks and eventually reviving the economy. Later, economic recovery will provide the resources to sustain the process if the groundwork has been successfully laid for good governance.

II. STABILIZATION, RECOVERY, AND THE GOVERNMENT'S APPROACH

14. The new Government is in the process of developing a strategy to address the DRC's main challenges. This work builds on a number of earlier reports and plans, including a draft Country Economic Memorandum prepared by the World Bank in 1998³ and assessments undertaken by Bank staff in late 1999 and in 2000. While designing this medium term strategy, the Government is focusing on its immediate priorities for the next 12 months in a series of interim actions.

The challenges ahead

15. The priorities for the DRC are to address urgent needs and to take the essential steps today that will prepare the ground for a medium-term program to reverse the economic decline and promote development. This poses four main challenges for the short- and medium term. Meeting these challenges requires a well-coordinated and phased multi-donor support effort beginning at once. They are:

- a) *Meeting basic and urgent needs*, including a focus on social services delivery, HIV/AIDS and demobilization and reintegration (para. 16);
- b) *Rebuilding effective public institutions and policies* in ways that would promote transparency, accountability and participation (para. 17);
- c) *Revitalizing economic activity* to meet the immediate needs of the private sector and community driven development activity, and ensure that all Congolese can broadly share the benefits of the DRC's considerable natural resource endowment (para. 18-19); and
- d) *Rebuilding implementation capacity* in preparation for the efficient administration of programs as well as increased levels of assistance during the next several years of recovery (para. 20).

These are described in detail in the following section.

Meeting basic and urgent needs

16. The population of the DRC has been traumatized by decades of decline in the quality and coverage of basic services. Basic and urgent needs to be met, and urgent preparations in the short term to lay the groundwork for medium-term recovery include:

- *Supporting vulnerable populations.* The most vulnerable groups include people directly affected by the conflict, or those with no access to a source of income. Assistance to such

³ *Building the New Congo: A World Bank Economic Report.* September, 1998.

groups can best be provided through non-governmental organizations, with government and donor support to ensure that the assistance is well coordinated and does not leave large gaps (see para. 17).

- *Restoring the rule of law.* While this entails rebuilding public institutions, urgent steps are needed to establish the basis for personal and economic security (see para. 17).
- *Stopping the progression of HIV/AIDS.* The DRC was the first African country to have designed and implemented an HIV/AIDS program, but the situation has worsened dramatically as a result of the economic crisis, the conflict and related population displacements, and the presence of troops originating from highly affected countries. Although detailed data are lacking, HIV/AIDS prevalence is at about 5 percent (about 2.5 million people) nationwide but 12 percent or more in the eastern part of the country. Urgent action is needed for prevention and for mitigating the impact of the epidemic.
- *Disarmament, Demobilization and Reintegration (DDR).* The national army and three rebel militias are observing a cease-fire under the Lusaka Accord that should lead to demobilization and creation of a single national army. Demobilization should be accompanied by specific activities aimed at providing ex-combatants with economic opportunities. The initial focus of a World Bank-ILO program, on particularly vulnerable groups such as child and disabled soldiers, will serve as a pilot for a larger DDR program. Eventually, this process should take a regional dimension to allow for the demobilization and repatriation of foreign troops now on Congolese territory.
- *Rehabilitating transport infrastructure and utilities.* The breakdown of the State has resulted in the decline through neglect of economic infrastructure, which has strangled economic activity. Conflict-related destruction appears limited and localized. Infrastructure repair will create employment that will generate household incomes at an early stage in the recovery process. Over 24-36 months beginning under this program it will restore key river, road and rail links between the country's production areas and its cities and port:
 - i) Reforming key sectors, to facilitate private sector participation (in telecommunications, river and land transport companies, and energy which is receiving support from USAID), and increase economic effectiveness –including improving the regulatory frameworks, and restructuring the public companies that are currently providing these services;
 - ii) Strengthening utilities' capacity to maintain and operate their networks;
 - iii) Implementing large-scale investments, in particular to rehabilitate damaged infrastructure, ensure urban drinking water supply, restore and develop the electric power system; and
 - iv) Implementing small-scale works throughout the country, and in particular in rural areas, possibly through community-driven mechanisms.

Rebuilding effective public institutions and policies

17. The DRC's public institutions were destroyed during the later years of the Mobutu regime and weakened by the long budget crisis and the declining qualifications of entering staff. The Government recognizes that comprehensive reforms are needed and is working in this direction. This will be a lengthy process. In addition to the restoration of security

throughout the country, key challenges to be addressed during the TSS period and followed up in the medium term include:

- *Restoring the rule of law through an honest and effective judiciary.* It is essential to strengthen the rule of law in a country where it was never well established and to rebuild it in regions of the country where it has disappeared completely. This requires the development and implementation of a comprehensive legal and judicial reform program including elements of extensive training of lawyers, judges and court personnel, equipment, and updating and publication of legal texts, as well as adequate financing for operating costs.⁴ Labor and commercial processes would receive treatment separate from the criminal justice system.
- *Refocusing the public sector.* The Government is committed to focus its meager administrative capacity on core public responsibilities. Activities in which the State is not the appropriate economic agent are to be left to the private sector. Civil society must be supported and strengthened to continue to provide a number of key social services, including health and education. Efforts should be made to devolve responsibilities to lower levels of government.
- *Reinforcing public sector capacity.* Public expenditure management systems need to be revived, reformed and rebuilt. Public expenditures need to be adequately prioritized, and effectively disbursed. Key institutions have to be strengthened, in particular government capacity to generate revenue through trade and especially the customs service. Human resources need to be strengthened and realistic salary levels established.
- *Ensuring delivery of social services.* Education and health delivery are abysmal, due to lack of resources. Churches, private enterprises and other organizations have historically had an important role in delivery of public health and education in collaboration with the State. The public side of this partnership collapsed in the 1990s but civil society has performed admirably but without the resources required to maintain the systems, particularly following looting during the recent two conflicts. The challenge will be to support these activities, initially relying on existing mechanisms while integrating them within a comprehensive system, and to mount countrywide campaigns (e.g., for national exams or immunization). Three main issues will need to be resolved: (i) improving the financing of education and health operating costs, including salaries and consumables, and reinforcing the health zone system; (ii) repairing or expanding facilities (to respond to the needs of a population which grows at a rate of 3 percent a year); and (iii) reviewing key sector policies such as curricula.

Revitalizing economic activity

18. Social and economic recovery of the DRC can be accelerated if government and donors take appropriate actions now to ensure that economic growth can be launched and supported beyond this program into the medium term. The Congolese economy, once one of the most prosperous in Africa, is in a state of collapse, characterized by subsistence agriculture, a

⁴ The E.U. and Italy are providing essential assistance to reform of this sector, and Canada has financed the publication of many hitherto-unpublished legal texts and decisions and their distribution on compact diskette throughout the country. However, the needs are far greater if the Congo is to develop a judiciary in which the domestic and international public can have confidence.

struggling industrial and commercial sector engulfed by increasing informalization of activities, and continued misappropriation and mis-exploitation in the natural resource sector (Box 3). At the same time, through the last few decades, in the face of adversity, the people of the DRC have also demonstrated their remarkable resilience, dynamism and entrepreneurship, which constitute a solid basis to revive the economy. Achieve stability and sustainable economic growth is a key determinant of the direction of the entire sub-region.

BOX 3: CREATING A FRAMEWORK FOR LEGITIMATE INVESTMENT IN MINING

The Democratic Republic of Congo was previously an important producer of copper, cobalt, diamonds, gold and other base metals. Historically, mining accounted for 25 percent of the country's gross domestic product, 25 percent of total budgetary revenues and about three-quarters of total export revenues. It provided 7 percent of employment.

Starting in 1985, the mining industry of Congo entered a phase of steep decline:

- Copper production by the state-owned *La Générale des Carrières et des Mines* (Gécamines) declined to 5 percent of peak 1985 output levels of more than 500,000 MT per year, while cobalt production fell by 70 percent in the period to about 5,000 MT due to lack of maintenance of the mines and refineries.
- Zinc production (about 200,000 MT) and by-product cadmium, also by Gécamines, ceased.
- Gold production is virtually nil, compared to 6 MT of capacity.
- Manganese production was discontinued at EMK-MN, were capacity is 360,000 MT.
- No tin production was recorded, compared to 9 million MT of capacity at CONGO-ETAIN.
- The columbium-tantalum and monazite operations of SOMIKIVU were discontinued.
- The only positive point is the recovery in diamond production by artisanal miners and *Société Minière de Bakwanga* (MIBA). However, after the Laurent Kabila government granted a commercial monopoly over artisanal diamonds to one operator and prohibited the use of foreign exchange in diamond transactions, declared artisanal diamond production disappeared; diamond exports from neighboring countries increased dramatically. These decrees have been reversed by the new Government.

Reviving mining activity will require extensive private sector investment, which is unlikely to materialize in the current environment. The mining law is outdated and successive Government officials have awarded mining rights, often without respect for procedures. This has resulted in numerous claims on mining rights, the legal status of which is unclear.

In order to address this problems, the Bank has approved an IDF grant which will finance: (a) completion of the legal reform—a new mining law and its regulations (including the preparation of environmental regulations), and a mechanism to solve disputes related to mining claims between mining companies and Government; and (b) design of the Mining Cadastre, a core public mining institution created under the new law to improve the mining titles registry and management system, through the introduction of non-discretionary criteria procedures for the granting and foreclosing of mining rights, managed by a computer based reporting system.

Once the legal framework is in place, support would be provided under the proposed IDA grant for a process of vetting mining rights so as to ensure that legitimate rights are brought under the new legal framework while illegally-granted claims are voided in a transparent manner. This will create a situation where investment can flow. However, given that this will be a lengthy process and given the dilapidated state of many mining facilities, a rapid influx of foreign investment and recovery in the mining sector is not likely to result in a rapid increase in Government revenue from this sector.

19. Priorities for economic stabilization and recovery include:

- *Restore and maintain macro-stability*, through the implementation of Government's economic stabilization program and a series of structural reforms during the TSS period (including preparing a public investment program, developing new mining and investment codes, restructuring the banking sector, restructuring and reforming public enterprises, implementing a demobilization, disarmament and reinsertion program, strengthening the legal and judicial system). This has already begun.
- *Re-link markets*. The collapse of transport infrastructure is such that agricultural products can no longer be commercialized, while imports can hardly reach most areas. Large investments are needed, both to restore key infrastructure (sea and river ports, roads serving the ports, railways), and to rehabilitate small roads and river transport throughout

the country. Such investments are expected to have a significant return in the short-term, by reviving agricultural activities and increasing incomes in rural areas, by lowering prices of food and non-food items (in particular in Kinshasa) and by facilitating the access of rural populations to health and education services. The most urgent investments will be done under the TSS and engineering studies begun for a more structured approach.

- *Revitalize the rural sector.* Agriculture provides income to almost two thirds of the Congolese. Restoring security in the rural areas, improving market information, and rehabilitating transport infrastructure to ensure that products can be commercialized is essential. These activities need to be completed by design of a series during the TSS period of more specific actions to be done in the medium term, both for large-scale export plantations (by promoting private sector investment), and for small farming (e.g., restarting small agro-processing facilities, rehabilitating rural infrastructure and farmers' organizations, and ensuring access to small equipment and inputs).
- *Rehabilitate the health, education and training sector.* Higher purchasing power due to the stabilization program is an important first step for households to obtain access to social services. In health, steps must be taken together with Government, church groups and the donor community to reinforce the health zone system: malnutrition, HIV/AIDS, and malaria. Rebuilding of human capacity is particularly important in this sector. A lost generation of skilled labor must be replaced through education and training. This enormous task requires cooperation among donors with the resources and technical skills to provide assistance.
- *Encourage private investment.* Private investors have needed little encouragement to return to the DRC, even during war. What are necessary are incentives for long-term investments providing employment and local value-added while protecting the environment and avoiding past abuses associated with the natural resource sector. This requires: (i) introduction of a regulatory framework that is attractive to foreign and domestic investors while not unduly depriving the government of revenues, (ii) creation of sovereign risk mitigation instruments (e.g., guarantees) to assure investors that the expropriations of the past will not recur; (iii) restructuring of public enterprises, with a view to encouraging private sector involvement; and (iv) reform, recapitalization and re-regulation of the financial sector.

Building implementation capacity

20. Budget and control systems for public expenditures are in disarray after years of corruption and decline and the abrupt change in government, which expelled the incumbents but has not changed the underlying system. While there are elaborate procedures and controls prescribed in the legislation and in regulations, these are by-passed, simply ignored or if followed (e.g. preparation of annual budget), they are virtually meaningless since there is no effective follow-up, adequate reporting or meaningful controls over expenditures. Exceptions to the 1969 procurement law have become so numerous that now they constitute the norm. In addition, procurement capacity in institutions that previously implemented donor financed projects has lost most of its value following the eight-year hiatus in the implementation of such projects.

21. There is a compelling need for rapid implementation of donor assistance. Recent missions by Bank staff specializing in issues of financial management and procurement have improved the Bank's information on the country's capacity to implement projects. Experience in other post conflict situations indicates that implementation capacity can best be achieved rapidly by creating a temporary unit dedicated to implement procurement, disbursement and a financial management. This unit can subsequently be used as the basis for strengthening the capacity of other institutions, so as to ensure sustainable capacity building. In addition, it is essential that donors agree up-front to work together so as to minimize the burden on the very weak Congolese institutions. The Bank is in the process of creating such a unit under IDA-granted-funded EERP project (para. 41).

22. For the DRC to recover and for the sub-region to reach some stability, the capacity to manage efficiently and transparently large amounts early large-scale external assistance must be in place early. The Congolese authorities are aware of this issue and committed to addressing it. The challenge over the coming years will be to identify, test, develop, and adjust effective and sustainable mechanisms for medium-term aid delivery.

The Government's Interim Program

23. The Government that must address these challenges is emerging from a period of hyperinflation and resource penury. Its program realistically attempts first, to stabilize the economy and lay the path for recovery, and then to address the most urgent actions while promoting the private sector and seeking assistance to prepare the stage for recovery and growth.

24. **Macro-economic stability.** First among its interim actions and to set the stage for its medium-term recovery strategy, the Government is committed to stabilize the macro-economic and financial environment by the end of 2001. Following the abolition in February of controls on the diamond trade, on May 26 the Government floated the Congolese Franc liberalized petroleum prices, and freed interest rates. The Government has agreed to an enhanced interim program monitored by the IMF Staff (SMP); the Bank is providing support to further and deepen the agenda on several key structural areas. The Government has also adopted a wide variety of measures with several far-reaching ones foreseen to be adopted by the end of 2001. The measures are aimed at breaking hyperinflation, stabilizing the economic situation, and laying the foundation for the restoration of growth and reconstruction of the economy. The policies undertaken to stop hyperinflation are based on restrictive budgetary and monetary policies. Expenditures will be restrained by managing expenditures on a cash basis, by reducing the wage bill and controlling non-salary expenditures, by reinstating expenditure controls in the provinces, and by improving audits of the government and parastatals. Revenues will be increased largely through re-liberalizing the diamond sector to restore revenues currently moving offshore, and by rationalizing the tax and customs codes with a view to eliminating exemptions and deferrals and to simplifying enforcement through centralized procedures. Broad money growth will be controlled, and the government will introduce legislation reaffirming the independence of the Central Bank. These measures have been supported by the IMF and are part of the SMP. If the Government stabilizes the economy the IMF could support a medium-term development program under a Poverty Reduction Growth Facility (PRGF). Fiscal measures planned for 2001, and structural performance benchmarks are given in Annex 3.

25. Restitution of good governance: Rebuilding good governance is essential if the DRC is to avoid returning to its corrupt and State-dominated past. The Government puts a high priority on improving governance. Its immediate goals include: (i) promoting democratization (with an emphasis on participatory processes); (ii) promoting justice (including property rights and the institutions of rule of law) and transparency; (iii) monopolizing the means of coercion (including demobilizing and reinserting soldiers and militias); (iv) redefining the role of the State, observing the principle of subsidiarity; (v) developing partnership with the private sector including the policy and regulatory environment; (vi) reforming the fiscal system; and (vii) rebuilding institutional and human capacity within the administration. Among the government's interim program structural measures are actions to weed out corruption particularly in the customs services and tax administration, and to eliminate the unauthorized use of fiscal authority by individuals and non-fiscal administrations. Commercial courts will be established and matters of an economic, financial or commercial nature will no longer be referred to military courts. The government is developing an action plan for public enterprise reform that it expects to be ready by March 2002. In the meantime plans are already underway for reform of specific enterprises particularly in energy and telecommunications.

26. Government priority activities: To accompany its economic stabilization efforts the government has drawn up a list of priority activities. In addition to the importance of each contribution, the donor inflows associated with implementation of this activities will provide employment and to some extent offset the effects of the stabilization program. This list, which amounts to about US\$155 million, is extracted from the ambitious Minimum Triennial Program of investments, prepared in 1997 but never implemented. It includes: (i) urgent and visible projects, in the infrastructure, social, and agriculture sectors, which can be implemented within the next 6 to 12 months; (ii) institutional support, including to improve the environment for private investments; and (iii) preparatory activities for the next phase (e.g., technical studies).

III. INVOLVEMENT OF THE INTERNATIONAL COMMUNITY

27. With the emergence of a clear window of opportunity, donors are in the process of defining their strategies of assistance to the DRC (see Box 4). Their challenge is to set priorities and engage in phased programs that respond to the needs and realities on the ground in the DRC, consistent with the Government's program. However, because the government and its program are so new, a platform for donor information, coordination and burden sharing is required. The Bank, the IMF, the AfDB and key donors are encouraging the international community to move ahead beginning with a meeting to coordinate information on July 3, 2001, followed by a Consultative Group meeting at an early opportunity. In addition to the donor support outlined in Box 4, at the July 3 meeting assurances were received of US\$200 million in immediate development assistance (not including Bank contributions planned under this TSS) that will support the DRC during this transition period. Donor activities are likely to be substantially expanded, in particular once the clearing of arrears permits further financial support from the Bank, the IMF and the AfDB.

28. The lessons from post-conflict assistance suggest that (i) a massive infusion of resources can help stabilize and open wider a fragile window of opportunity, (ii) resource allocations should be larger than under normal circumstances, (iii) implementation capability may be

weak in relation to needs, and (iv) a presence on the ground is essential for project implementation, rapid project modification and policy dialogue. Responding to another lesson, that policies cannot be applied without particular reference to the conditions in each country, most of the major bilateral donors rely for information and feedback on their field presence in Kinshasa, and some have active offices elsewhere in the country.

29. Donor coordination: experience in other post-conflict situations shows that a well-functioning aid coordination mechanism is key to success: to direct assistance for priority needs, to prevent gaps or overlaps, and to ensure coherent donor input in the policy dialogue. In the DRC, this will require: (i) presentation by the Government of a well-articulated recovery program, with clear (and regularly updated) priorities at the program-, sector-, and project-level acceptable to the donor community; (ii) the setting up of a small donor coordination unit, to interact with donors, smoothen implementation, and keep track of priorities and donor activities; (iii) regular consultations among donors, starting with the information meeting in July and the possible international conference on DRC by end 2001; and (iv) cooperation with the government's own aid coordination mechanism as aid levels and multiple activities executed outside the budget increase rapidly from a low base.

Box 4: Donor programs

- The **IMF** has negotiated a SMP (policy conditions summarized in Annex 3), which could lead to a PRGF by December 2001. Together with the Bank, the IMF has begun a debt sustainability analysis to prepare discussions with the Paris Club and eventual access to HIPC.
- The **AfDB** cannot provide new credits to the DRC until its arrears are cleared. Because of their size (about US\$800 million), these arrears dominate the institution's policy dialogue. AfDB's interim strategy for 2001-3 focuses on a SDR 2.5 million (2.5 million U.A.) grant-funded capacity building, particularly in the debt management unit, the Central Bank and the Ministry of Planning, approved by its Board on June 20, 2001, and to support preparation of a poverty reduction strategy paper (PRSP). Substantial lending is expected once the arrears are resolved.
- The **UN agencies** have continued their programs with a focus on immediate post-conflict assistance. The UNDP has a technical assistance program of around US\$11.5 million focused on capacity building and demobilization. The FAO has a program of around US\$30 million to fund emergency equipment for farmers and fishermen, and will collaborate with the Bank on agricultural sector reform. IFAD has promised grant support during the transition period to focus on agricultural production and marketing. ILO is implementing agency for the Bank's post-conflict fund grant to child and vulnerable soldiers.
- The **European Commission** is implementing an "expanded" humanitarian program of €120 million under the 7th and 8th EDF covering infrastructure and agriculture rehabilitation, health and water supply, with €35 million allocated for reform of the judiciary and for capacity building.
- Among **bilateral programs**, **Belgium, Canada, France, Germany, the Netherlands, Switzerland, the UK, and the US** have been active, both in support of capacity building and structural reforms (for example, USAID in energy and private sector promotion) and through emergency programs and provision of supplies and materiel (for example, chemicals for the national water company). The US has recently given US\$21.4 million in food-for-work food aid to directly benefit 1.4 million people throughout DRC including many displaced during the recent conflict. USAID also has a significant health systems support program. Belgium and Canada are contributing to a Bank-administered Emergency Trust Fund. Belgium is planning to announce a €19.83 million (800 million BEF) program of support in a variety of areas.

30. For donors to remain involved over the medium-term, and to maximize the impact of external financing, donors should be confident that their funds are well used. In view of past experience, a strict approach to transparency should be taken. Concrete measures should be implemented to ensure the effective and transparent use of resources by both governmental and non-governmental partners. This would include extensive use of external audits, competitive procurement wherever possible, full disclosure of all information related to the

financing of projects and the selection of contractors, and close project supervision. A responsible and active press would assist in public disclosure and informed debate.

IV. A STRATEGY FOR BANK ENGAGEMENT

Past Bank engagement

31. From 1951 (as Belgian Congo) to 1991 (as Zaïre), the DRC received 10 IBRD loans amounting to US\$301 million and 60 IDA credits amounting to US\$1,235 million. IFC financed five investments totaling US\$47 million. In FY91-92, the Board approved five relatively modest IDA projects in support of human capital development, maintenance of key infrastructure and protection of the environment. Bank lending was discontinued in August 1991 due to difficult macroeconomic and political conditions and insufficient counterpart funding. Zaïre was declared in non-accrual status on November 15, 1993, and country economic dialogue was discontinued on account of political instability and a decaying administration. With the new Government in 1997, the Bank renewed its relationship with the DRC, supporting a "Friends of Congo" meeting and continuing support and dialogue on economic, legal, institutional and regulatory issues through Institutional Development Fund (IDF) grants in the key sectors of mining regulation, finance and macroeconomics and transportation; it has also funded advisory assistance on a new investment code. A PCF grant has supported preparations for demobilization, beginning with child and vulnerable soldiers. A recently approved PCF grant will help with the reintegration of street children. In collaboration with the IMF, AfDB and Government, the Bank has been updating data on the stock of the DRC's external debt and preparing a debt sustainability analysis.

Objectives of Re-engagement

32. The overall objective of the Bank's activities is to contribute to the transition to peace and stability in the DRC and the sub-region. To achieve this objective the Bank will assist the Congolese efforts to: (i) rebuild the weak state and provide security and basic services; and (ii) begin the process of reconstruction through demobilization of combatants, jump-starting economic activity, fighting against poverty and ending the unequal access to the benefits of natural resource wealth which is one of the origins of conflict in DRC.

33. The conditions in DRC make the country eligible for a transitional support strategy under World Bank OP 2.30. The TSS is a short-to-medium term plan for Bank involvement, including incremental involvement when it is not able to provide assistance in all areas. It may be initiated when (a) active conflict has diminished sufficiently for Bank staff to be able to travel to the area for purposes of identifying and supervising activities, and for the country to prepare and carry out any such activities effectively and achieve their objectives; (b) there is a reasonable expectation of continued stability or of a sustainable formal cease-fire; (c) there is an effective counterpart for the Bank; and (d) there is evidence of strong international cooperation and the potential for a well defined role for the Bank. The Congolese have established conditions (a) through (c), and the international community has established condition (d).

34. The TSS promotes "early wins" to build a track record for the new Government structure and the leadership that emerges from the inter-Congolese dialogue, to restore confidence and a view of a future both in the local population and among donors and private investors. Specific objectives are given in Box 5 together with the program or activity intended to

address them. Most of these activities will be funded under an IDA Grant (para. 41). The Bank will also foster donor coordination to improve the efficiency of resource delivery from all sources.

Modes of assistance

35. In support of the DRC's recovery program, the Bank will focus on areas where it has a clear comparative advantage and will work in close partnership with the Government, the IMF and AfDB, donors, the United Nations system, and other stakeholders.

36. The TSS supports DRC's recovery in three principal areas:

- *Financial support.* The Bank will seek to maximize the impact of its resources by intervening in where it has a comparative advantage and by leveraging contributions from other donors through cofinancing arrangements. A major IDA contribution early in the support process will be the Emergency Early Recovery Project (EERP) that accompanies this TSS, financed by a \$50 million IDA post-conflict grant.
- *Policy and technical advice.* The Government requires sound economic policy advice to implement a program of economic stabilization and equitable growth. The Bank's approach is closely coordinated with the IMF and others. The Bank has assisted or will be assisting the Government on mining code and investment code reform, and public enterprise restructuring and reform, and is prepared to offer technical and policy advice in key sectors as requested by the Government including a Public Expenditure Review to improve the efficiency of service delivery and the transparency in public resource management. The Bank, IMF and others will assist the Government in preparing an Interim Poverty Reduction Strategy Paper and accessing HIPC. Finally, with Belgian and PCF financing the Bank will conduct a rapid assessment survey of living and infrastructure conditions to assist the development of a post-transition strategy and the preparation of the I-PRSP.
- *Aid coordination.* The Bank will collaborate with other key donors in (i) supporting the preparation of a detailed recovery program that would identify priority investments and appropriate sectoral policies (building on work already underway by the government and key donors); (ii) mobilizing donor support, through coordination of donor meetings leading to a regular Consultative Group process; and (iii) assisting the Government in setting up the proper mechanisms for effective coordination of activities. The Bank will work with partners to foster full involvement of relevant bilateral and multilateral agencies.

Box 5: TSS Objectives	
Objective	Description of Program or Activity
Meeting basic and urgent needs	<ul style="list-style-type: none"> • Support social service delivery and social infrastructure ruined by looting, war and years of neglect; • Re-integrate ex-combatants and displaced households • Establish and support an anti-HIV/AIDS task force at a level higher than the ministerial level. Establish safe blood transfusion.
Rebuilding effective public institutions and policies	<ul style="list-style-type: none"> • Strengthen transparency, accountability and participation • Lay the groundwork for broad-based growth with disincentives to corruption and a new role for the State vis-à-vis local administrations, the private sector and non-governmental groups

Revitalizing economic activity	<ul style="list-style-type: none"> • Aid the private sector through reconstruction of essential infrastructure • Initiate community-driven development activities • Promote revival of the food linkages from farmer to consumer. • Introduce regulatory and other incentives for investment while ensuring that the benefits of mineral wealth can be broadly shared by all.
Rebuilding administrative and implementation capacity	<ul style="list-style-type: none"> • Develop an implementation capacity to manage donor aid efficiently, transparently and without corruption

Elements of a program supported or administered by the Bank

Phasing

37. Addressing the above challenges poses a significant burden for capacity and financing. To remedy the lack of capacity and help strengthen it, assistance could be designed in sequential but overlapping phases that combine financial support with the policy and technical advice to anticipate future needs. The financial and technical components will vary according to the phase of the program:

- **Stabilization** (May 2001-early 2002) to accompany the government's efforts to address the most urgent needs and to prepare for further assistance. This would primarily be financial assistance provided under this TSS before arrears clearance.
- **Recovery** (early 2002 and lasting around 2 years) to continue to rebuild essential capacity within institutions, remove bottlenecks to economic activities, and continue to address urgent issues. The TSS provides for the preparatory work for these activities where they are identified, and the research necessary to identify activities to be included for possible financing.
- **Development** once the situation will have improved and traditional development activities can be implemented. Under this TSS the economic and sector work to prepare for this stage will be begun, to prepare the knowledge base for a country assistance strategy.

Before arrears clearance

38. The TSS addresses the period before arrears clearance. It starts with the provision of exceptional IDA grant support for urgent rehabilitation measures. The DRC satisfies the conditions for grant support under OP 2.30; these conditions and how they are met in the DRC are described in greater detail in the MOP for the IDA grant⁵, paragraphs 23-24. The TSS further includes the planning and development of a comprehensive recovery program, and donor coordination in the period before arrears are cleared (estimated to take about 12 months). Priorities during this period include (i) implementation of grant funded activities described in this section, (ii) normalization with multilateral creditors, (iii) preparation (including economic and sector work) of a comprehensive post-normalization program, and (iv) establishment of a HIPC track record to achieve early entry into HIPC. Key activities during the TSS period are displayed graphically in Box 6.

39. Under the TSS the Bank would promote the need for a global and/or coordinated solution to the arrears problem. The detailed strategy for arrears clearance will be designed to avoid

⁵ *Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Grant of SDR 40 Million (US\$50 Million Equivalent) to the Democratic Republic of Congo for an Emergency Early Recovery Project* (Report 7469 ZR), July 5, 2001.

jeopardizing key recurrent expenditures. The three IFIs are working with the Government to take stock of the debt and to define a detailed strategy for clearing IFI arrears and eventually obtaining significant debt relief. In the meantime, the Government has agreed with the IMF to make symbolic deposits of SDR 100,000 per month into a DRC-owned account at the Bank for International Settlements, as evidence of a record of co-operation with the Fund. The funds would show earnest intent to make progress towards clearance of arrears, would continue to form part of DRC's foreign exchange reserves, and would not be paid over to the IMF or other creditors. To preserve comparable treatment of preferred creditors—which is an important principle in the IDA post-conflict framework—the Government will make comparable and proportionate deposits with respect to its arrears to the Bank of about SDR 60,000. Following discussions, the Government and the AfDB have agreed that the DRC will make deposits of SDR 70,000 in relation to AfDB arrears. (See the MOP for the IDA grant⁶, Section II.C “Rationale for Early Grant Assistance”).

Box 6: A Timeline for the Transitional Support Strategy											
	2001							2002			
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	
Donor Meeting		X		X							
IMF Board (SMP)		X									
World Bank Board (TSS, IDA grant)			X								
IMF Monitoring Reviews						X				X	
Government Program Deadlines under SMP:											
Revenue measures	X	X									
Expenditure control measures	X	X		X			X				
Supporting urgent needs (EERP)	X										
Arrears clearance:											
Debt sustainability analysis missions											
WB-IMF-AfDB arrears issues meetings									X		
Donor discussions on arrears		X		X	X			X	X		
Arrears clearance strategy agreement					X			X			
Arrears cleared									X		
Interim PRSP and PRGF:											
Bank/Fund advisory missions		X		X		X					
Local Work on PRSP											
Possible PRGF											
Rebuilding institutions and Capacity:											
IMF Technical Assistance:			X		X		X	X	X		
Rebuilding implementation capacity (EERP)											
Demobilization, Disarmament & Reintegration:											
Meetings with donors		X		X							
Implementation		X			X		X				
Preparations for 2nd Phase:											
Engineering (EERP) & project appraisal											
Economic and Sector Work											
Monitoring Economic Policy Reform	X										

40. Bank support would be through a grant-financed assistance program that would include: (i) self-help small infrastructure rehabilitation and social services projects financed by the Bank-administered Emergency Fund (a multi-donor trust fund with initial funding US\$5 million by Belgium and Canada and about to be increased, plus contributions expected from others), implemented through demand-driven proposals; (ii) key small projects addressing essential needs (Box 7) financed by IDF and PDF grants and ESW; and (iii) a proposed US\$50 million IDA post-conflict grant to finance an Early Emergency Recovery Project.

⁶ Ibid, paras. 21-24.

41. The US\$50 million IDA grant is being presented to the Board with the TSS. This grant would focus on: (i) providing technical assistance to provide advice on key reforms, prepare the platform for the Bank and international community medium-term engagement, and rebuild the State and strengthen capacity in key institutions; (ii) removing key transport infrastructure bottlenecks, and in particular the only road linking the country's seaport to Kinshasa and the inland transportation system; (iii) raising awareness of the HIV/AIDS issue and reinforcing capacity at the provincial level to tackle the HIV/AIDS epidemic; and (iv) piloting community based rehabilitation activities in rural areas. It would complement assistance provided by other donors. The IDA grant will also visibly demonstrate support for the people of the Congo as the government continues to make significant macroeconomic adjustment steps that may cause hardship, and provide resources to address some of the social tensions expected. The size of the grant is based on the best available judgment of the level of resources DRC can absorb during the period before arrears are cleared and regular lending can resume.

Box 7: Grant-funded projects in progress or approved as of June 2001 and those proposed

- Preparation for a DDR program, beginning with child and vulnerable combatants, under a Post Conflict Fund (PCF) grant (US\$2 million) currently being implemented by ILO.
 - Support for street children under a PCF grant (US\$1 million, possibly complemented by US\$1 million from the Japanese Post Conflict Fund), to be implemented by Oxfam Quebec.
 - Improve transparency, governance and private investment in the mining sector by finalizing the draft mining code prepared under an Institutional Development Fund (IDF) grant (US\$428,000), provide training, and prepare a mining cadastre.
 - FIAS assistance to the government to prepare a modern investment code.
 - Prepare a policy framework and an action plan in the transport sector, including reform of public enterprises active in the sector (IDF, US\$500,000).
- Proposed**
- A rapid assessment of living and infrastructure conditions (PCF, US\$250,000).
 - Further PCF and JPCF assistance for vulnerable groups in FY02 and FY03 (US2.7 million).

42. The Government is beginning to work on an Interim Poverty Reduction Strategy Paper (I-PRSP). Policy makers have participated in regional workshops on the PRSP process. The Bank, the IMF and the AfDB will continue to assist the Congolese, including by financing experts from countries in the region that have experience with the PRSP process.

After arrears clearance

43. In the second phase, which would coincide with the period after arrears to IDA and IBRD have been cleared, the Bank would support the implementation of the recovery program with regular IDA credits, and provide debt-relief through the HIPC Initiative after the DRC meets the decision point criteria. It is expected that the Congolese work on the PRSP process, assisted by the international community and regional experts, will facilitate rapid progress to the HIPC decision point.

44. The specifics of the post-arrears clearance assistance program would be set out in a report to the Board that will also discuss progress made by the Government on the implementation of the program during on the first phase. With continued strong progress on the program of reforms and in the peace process, the Bank anticipates that the following projects could be brought to the Board during FY02:

- An adjustment operation, the Economic Rehabilitation Credit, to support reform in key sectors to be determined by ESW during the next 12 months.
- A multi-sector project, the Emergency Reconstruction and Rehabilitation Program with a focus on infrastructure rehabilitation (including transport, energy, and water), demobilization and reintegration, rural development, employment generation and public works, and social service delivery systems, to be prepared and implemented within the framework of a single operation in order to facilitate implementation and supervision.
- An operation aimed at providing technical assistance and capacity building to encourage private investment, particularly in the mining sector, and international trade.

45. Activities would be designed with a countrywide focus, restricted only by local security constraints to project supervision. Capacity building in public institutions would be cast within the framework of a comprehensive, countrywide administrative system. It is not enough to consider recovery at the national scale. Recovery in the DRC, given its geography, population and trade links, requires a regional framework for peace and stability, while in return the development and even the stability of neighboring states requires security and the rule of law throughout the DRC. Many development issues, from HIV/AIDS to the environment and communications, have a regional dimension of which the DRC is a key component. Assistance at the national level should in general be cast within a broader effort aimed at stabilizing the sub-region.

46. Given the still fragile state of peace in the country and the poor state of Government finances, implementation of the TSS would be flexible (for example, in relation to counterpart fund issues in line with current practices in operations in other conflict-affected or post-conflict environments in which the Bank is re-engaging). Local capacity to implement the Government's development priorities is weak. The Government needs help to strengthen public institutions and develop an adequate implementation capacity. Given the history of corruption and the compromised implementation capability, key parts of a donor-assisted program could be implemented through delegated contract management with non-traditional monitoring mechanisms put in place during the TSS period. In parallel, specific solutions need to be envisaged for implementing urgent projects, including:

- *Making extensive use of the vibrant civil society*, and of the extensive networks of community-based and religious organizations, in particular to access populations both in rural areas and in small urban centers.
- *Relying on turnkey contracts with reputable international companies* for the most complex and expensive projects (in particular in infrastructure), to facilitate rapid, effective and accountable implementation.
- *Encouraging the partnering of local and international companies* and promoting ways to help local companies develop their capacities.
- *Providing intensive, hands-on technical assistance* to help prepare and supervise projects, to strengthen institutions—with attention to avoid jeopardizing local ownership of the programs.

47. To establish a presence on the ground, a field office will be opened early. Its main tasks will include (i) effective policy dialogue with the Government; (ii) assistance in preparation and supervision of the operations throughout the country; and (iii) dialogue with civil society and international partners.

Arrears clearance and debt sustainability

48. With DRC's total external debt burden of \$12.9 billion representing 225 percent of GDP, the TSS accords a high priority to placing the DRC on a path to debt sustainability. In the near term, this means: (i) clearing arrears to all creditors, including international financial institutions, and (ii) establishing a track record leading to the decision point under the HIPC Initiative. The need to establish a track record and the benchmarks that will be used to judge performance are discussed further below. It should be noted, however, that there is a potential tension between these two near-term goals as it may not be possible to clear all arrears to international financial institutions prior to the decision point.

49. Congolese arrears to multilateral creditors are large: arrears to IBRD and IDA currently total around \$306 million (as of late June, 2001), arrears to the IMF total around \$500 million, and arrears to the AfDB total around \$800 million. Early clearance is important as all three institutions require arrears to be cleared before new lending can resume. Over the coming months, the Bank will work with the authorities and with the IMF and the AfDB to develop a comprehensive approach to arrears clearance. A key underlying principle of this approach will be that all arrears to multilateral creditors must be cleared within a reasonable timeframe within the context of a concerted international effort to provide sufficient new financing to DRC. Such an approach may involve sequential clearance of arrears to the Bank, the IMF and the AfDB, and arrears to some creditors may need to be cleared after the decision point. However, from the Bank's perspective, having a plan in place to clear arrears to all multilaterals would be considered a pre-condition for moving to the decision point.

50. The TSS also proposes to support DRC's efforts to begin to establish a satisfactory track record of sound economic policies and performance necessary to qualify for HIPC debt-relief. The Government is already preparing an I-PRSP with assistance from the Bank, the Fund and the AfDB.

51. Under the TSS a strategy will be developed for dealing with bilateral debt, including arrears. Particular attention will also be paid in this context to ensure continued focus as necessary on AfDB arrears, the resolution of which is necessary for E-HIPC qualification. It will not be possible for the DRC to service its external debt fully in 2001-2002. A debt workout strategy on which the Bank and Fund are closely collaborating will be prepared over the coming months; a DSA that is already in preparation will culminate in a joint (Bank, IMF, AfDB) mission to DRC in October-November 2001. The Government is expected to contact the country's creditors and inform them of its intention to seek rescheduling under the Paris Club, in the context of a PRGF-supported program.

IFC and MIGA

52. Since recovery and growth of an active private sector will be essential for lasting economic growth in the DRC, early involvement of IFC and MIGA will be important. Both institutions could capitalize on the regional experience they have developed. FIAS has had an important role in helping DRC to reform its investment code.

V. BENEFITS, RISKS, EXIT STRATEGY AND BENCHMARKS

Benefits

53. The goals of the proposed strategy are to assist the Congolese in the process of economic recovery and support the stakeholders in the process that would lead to peace throughout the region.

- On the financial front, DRC would emerge from the TSS period with its problem of arrears to multilaterals largely solved, and should be on track to receive debt-relief under the HIPC initiative.
- On the economic front, revitalization of economic activity and the improvement of living standards are key to the stabilization of the DRC—and the sub-region—in the short- and medium-term.
- Finally, stability and rule of law would help prevent the extension of war based on Congolese soil within the country and to its fragile neighbors, reverse lawlessness and warlordism in Central Africa, and facilitate the regional fight against epidemic diseases. Recent World Bank research⁷ shows that natural resource dependence is associated with civil conflict, and that half of the countries emerging from a conflict return to war within five years. Missing the current opportunity to address the origins, causes and triggers of conflict could contribute to relapse. External assistance would support the return of stability and transform this well-endowed and well-linked country into an engine of growth for the sub-region.

54. To support its fifty million people, the vast majority of whom live in poverty, the DRC must re-launch development activities at the local, sector and national level. Early support by the Bank would contribute to a comprehensive framework for other donors. It would send a positive signal to the private sector, both domestic and international, to significantly increase productive private investments. Bank engagement is also essential for the DRC to access HIPC and to resolve its debt problem.

Risks

55. Risks remain high. The greatest risk is of failing to respond to a peace and reconciliation process that is developing positively, and missing a window of opportunity for stabilizing a key country in an unstable region. However, realistically this should be balanced with the risks associated with engaging in an uncertain political and military environment. Conflict with local militias is likely for some time in the East, as it has existed for decades. There is no guarantee that civil war will not erupt again or that the process of inter-Congolese dialogue will not lead to a Government that puts ideology or personal power and enrichment ahead of development. More specific risks can be identified and addressed constructively by devising appropriate risk mitigation measures.

⁷ Paul Collier and Anke Hoeffler (2000), “Market Forces Add Ammunition to Civil Wars”, *Oxford Study*, July.

- *Reversal of the peace process.* Government and rebel leaders and their regional backers lack the capacity to deliver important parts of the Lusaka Accord, in particular disarmament of “negative forces” in the east (rebel militias opposing neighboring governments) and the outcome of the inter-Congolese dialogue. The commitment of some Lusaka signatories is still tentative and may be reversed. It will also be important that all segments of society have a sense of ownership in the process.
 - To mitigate this risk, the Bank would monitor the evolution of the peace and participation processes, and involve all stakeholders in key processes with a view of ensuring that benefits from its engagement and financial support as well as from other rehabilitation and development efforts are equitably distributed. The TSS proposes a back-loaded program, aimed at accompanying progress toward stability. In the initial 6 to 8 months financial transfers would remain modest, and focused on restoring capability to resume programs and on activities with a social impact.
- *Insufficient capacity.* Implementation of reforms and projects could be handicapped by limited capacity, in terms of human resources, institutions and physical capital. Both public and private sector capacities have been severely weakened by decades of administrative and educational crisis and ingrained corruption. Caution against unrealistic assumptions and expectations is therefore warranted.
 - To mitigate this risk while avoiding unduly delaying assistance, supervision and management arrangements for programs and projects could include use of international contractors meeting international audit norms, delegating contract management, and providing direct technical assistance. Simultaneously, training, technical assistance and institutional support will be provided to build the capacity of Government and non-government stakeholders. This will take time.
- *Inadequate financial flows to support recovery.* The financial flows forthcoming from the international community may be insufficient to support the recovery effort and DRC may be unable to return to a growth path. The transitional strategy will not have succeeded if the Government is subsequently not capable of servicing its debt once debt service resumes, in particular in view of its budget crisis.
 - Risk mitigation requires a concerted strategy on the part of the Bank, the IMF, other donors and the government to improve resource mobilization from foreign donors in the form of grants and concessional financing during the next 2-3 years, and from domestic sources in the medium term. It is expected that the recent deregulation of diamond commerce will help restore a significant source of government revenues, reducing this risk from the extreme values of early 2001. To the extent possible, the provision of international assistance will provide the foreign exchange to meet these fiscal targets.
 - The Bank emphasis on monitoring the transparent use of Government’s revenues will ensure that the Bank’s preferred creditor status can be maintained. Early normalization with multilateral creditors, combined with early access to HIPC and Paris Club debt relief should be sufficient to ensure substantial positive inflows. Yet strong support from bilateral and other donors will also be necessary; as will efforts to improve mobilization of domestic resources and the effectiveness with which resources are used.

- *Reputational risk.* The post-January 2001 Government has signaled to the international community its clear commitment to reform and to achieving lasting peace. However, there is a risk that a Government with no track record may be unable to ensure the proper and transparent use of its resources and the Bank would consequently face a reputational risk.
 - The Government has committed to improve transparency and good governance. The TSS places major emphasis on financial management; a Bank mission in May completed initial work in the areas as on the public procurement and financial management systems, and further assessments are planned.
 - If progress towards peace, recovery, and reform were unsatisfactory, the Bank would review its activities—including restructuring—with a view to seeing what contribution it could make to reverse the situation or whether to move to the exit strategy.

Exit Strategy

56. The Bank's exit strategy would aim at incremental disengagement depending on seriousness of the Government's failure to meet the performance benchmarks and the progress indicators. Such incremental step would include revision of implementation schedule, revision of planned activities, and partial suspension of activities. The point of departure for such a decision would be an assessment of the probability of a successful implementation of the TSS, given evolving risks in a changing environment. Whenever feasible, decisions about disengagement would be taken after consultations with civil society and with other donors, to preserve the Bank's reputation and limiting financial risks to IDA.

Benchmarks and Indicators

57. Progress of the DRC recovery and the effectiveness of the activities implemented under the TSS should be assessed on a regular basis against a set of benchmarks. Reforms under the SMP will be monitored by quarterly reviews based on end-September and end-December 2001 indicators and benchmarks. The indicators to be developed and reviewed at regular intervals include:

- *Political stabilization and peace* – to measure progress made by all parties to implement the Lusaka Accord; to develop a genuine and fruitful inter-Congolese dialogue; to put in place inclusive institutions; to demobilize, disarm and reintegrate soldiers and restore security throughout the country and to address neighboring countries' security concerns.
- *Economic reform and recovery* – to measure the government's commitment to reform and development, the approval, implementation and enforcement of key pieces of legislation, the return of economic growth, and the restoration of essential social services.
- *Governance* – to measure the development of effective and accountable institutions, the development of an adequate implementation capacity, and the government's efforts to ensure transparency in the use of both donor and domestic resources.

58. Progress indicators (see Annex 2) would be reviewed at regular intervals during the TSS implementation to capture performance along political, economic and governance dimensions.

Schedule for Board Consultations

59. The Bank would prepare within 12 months a report on the implementation of this TSS and an updated TSS for the following 12 months to be presented to the Board. Based on the post-conflict performance indicators (Annex 2), the report would include an assessment of the evolving situation, an assessment of the progress on the reform agenda and TSS implementation, and a review of the Bank's assistance.

James D. Wolfensohn
President
by Sven Sandström

Washington, D.C.
July 9, 2001

Annex 1: Summary of Strategy Elements

A. Financing activities

<i>Project or Activity</i>	<i>Type</i>	<i>Amount (million US\$)</i>	<i>Time- frame</i>
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Grants and activities prior to arrears clearance

Demobilization and reinsertion of child soldiers	PCF grant	1.0	FY00
Establishing framework for transport sector and mining reforms	IDF grant	0.94	FY01
Reintegration of vulnerable street children in urban areas	PCF grant	1.0	FY01
	JPCF grant	1.0	
Living and infrastructure conditions survey	PCF, Belgium	0.25	FY02
Rebuilding institutions	IDA grant	50.0	FY02
Other post-conflict assistance	PCF	2.7	FT02, 03

Initial lending operations after arrears clearance

Adjustment and arrears clearance	ERC	TBD	FY02
Emergency reconstruction and rehabilitation program	IDA credit	TBD	FY02
Technical assistance to investment and mining sector	IDA credit	TBD	FY02

B. Non-lending activities

Debt sustainability analysis	FY01-02
Support to the I-PRSP	FY02
Public expenditure review **)	FY02-03
Parastatal Review	FY02
Fiduciary assessment	FY02

*) The IDA resources for this project would be covered by the Africa Region's umbrella program for HIV/AIDS projects.

***) Part may be financed under the IDA grant.

Annex 2: Post-Conflict Performance Indicators

A. Political stabilization and peace

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>
Security	Cease-fires maintained among Lusaka signatories	MONUC positioned on fronts
Inter-Congolese dialogue and open participation in public life	Facilitator acceptable to all sides chosen Liberalization of political parties Dialogue under facilitator in progress	Facilitator in Place (Done, Feb. 2001) Decree signed (Done, May 2001) Reports from facilitator Satisfactory conclusion to dialogue (extends beyond TSS period)
DDR program	DDR plan prepared for child and vulnerable soldiers Establishment of DDR	DDR plan implementation in progress for child and vulnerable soldiers Examination of other experiences by all groups (e.g. conferences where all participate) Discussions held among all parties for DDR program. Reports from MONUC

B. Economic reform and recovery

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>
Maintenance of essential market linkages	No traffic backups exceeding 50 vehicles due to road washouts	Traffic on Kinshasa-Matadi road not interrupted by more than 24 hours in rainy season.
Clearance of arrears on external debt	Agreement on payments schedule and on arrears clearance mechanism Timely payments to Bank	Arrears cleared
Steps to HIPC	Preparation of I-PRSP framework Preparation of HIPC documents	I-PRSP to Bank and Fund Boards
Management of inflation, exchange rate and adequacy of the budget	Satisfactory progress in implementing of reform program Remain on track on IMF SMP benchmark indicators	Targets met as verified by mission review
Introduction of a modern Investment Code	Assistance solicited and received from FIAS for preparation	Adoption of Code Investment under terms of code by local and foreign investors
Public enterprise reform	Preparation of action plan for reform	Begin implementation specific elements under action plan (to be defined)
Management and sustainability of the development program	Degree of coordination of policies and actions with the international community (UN, Bank, donors)	Coordination of assistance programs Donor meetings

C. Governance, public sector management and institutions

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>
Transparency and accountability in public expenditure	Public Expenditure Review (PER) preparation PER progress reports Independent inspections and audits of donor-financed activities Publication of public procurement of goods and services over US\$100,000	Recommendations of final PER report (FY03) Satisfactory audit reports Evidence of publication (e.g. newspapers, Official Journal)
New mining code	Preparatory work underway as evidenced by consultative fora Beginning steps to resolve conflicts over mining claims	Promulgation of mining code Establishment of mining cadastre
Independence of Central Bank	New Central Banking Law	Promulgation of Law

Annex 3: Summary of DRC Enhanced Interim Program

A. Prior Actions

<p>The government intends to undertake the following actions prior to the initiation of enhanced interim program:</p>
<p>Government finance</p> <ul style="list-style-type: none"> Start execution of the 2001 budget strictly on a cash basis. Centralize expenditure and eliminate all extrabudgetary expenditure. Deposit all revenue in the treasury's general account with the BCC. Finalize the list of priority strategic projects for 2001 with the World Bank.
<p>Monetary sector</p> <ul style="list-style-type: none"> Enact and publish all legislation on the independence of the BCC, as well as the new banking law (taking due account of the comments of the IMF) by end-June 2001. Liberalize all interest rates. Ensure that the BCC will no longer extend direct credit to the private sector or to public enterprises. Moreover, any transaction on account of the government will require the authorization of the Minister of Economy, Finance, and the Budget. In coordination with the Minister of Economy, Finance, and Budget, reconcile the accounts that constitute net credit to the government. Begin strengthening the supervision of the banking system.
<p>External sector</p> <ul style="list-style-type: none"> Introduce a floating exchange rate system and publish related legislation and regulations, taking due account of IMF comments.
<p>Structural measures</p> <ul style="list-style-type: none"> Enhance inter-ministerial coordination on economic and financial policies through ECOFIN. Effectively liberalize the diamond market and publish applicable legislation. Cease all arbitrary interference and involvement in commercial activities. Liberalize the prices of goods by end-June 2001, with the exception of electricity, water, and public transportation, which will be adjusted periodically. Liberalize petroleum product prices and establish an automatic and transparent mechanism for pricing petroleum products. Raise the prices of petroleum products in accordance with that mechanism.

Source: IMF

Annex III, cont.
B. Fiscal Measures Planned for 2001

Measures	Implementation
Generation of revenue	
Depositing of all tax and off-budget revenue with the Central Bank of the Congo (BCC) and elimination of the system of tax offsets	May 2001 *
Appointment of a tax and customs reform commission	May 2001 *
Establishment of monthly revenue targets for <i>Office des Douanes et Accises</i> (OFIDA) and <i>Direction Générale des Contributions</i> (DGC)	May 2001 *
Elimination of all deferred payment options	May 2001 *
Application of the market exchange rate to the c.i.f. valuation of imports	May 2001 *
Taking of steps with financial and banking institutions participating in the collection of tax and non-tax revenue to expedite the centralization of revenue and reporting	June 2001 **
Creation of a large enterprises' unit within the DGC and establishment of one-stop windows in the three largest OFIDA offices	End 2001
Registration of all taxpayers with the DGC and OFIDA	End 2001
Finalization of the draft law on the VAT and preparation of an action plan for its implementation in 2003	End 2001
Assessment of payment authorization and revenue collection procedures and initial implementation of recommendations	End 2001
Adoption of an action plan to reduce tax exemptions	2002 Budget Law
Management and control of expenditure	
Refusal of the BCC to make disbursements that go beyond the ceiling set in the monetary program	June 2001 **
Strict management of expenditure on a cash basis (resources actually available) as defined in the treasury cash-flow plan.	June 2001 **
Reinstatement of budget and accounting procedures through the use of commitment vouchers for expenditure on goods and services and strict compliance with the payment authorization procedures under the supervision of the DRC treasury Directorate	June 2001 **
Coordination of commitments and payments by reinstatement of periodic commitment reports and appointment of a committee including the Minister of Finance, the Secretaries-General of Finance and the Budget, the Director of Budget Control, and the Director of the Treasury	June 2001 **
Launch of an audit of government and public enterprise arrears	August 2001
Breakdown of the budget allocation for the armed forces	End-2001
Finalization of the audit of civil service personnel and initial establishment of a database of government employees	End-2001
Beginning of reinstatement of the process of expenditure control in the provinces	September 2001
Preparation of a realistic 2002 budget (end-December 2001) and adoption by parliament (early 2002)	2002 Budget Law
Audit of fiscal year 2001 accounts	End-2002

Source: IMF

* Implemented by June 30, 2001

** Implementation begun by June 30

Annex III, cont.**C. Structural Performance Benchmarks****By September 30, 2001, the Government intends to do the following:**

Reinstate budget and accounting procedures through the use of commitment vouchers for expenditure on goods and services and comply strictly with payment authorization procedures under the supervision of the Directorate of the Treasury.

Execute budget on a cash basis (resources actually available) in accordance with the cash-flow plan.

Begin preparation of a public enterprise reform program with World Bank assistance.

Launch a study to identify domestic arrears between public enterprises and between public enterprises and the government.

Continue audits of commercial banks.

Finalize the investment code and the mining code prepared with World Bank assistance.

Begin the reform of the regulatory framework and the strengthening of the judicial system with assistance from the World Bank and other development partners.

Draft action plan to implement good governance.

Start work on the formulation of a poverty reduction strategy with assistance from the IMF, the AfDB, and the UNDP.

By December 31, 2001, the Government intends to do the following:

Audit the Central Bank of the Congo.

Prepare the 2002 budget.

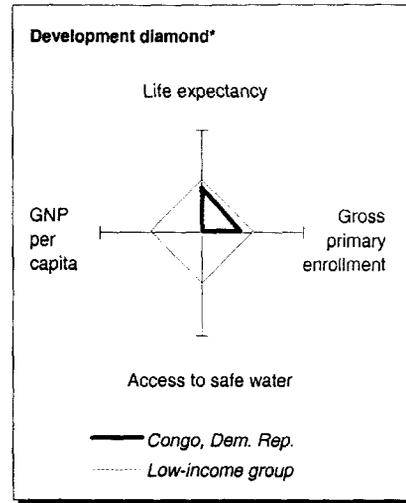
Complete the audit of civil service employees.

Source: IMF

Congo, Dem. Rep. at a glance

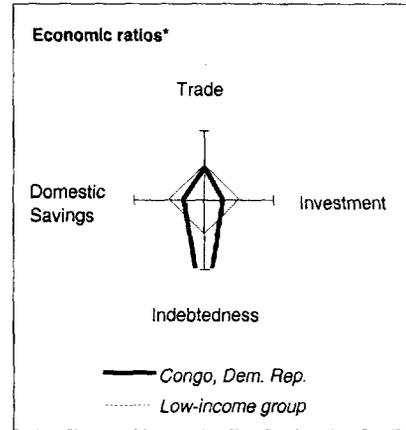
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POVERTY and SOCIAL	Congo, Dem. Rep.	Sub-Saharan Africa	Low-income
1999			
Population, mid-year (millions)	49.8	642	2,417
GNP per capita (Atlas method, US\$)	..	500	410
GNP (Atlas method, US\$ billions)	..	321	988
Average annual growth, 1993-99			
Population (%)	3.2	2.6	1.9
Labor force (%)	2.8	2.6	2.3
Most recent estimate (latest year available, 1993-99)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	30	34	31
Life expectancy at birth (years)	49	50	60
Infant mortality (per 1,000 live births)	90	92	77
Child malnutrition (% of children under 5)	34	32	43
Access to improved water source (% of population)	..	43	64
Illiteracy (% of population age 15+)	40	39	39
Gross primary enrollment (% of school-age population)	78	78	96
Male	82	85	102
Female	74	71	86



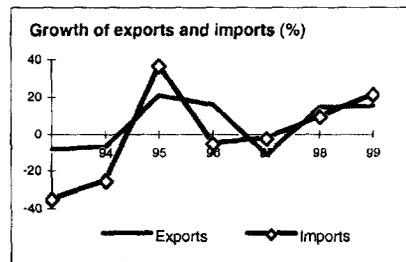
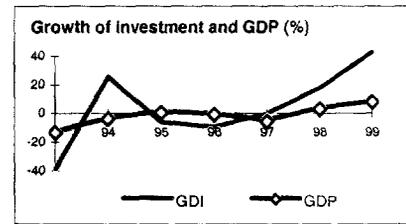
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1979	1989	1998	1999	
GDP (US\$ billions)	15.1	9.0	..	..
Gross domestic investment/GDP	12.7	14.3	8.1	10.6	
Exports of goods and services/GDP	12.6	25.5	23.8	25.0	
Gross domestic savings/GDP	15.3	15.0	9.8	11.1	
Gross national savings/GDP	..	7.3	-1.0	4.0	
Current account balance/GDP	..	-9.6	..	..
Interest payments/GDP	0.6	1.0	..	..
Total debt/GDP	30.0	102.4	..	..
Total debt service/exports	11.5	18.1	37.2	30.4	
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	731.5	..
	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	2.1	-4.6	3.0	8.0	7.6
GNP per capita	-1.9	-7.6	..	8.8	4.3
Exports of goods and services	11.0	-4.9	14.3	14.7	10.8



STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	27.3	27.8	53.1	50.2
Industry	26.1	30.7	15.5	14.9
Manufacturing	..	10.1	0.0	0.0
Services	46.6	41.4	31.4	34.8
Private consumption	75.2	75.0	81.3	79.7
General government consumption	9.4	10.1	8.8	9.2
Imports of goods and services	10.0	24.8	22.0	24.5
	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	2.5	2.9	1.8	5.0
Industry	2.4	-10.0	2.0	6.0
Manufacturing	2.7	-14.7	..	..
Services	0.8	-13.0	2.5	9.2
Private consumption	3.5	-4.8	-4.2	5.8
General government consumption	0.5	-13.3	11.6	12.9
Gross domestic investment	0.6	-6.7	16.9	42.0
Imports of goods and services	13.0	-11.1	9.4	21.3
Gross national product	1.3	-4.6	..	12.3

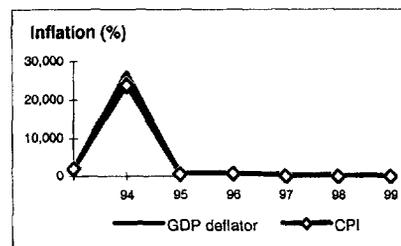


Note: 1999 data are preliminary estimates.

* 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.

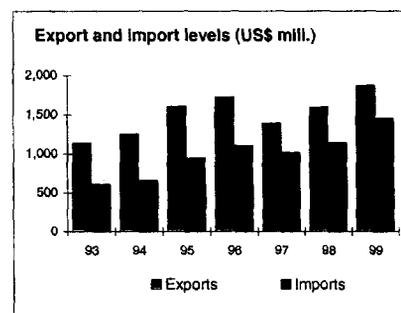
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	101.1	104.1	15.3	12.1
Implicit GDP deflator	101.8	110.3	15.0	12.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	11.3	13.7
Current budget balance	..	..	..	..
Overall surplus/deficit	..	..	-9.9	-7.4



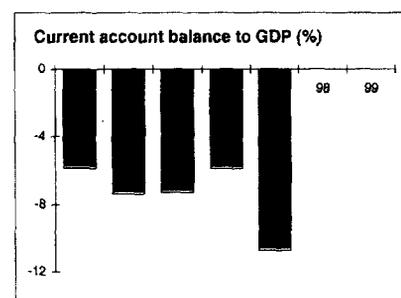
TRADE

	1979	1989	1998	1999
(US\$ millions)				
Total exports (fob)	..	2,417	1,598	1,872
Copper	..	1,175	387	415
Coffee	..	125	151	146
Manufactures	..	12	63	67
Total imports (cif)	..	1,925	1,146	1,459
Food	216	234
Fuel and energy	..	139	85	97
Capital goods	..	413	231	439
Export price index (1995=100)	..	61	..	..
Import price index (1995=100)	..	77	..	..
Terms of trade (1995=100)	..	79	..	..



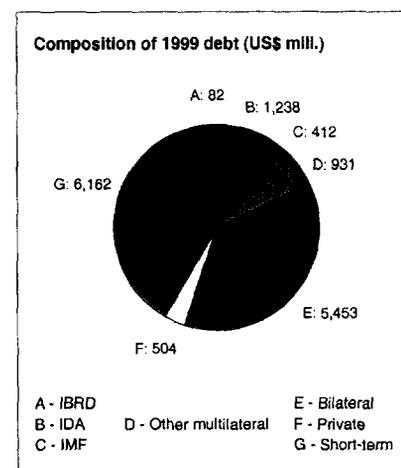
BALANCE of PAYMENTS

	1979	1989	1998	1999
(US\$ millions)				
Exports of goods and services	1,905	2,616	1,656	1,937
Imports of goods and services	1,512	2,790	1,533	1,902
Resource balance	393	-174	123	35
Net income	-138	-649	-754	-549
Net current transfers	..	..	133	202
Current account balance	..	-863	-498	-312
Financing items (net)	..	1,065	686	449
Changes in net reserves	..	-202	-188	-137
Memo:				
Reserves including gold (US\$ millions)	..	344	287	411
Conversion rate (DEC, local/US\$)	5.76E-7	1.27E-4	0.00E+0	0.00E+0



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US\$ millions)				
Total debt outstanding and disbursed	4,526	9,239	15,172	14,782
IBRD	70	30	48	82
IDA	140	962	1,242	1,238
Total debt service	220	481	618	595
IBRD	14	24	24	0
IDA	1	9	31	0
Composition of net resource flows				
Official grants	106	215	97	..
Official creditors	42	329	740	201
Private creditors	26	25	-15	-3
Foreign direct investment	60	-6	1	..
Portfolio equity	0	0	..	..
World Bank program				
Commitments	46	107	0	0
Disbursements	28	155	0	0
Principal repayments	6	23	41	0
Net flows	22	131	-41	0
Interest payments	9	10	14	0
Net transfers	13	121	-55	0



MAP SECTION

