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MEMORANDUM AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE  
EXECUTIVE DIRECTORS  
ON ASSISTANCE TO  
THE REPUBLIC OF CONGO  
UNDER THE ENHANCED HIPC DEBT INITIATIVE

MARCH 2, 2006

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## CURRENCY EQUIVALENTS

Currency Unit	=	CFA Franc (CFAF)
US\$1.00	=	542.7 (as of January 19, 2006)

## WEIGHTS AND MEASURES

Metric System

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

CIRR	Commercial interest reference rate
DSA	Debt sustainability analysis
ERCPC	Economic Rehabilitation Credit Project
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
NPV	Net present value
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDR	Special drawing rights
TSS	Transitional Support Strategy
USD	United States dollar

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**ASSISTANCE TO THE REPUBLIC OF CONGO  
UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES  
DEBT INITIATIVE**

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**MEMORANDUM AND RECOMMENDATION  
OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON ASSISTANCE TO THE REPUBLIC OF CONGO  
UNDER THE ENHANCED HIPC DEBT INITIATIVE**

**I. INTRODUCTION**

1. I submit for your approval the following Memorandum and Recommendation on the assistance to be provided to the Republic of Congo (Congo) under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative by the International Development Association (IDA). This report and recommendation addresses: (a) IDA's proposed assistance to be provided in the interim period between the decision point and completion point ; (b) the relief that is proposed to be provided at the completion point; and (c) the triggers that Congo must satisfy to reach the completion under the Enhanced HIPC Initiative.

2. This document complements the attached joint IDA-IMF paper entitled "Republic of Congo: Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative". The Decision Point document contains an updated debt sustainability analysis (DSA) which was circulated to the Board on August 5, 2005 (IDA/33252). The updated DSA, using end-December 2004 data, has been prepared jointly by IDA and IMF staff, and the Congolese authorities. It reflects updated information concerning the underlying debt data, including transactions which took place during 2004. The Decision Point document also contains recommendations on: (a) the envisaged debt relief from both multilateral and bilateral creditors under the Enhanced HIPC Initiative; and (b) conditions upon which a floating completion point would be predicated.

**II. PROPOSED IDA DEBT RELIEF**

3. Congo's external debt and possible assistance under the Enhanced HIPC Initiative was estimated using end-2003 external debt data in August 2005. On the basis of the results of the preliminary DSA, the Executive Directors agreed that Congo could reach the decision point by end-2005.<sup>1</sup> An Interim Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Advisory Note of the Interim PRSP were circulated in December 2004<sup>2</sup>. The Executive Directors broadly agreed that Congo's interim PRSP provided a sound basis for the development of a fully participatory PRSP, and for reaching the decision point under the Enhanced HIPC Initiative.

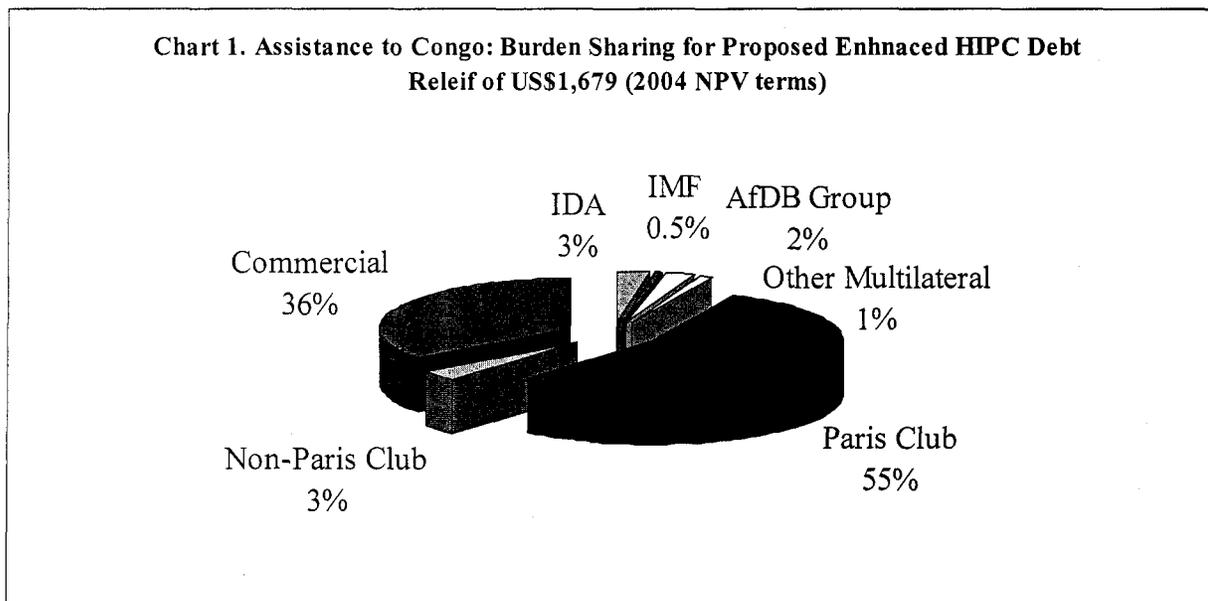
4. The updated DSA, which reflects the findings and discussions during a joint Bank-Fund mission undertaken in September, 2005 confirms that Congo, with a Net Present Value (NPV) of debt-to-fiscal revenues ratio at end-2004 of 370 percent after traditional debt relief, qualifies for debt relief under the Enhanced HIPC Initiative. To bring Congo's NPV of debt-to-revenues ratio to the HIPC threshold of 250 percent as of end-December 2004, the total assistance under

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<sup>1</sup> Republic of Congo - Enhanced Heavily Indebted Poor Countries Initiative: Preliminary Document (IDA/33252).

<sup>2</sup> Republic of Congo - Interim Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Assessment of the Interim PRSP: summing up (IDA/30709).

the Enhanced HIPC Initiative would amount to US\$1,679 million in NPV terms. This corresponds to a common reduction factor of 32.4 percent. Based on proportional burden-sharing, the multilateral creditors' share of assistance would amount to US\$118 million in NPV terms, of which US\$48.9 million would be attributable to IDA, while the bilateral and commercial creditors' share would amount to US\$914 million in NPV terms (Chart 1).



5. It is proposed that the Enhanced HIPC assistance from IDA—US\$48.9 million in end-2004 NPV terms—be delivered through debt relief on IDA credits disbursed and outstanding as of December 31, 2004. We seek the Executive Directors' approval of *IDA's Enhanced HIPC debt relief* on amounts owed by Congo to IDA on the following terms:

- (a) interim assistance would be provided starting in March 2006, after approval of Congo's Decision Point document by the Executive Directors of IDA and the IMF and continue until the country has reached the completion point, providing that program performance remains satisfactory.<sup>3</sup> The delivery of interim assistance will be subject to the *one third limit of NPV of assistance during the interim period*. The irrevocable delivery of assistance at completion point will be subject to having the country's other creditors confirm their agreement to provide debt relief under the Initiative;
- (b) a 36.9 percent reduction would be applied to debt service falling due to IDA in 2006 on disbursed and outstanding IDA credits of as end-December 2004, followed by a 50.5 percent reduction each year thereafter until 2020. A 15.5 percent reduction would take place in 2021. Annex 2 specifies the annual amount of IDA's debt relief, and

<sup>3</sup> The 2004 Board paper on this topic states that interim relief can be suspended if "progress in reform efforts... is unsatisfactory" as assessed by Bank staff independently of PRGF reviews by the IMF. Such an option requires a formal notification "specifying remedial actions that would need to be taken within a one-year period." See "Enhanced HIPC Initiative: Provision of Interim HIPC Debt Relief on IBRD Loans and IDA Credits" discussed September 9, 2004: IDA/SecM2004-0604.

- (c) debt relief from IDA is expected to be delivered over approximately 15 years, ending in 2021. With this delivery mechanism, Congo would receive an estimated cumulative debt service reduction from IDA of approximately US\$70.7 million in nominal terms.

6. The total relief on debt service due to IDA in nominal terms is shown in Annex 2 and Chart 2 shows debt service owed to IDA before and after assistance under the Enhanced HIPC Initiative. From February 2021 onward, full debt service payments would resume, averaging US\$7.0 million annually for 2022-2043.

### **III. IDA'S ASSISTANCE STRATEGY**

7. Following the democratically-held elections in 2002 and the relative stability that has ensued, Congo has made good progress in building a track record of macroeconomic stability and structural policy implementation, prepared an interim Poverty Reduction Strategy Paper (I-PRSP), and has made significant progress in normalizing relations with creditors.

8. The government's recovery program has been supported by the Bank through a Transitional Support Strategy (TSS) in 2001, and an updated TSS in 2003. The most recent TSS aims to support the Government's efforts to lift the country out of the conflict trap by outlining a new program of continued Bank support, building on achievements made over the past two years towards peace, political reconciliation and economic recovery. The TSS intends to consolidate and deepen these reforms, within the context of the PRSP process, with a view to moving to a formal CAS as soon as conditions allow. Financial assistance under the updated TSS is in the form of an Economic Recovery Credit (ERC), an HIV/AIDS project, an Education project, and an infrastructure rehabilitation project. The ERC focuses on transparency in the oil sector, improved management of domestic debt and more efficient public investment, while the infrastructure project aims to address priority needs in urban water and electricity. The goal of the HIV/AIDS and Health Project is to mitigate the negative impact of the HIV/AIDS epidemic on socio-economic development, while the education project aims at assisting Congo in the mitigation of the current crisis of the education sector, and at establishing the grounds for a solid development of a medium and long-term sector program.

9. In parallel, the Bank has prepared a Public Expenditure Management Review which addresses specific mechanisms expected to enhance public expenditure management, as well as help to identify core priorities for spending on poverty reduction in line with the I-PRSP.

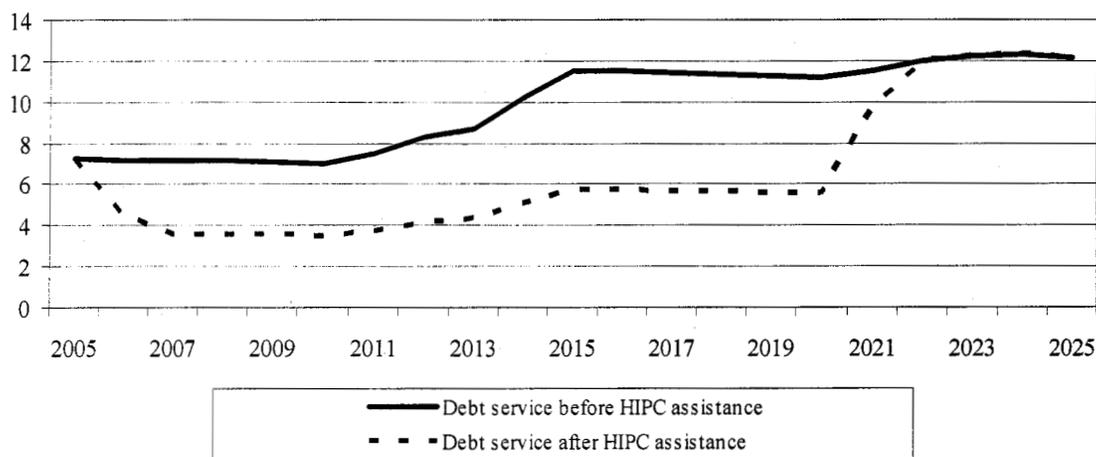
### **IV. PROPOSED COMPLETION POINT TRIGGERS**

10. The proposed IDA assistance under the Enhanced HIPC Initiative would provide support for the implementation of the government's poverty reduction strategy as outlined in the Congo's Interim PRSP and to be further elaborated in the fully participatory PRSP.

11. The delivery of HIPC assistance at completion point would be contingent upon the fulfillment of actions specified in the accompanying Decision Point document. To reach the completion point, the government will need to: (a) prepare a full PRSP through a participatory process and implement it for at least one year, as confirmed by Executive Board consideration of the authorities' Annual Progress Report that has been the subject of analysis in a Joint Staff Advisory Note; (b) maintain macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any successor IMF supported program; and (c) implement key governance and transparency measures with particular attention to the oil sector, public finance management measures, and achieve priority poverty reduction goals specified in Box 5 of the Decision Point document.

12. Completion point triggers in conjunction with ongoing support by the Bank and the IMF will address weaknesses that remain in managing oil revenue and public finances. Recent actions and additional steps to be taken before the completion point in order to improve accounting for oil revenue, management of oil sales, and avoid any conflict of interest in the oil sector will go a long way to tackle weak practices that have also been at the core of recent public corruption allegations. Additional reforms to improve the efficiency of public expenditure management and public spending, particularly, in the social sectors, furthermore give strong assurances that the proposed debt relief under the enhanced HIPC Initiative would contribute to a reduction in poverty and improvements in living conditions of the Congolese population. Bank and IMF staff will continue the dialogue with the authorities and the monitoring of the government's reform program under the PRSP process and their respective programs.

**Chart 2. Debt Service Due to IDA Before and After Assistance Under the Enhanced HIPC Initiative, 2005-2025 (US\$ millions)**



## V. RECOMMENDATION

13. I therefore recommend that the Executive Directors approve the recommendations presented in the Decision Point document concerning:

- (a) Congo's eligibility for assistance under the Enhanced HIPC Debt Initiative;
- (b) the decision point for Congo;
- (c) overall NPV debt relief required to bring Congo's debt to the NPV debt-to-fiscal revenues ratio to the HIPC threshold of 250 percent as of end-2004; and
- (d) the conditions for reaching the floating completion point.

14. I further recommend that the Executive Directors approve the provision of relief on debt owed by Congo to IDA in the amount and manner proposed in this paper.

Paul Wolfowitz  
President

by Graeme Wheeler

Washington, D.C.



**Republic of Congo**  
**IDA Credits Subject to Debt Service Reduction**  
**Under the Enhanced Heavily Indebted Poor Countries Initiative**

Credit	Project Name	Currency	Balance at December 31, 2004	
			In original currency	In USD equivalent
11790	RIVER TRANSPORT	XDR	11,332,515.09	17,599,509.26
26350	ECONOMIC RECOVERY	XDR	69,125,000.00	107,351,816.25
27750	PRIVATIZATION & CAPACITY BLDG	XDR	2,068,834.72	3,212,921.01
35600	POST CONFLICT ECONOMIC REHAB	XDR	30,000,000.00	46,590,300.00
35610	EMERGENCY DEMOBILIZATION	XDR	3,830,949.09	5,949,502.25
36000	TRANS AND GOVERNANCE CAPACITY	XDR	2,383,456.95	3,701,532.48
36380	EMERGENCY REHAB & IMPROVEMENT	XDR	18,426,957.68	28,617,249.55
37980	EMERGENCY RECOVERY & SUPPORT	XDR	12,093,195.93	18,780,854.21
10470	SECOND RAILWAY	USD	22,532,843.37	22,532,843.37
1890	HIGHWAY IMPROVEMENT	USD	778,040.12	778,040.12
2370	EDUCATION	USD	1,682,163.63	1,682,163.63
2371	EDUCATION	USD	240,000.00	240,000.00
2740	HIGHWAY MAINTENANCE	USD	2,103,470.32	2,103,470.32
2971	RAILWAY	USD	3,355,843.45	3,355,843.45
2972	RAILWAY	USD	214,966.86	214,966.86
4350	LIVESTOCK	USD	3,108,000.00	3,108,000.00
9710	PETROLEUM SECTOR TECH. ASSIST.	USD	3,750,000.00	3,750,000.00
p8811	POPULATION HEALTH & DEVELOPMENT	USD	232,350.20	232,350.20
p9770	NAT. AGRICULTURE EXTENSION	USD	231,825.20	231,825.20

Source: World Bank, Loan Accounting Department.

**Republic of Congo**  
**Schedule of Debt Service Reduction**  
**Under the Enhanced Heavily Indebted Poor Countries Initiative**

Calendar Year	Amount to be reduced ( U.S. dollars)
<b>TOTAL</b>	70,695,462
<i>2006</i>	2,654,535
<i>2007</i>	3,615,735
<i>2008</i>	3,595,953
<i>2009</i>	3,576,192
<i>2010</i>	3,545,782
<i>2011</i>	3,771,707
<i>2012</i>	4,168,623
<i>2013</i>	4,401,329
<i>2014</i>	5,155,289
<i>2015</i>	5,822,570
<i>2016</i>	5,800,982
<i>2017</i>	5,763,111
<i>2018</i>	5,725,240
<i>2019</i>	5,687,369
<i>2020</i>	5,636,825
<i>2021</i>	1,774,223

Source: World Bank, Loan Accounting Department and Staff Estimate: