July 2002
IMF Country Report No. 02/145

Democratic Republic of the Congo: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for the First Annual Program—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Democratic Republic of the Congo

In the context of the Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for the First Annual Program, the following documents have been released and are included in this package:

- the staff report for the Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for the First Annual Program, prepared by a staff team of the IMF, following discussions that ended on **May 4, 2002,** with the officials of the Democratic Republic of the Congo on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 29, 2002**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **June 12, 2002** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during its June 12, 2002 discussion** of the staff report that completed the review.
- a statement by the Executive Director for the Democratic Republic of the Congo.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of the Congo*
Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of the Congo*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for the First Annual Program

Prepared by the African Department

(In consultation with the Fiscal Affairs, International Capital Markets, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by A. Bio-Tchané and S. Kashiwagi

May 29, 2002

- A mission visited Kinshasa from February 26–March 14, and April 27–May 4, 2002, to conduct the second review of the staff-monitored program (SMP), discuss a medium-term program that could be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), assess progress in the finalization of an interim poverty reduction strategy paper (I-PRSP), and complete a preliminary debt sustainability analysis (DSA) in the context of the preparation of a preliminary Heavily Indebted Poor Countries (HIPC) Initiative document.

- The Democratic Republic of the Congo requests a three-year PRGF arrangement in support of its program covering the period April 1, 2002–July 31, 2005, in an amount equivalent to SDR 580 million (109 percent of the country's new quota).

- Progress toward peace continues and the cease-fire has generally held since early 2001. The inter-Congolese dialogue has made progress in the context of the conference held in Sun City, South Africa, from March 7 to April 19, 2002. It is expected that a new constitution will be adopted soon and that a transition government will be nominated in the near future, with free and transparent elections after about 30 months.

- The mission met with President Kabila; the Ministers of Economy, Finance and the Budget; Planning and Reconstruction; Mines and Energy; Health; and Justice; the Governor of the Central Bank of the Congo; the Economic Advisor to the President; and other senior officials of government and the central bank. The mission presented its conclusions to the Council of Ministers. The mission also met with representatives of civil society, including the press and the international community.

- The mission comprised Messrs. Clément (Head), Gons, Akitoby (all AFR), Laurens (MAE), Fournel (FAD), and Staines (PDR), Ms. Le (Research Officer), and Mrs. Ng Choy Hing (Administrative Assistant) (both AFR). Mr. Horton and Ms. Klutstein-Meyer of the World Bank participated in the mission. Mr. Barro Chambrier (Executive Director) and his Assistant, Mr. Kudiwu, joined the mission toward the end of its stay.

- The authorities have agreed to the publication of the letter of intent, the staff report, the I-PRSP and the joint staff assessment, and the preliminary HIPC Initiative document.

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Executive Summary

The authorities of the Democratic Republic of the Congo (DRC) request a three-year PRGF arrangement in support of their program covering the period April 1, 2002–July 31, 2005, in an amount equivalent to SDR 580 million (109 percent of the country's new quota). Clearance of arrears to the Fund before Board consideration of the PRGF arrangement is envisaged through a bridge loan. The authorities have prepared an interim poverty reduction strategy paper (I-PRSP), and finalized a preliminary debt sustainability analysis (DSA) in the context of the preparation of a preliminary HIPC document. A joint Fund and Bank staff assessment (JSA) of the authorities' I-PRSP is provided.

Recent political and economic developments

To address the DRC's alarming political and socio-economic situation, in early 2001 the new President, Joseph Kabila, formulated three main objectives: (i) to achieve peace through reactivation of the Lusaka peace accord; (ii) to buttress the inter-Congolese dialogue; and (iii) to resume normal relations with the international community, stabilize the macroeconomic situation and liberalize and open up the economy.

- **Progress toward peace continues and the ceasefire has generally held since early 2001.** The UN Organization Mission (MONUC) has started Phase III of its operations, which provides for the disarmament and demobilization of rebel groups in the second half of 2002. On April 25, 2002, the World Bank's Executive Board considered a multi-country demobilization and reintegration program for the Great Lakes region, which has already received strong support from the international community.

- **The inter-Congolese dialogue gained momentum at a conference in Sun City, South Africa.** Although the conference ended without a global agreement, the government reached agreement with one of the main rebel groups, the *Mouvement pour la Libération du Congo* (MLC), headed by Mr. Bemba. Under this agreement, which was supported by about 80 percent of the representatives of civil society at the conference, Mr. Kabila will remain President while Mr. Bemba will become Prime Minister. A transition government will be nominated in the near future.

- **The authorities have steadfastly implemented a staff-monitored program (SMP) covering June 2001–March 2002,** aiming principally at stabilizing the economic situation, and laying the foundation for the restoration of growth and reconstruction. Under the SMP, the authorities took bold and front-loaded measures, including the introduction of a unified floating exchange rate system in May 2001.

- **The SMP has already produced significant results,** particularly the breaking of the vicious circle of hyperinflation and currency depreciation, and the rehabilitation of public finances, including a return to a normal budgetary process, the centralization of revenue and expenditure, and a reduction in the use of extrabudgetary channels.

Progress in the structural area includes the removal of major economic distortions, notably via the unification of multiple exchange rates and liberalization of the prices of goods, including a transparent and automatic mechanism for the prices of petroleum products, and profound changes in the regulatory environment and the judiciary.

The PRGF-supported medium-term program (2002–05)

- **The government's main objective over the medium term is to reconstruct and revive economic growth, so as to begin reducing the widespread poverty in the country**. The program's main quantitative objectives are (i) an average real GDP growth rate of about 5 percent; (ii) a reduction in the annual inflation rate to 5 percent; and (iii) a gradual increase in gross international reserves to more than two months of non aid imports of goods and nonfactor services by 2005.

- To achieve these objectives, the envisaged macroeconomic policies include:

    - **A fiscal policy geared at achieving further consolidation**. Key aspects of fiscal policy include further improvements in the public expenditure management system in order to have full tracking of expenditure, a sustained strengthening of revenue mobilization, strict adherence to a monthly treasury cash-flow plan, and a shift in the composition of expenditure toward the social sectors.

    - **A prudent monetary policy consistent with the overriding objective of price stability within the framework of a floating exchange rate system.** Central to the successful implementation of monetary policy will be the revival of financial intermediation, particularly through the restructuring and effective surveillance of the banking system.

- **Structural and sectoral reforms will be deepened,** aimed at creating an enabling environment for the resumption of growth and private sector-led activity, and instituting good governance and transparency.

- **Medium-term projections show that the country will need more favorable debt relief than under Naples terms**. Following arrears clearance, all creditors are expected to provide debt relief, including HIPC assistance.

Issues stressed in the staff appraisal

- **The staff welcomes the authorities' efforts to strengthen the peace process and the inter-Congolese dialogue that should lead to the reunification of the country.** The staff notes that the return of peace and stability to the entire country will be a key element in the resumption of growth and reduction of poverty.

- **The authorities believe that the successful implementation of the SMP has created a solid basis for a PRGF-supported program. The staff concurs with this assessment** and finds the main objectives of the three-year program realistic. The staff also finds the envisaged macroeconomic and structural policies consistent with the program's objectives. In particular, the staff agrees that fiscal consolidation will remain one of the cornerstones of the program, and that effective monetary policy will require financial reintermediation and a financially sound banking sector. The staff concurs with the authorities that the floating exchange rate system remains appropriate.

- **The staff, however, points out that a number of risks remain for the program's implementation. The first risk** is related to the current instability in the Great Lakes region and the possibility of resumption of a full-fledged war. **The second one** is related to growing adjustment fatigue due in part to the lack so far of timely foreign project assistance.

I. Introduction

1. **In support of their program covering the period April 1, 2002–July 31, 2005, the authorities of the Democratic Republic of the Congo (DRC) request a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in the amount of SDR 580 million.** The program's policies and measures are described in the memorandum on economic and financial policies (MEFP) attached to the authorities' letter of intent of April 13, 2002, which was circulated to the Executive Board on May 6, 2002 (EBS/02/76). Table 1 summarizes the Fund position during the program period, and Table 2 indicates the phasing of the proposed purchases. If the full amount under the PRGF is drawn, and taking into account the anticipated clearance of the DRC's arrears with the Fund and the subsequent increase in its quota, the country's use of Fund resources would amount to 109 percent of quota by July 31, 2005.

2. **On July 13, 2001, when the Executive Board concluded the first Article IV consultation with the DRC since 1996 (EBM/01/73, 7/13/01), Directors commended the authorities for having embarked since late May 2001 on a bold and front-loaded staff-monitored economic program (SMP).** They expressed the view that a strong track record under the SMP would create the basis for a normalization of relations with the Fund and other international creditors, help lay the foundation for a successor program supported by a PRGF arrangement, and pave the way for assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). **The first review of the SMP was completed on January 14, 2002.**[1]

3. The authorities have prepared an **interim poverty reduction strategy paper (I-PRSP)** (EBD/02/81), and a **joint Fund and World Bank staff assessment (JSA) of the I-PRSP is provided in EBD/02/82**; both documents have been issued to the Executive Boards of the World Bank and the Fund. At the same time, a preliminary HIPC Initiative document on the DRC has been issued for the consideration of the two Executive Boards (EBS/02/88). A Stage One safeguards assessment is under way and is expected to be finalized soon after completion of the external audit of the central bank, before the first review of the program. Summaries of the DRC's relations with the Fund and the World Bank Group are presented in Appendices II and III, while statistical issues are presented in Appendix IV. In December 2002, the World Bank opened a representative office in Kinshasa. **The Fund is expected to open a resident representative office in June.**

4. **The DRC has been in continuous arrears with the Fund since November 1990.** On September 6, 1991, it was declared ineligible to use the general resources of the Fund; a declaration of noncooperation was issued on February 14, 1992; and the country's voting and related rights in the Fund were suspended on June 2, 1994. On March 18, 1998, the

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[1] The related letter of intent was circulated to the Executive Board for information on January 16, 2002 (EBS/02/06, 1/16/02).

Executive Board decided that, at its next review of the DRC's overdue obligations, the Fund would consider adoption of a decision providing for the initiation of a procedure of compulsory withdrawal from the Fund unless the member had resumed cooperation with the Fund. On several occasions, the Executive Board decided to postpone the review of the DRC's overdue financial obligations. Initially, this postponement was related to the unsettled political and security situation in the country and the limited availability of economic and financial information. Subsequently, the satisfactory implementation of the SMP and the envisaged arrears clearance operation in the context of the authorities' request for a PRGF arrangement led the Executive Board to further postpone the review of the DRC's overdue obligations. The most recent postponement extends to the date of the Board's consideration of the DRC's request for a PRGF arrangement or July 31, 2002, whichever is earlier (EBS/02/70, 04/29/02).

5. **The Fund and World Bank staffs have been cooperating closely in assisting the DRC.** On July 31, 2001, the World Bank's Executive Board approved a US$50 million IDA grant to be used for key infrastructure projects, the social sectors, and capacity building. On April 25, 2002, the World Bank's Executive Board considered a multi-country demobilization and reintegration program for the Great Lakes region toward which Bank country programs could contribute US$150 million, with another US$350 million likely to be made available by bilateral donors. About one-fourth of the total amount would benefit the DRC, which would cover the costs of its national disarmament, demobilization, repatriation, resettlement, and reintegration (DDRRR) program (Box 1). On June 13, 2002, the World Bank's Executive Board is expected to consider an Economic Recovery Credit of US$450 million, of which about US$331 million will be used to repay the bridge loan referred to in paragraph 7. Subsequently, on July 12, 2002, the World Bank's Executive Board is scheduled to consider IDA's Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP) in the amount of US$454 million over two years, with an anticipated cofinancing of about US$900 million. Additional IDA resources may become available after two years. The EMRRP will finance (i) key infrastructure projects to relieve supply bottlenecks; (ii) the strengthening of administrative and service delivery capacity; and (iii) projects to address the most urgent social needs.

6. **Two meetings to brief donors organized by the World Bank took place in July and December 2001, in Paris and Brussels, respectively.** On the latter occasion, donors' commended the authorities for the good performance under the SMP and indicated that progress toward peace and continued good performance would lead to a resumption of aid to the DRC beyond the ongoing humanitarian and food aid. Another donors' consultation meeting organized by the World Bank took place in Paris, on May 21, 2002.

II. Modalities of Arrears Clearance

7. **As of March 31, 2002, the DRC's arrears to the Fund amounted to SDR 402.2 million**, equivalent to 138 percent of its current quota (SDR 291 million) under the Eighth General Review of Quotas, or 75 percent of what its quota would be under the Eleventh General Review of Quotas (SDR 533 million). **Clearance of arrears to the Fund before**

Board consideration of a request from the DRC for the use of Fund resources under the PRGF is envisaged through a bridge loan. Upon clearing its arrears with the Fund, the DRC would convert to its higher quota under the Eleventh General Review of Quotas. The required subscription payment in foreign currency (SDR 61 million) would be financed through a reserve tranche drawing. **The clearance of the DRC's arrears with the World Bank (US$331 million as of March 31, 2002) will also be done through a bridge loan.**

8. **The Fund and Bank staffs have maintained close contacts with the African Development Bank (AfDB) Group and other multilateral institutions. As of end-2001,** the **DRC's arrears with the AfDB amounted to US$942 million**. On April 24, 2002, an agreement in principle was reached to consolidate these arrears through a partial payment/ partial consolidation operation.[2] Concerning the other multilaterals, they have all agreed that the existing arrears, totaling US$173 million as of end-2001, will be consolidated.[2]

III. Background and Recent Political and Economic Developments

9. The DRC, the third largest country in Africa, is richly endowed with fertile land, one of the largest rain forests in the world with numerous species of precious wood, vast mineral reserves (copper, cobalt, coltan, diamonds, gold, etc.), and huge hydroelectric potential. **However, this rich endowment has so far been more of a curse to the country than a source of development**. Following the outbreak of war in August 1998, six of the nine neighboring countries sent troops to the DRC, three siding with the government (Angola, Namibia, and Zimbabwe), and three with rebel groups (Burundi, Rwanda, and Uganda). About half of the national territory was occupied, and the deterioration of the already dismal economic and social situation accelerated dramatically. The conflict has resulted directly or indirectly, particularly in the areas controlled by the rebels, in a "silent genocide" (about 3 million deaths, or 2,500 deaths per day), displacement of populations, growing numbers of refugees, disabled persons, widows, and orphans, and the destruction of infrastructure, including hospitals and schools. Pandemics, such as HIV/AIDS, malaria, and cholera, and malnutrition have increased dramatically, and life expectancy has plunged. In addition, according to a UN report, a number of rebel and foreign forces have been systematically plundering the country's natural resources.[3]

A. Political Developments

10. President Joseph Kabila, who in early 2001 succeeded his assassinated father, appointed a new pro-reform government in April 2002 and started to address the country's formidable challenges. **He formulated three main objectives for the new government:**

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[2] This agreement was reconfirmed on May 21, 2002 at the donors' consultation meeting held in Paris.

[3] Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the DRC (United Nations, 04/12/01, and Addendum of 11/13/01).

(i) **to achieve peace** through reactivation of the Lusaka peace accord, which provides for the withdrawal of all foreign troops and the disarmament of rebel forces; (ii) **to buttress the inter-Congolese dialogue,** which should lead to the formation of a Government of National Unity and, after an interim period, free and transparent elections; and (iii) to resume normal relations with the international community, **stabilize the macroeconomic situation,** and liberalize and open up the economy.

11. **Progress toward peace has continued, and the cease-fire has generally held since early 2001**. The withdrawal of foreign troops has started. All Namibian, most Ugandan, and some Angolan and Zimbabwean troops have left the country, and Burundi recently announced its intention to withdraw its troops. However, Rwanda, which has reportedly deployed an average of 30,000 soldiers in eastern Congo, has not yet moved its troops as it insists, inter alia, on the disarmament of the two Rwandese rebel groups operating in the DRC.[4] At end-January 2002, the UN Organization Mission in the DRC (MONUC), which has deployed about 3,600 peacekeeping troops, started phase III of its operations, which provides in particular for the disarmament and demobilization of rebel groups in the second half of 2002. As already mentioned, a national DDRRR program will also be implemented. **The inter-Congolese dialogue gained momentum at a conference in March/April 2002 in Sun City, South Africa,** which brought together for the first time government representatives, members of rebel movements, the unarmed political opposition, and representatives of civil society. Although the conference ended without a global agreement, the government reached agreement with one of the main rebel groups, the *Mouvement pour la Libération du Congo* (MLC), headed by Mr. Bemba and supported by Uganda.[5] Under this agreement, which was supported by about 80 percent of the representatives of civil society at the conference, Mr. Kabila will remain President while Mr. Bemba will become Prime Minister. A transition government will be nominated in the near future. The agreement leaves the door open for the participation of, notably, the *Rassemblement Congolais pour la Démocratie* (RCD-Goma, supported by Rwanda), which rejected the agreement. With this agreement, the transition government will control 70 percent of the country's territory. A new constitution is expected to be finalized soon, and free and transparent elections will be held in about 30 months. The agreement is seen by the UN as a step forward in the inter-Congolese dialogue.[6] Nevertheless, the situation remains fluid and risks remain.

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[4] One of these rebel groups is reportedly composed mainly of militias that participated in the 1994 genocide in Rwanda.

[5] The staff already met with representatives of the MLC. The head of the MLC has stressed that the PRGF-supported program will be implemented steadfastly by the future transition government.

[6] In the report of the Security Council mission to the Great Lakes region from April 27–May 7, 2002, it is noted in paragraph 30: "The Security Council mission takes the strong view that further progress in the peace process should take the form of economic dividends

(continued)

B. Performance Under the Staff-Monitored Program (SMP)

12. **The SMP has already produced significant results, particularly the breaking of the vicious circle of hyperinflation and currency depreciation (Figure 1 and Box 2), but the virtual absence of foreign financial aid is causing "adjustment fatigue." The macroeconomic situation has stabilized, following the implementation of bold and front-loaded measures, and the overall performance has been satisfactory.**[7] Inflation sharply decelerated from a monthly average of 18 percent during the period January–May preceding the program (an annualized rate of 632 percent), to 0.7 percent during June–December 2001 (an annualized rate of 8.8 percent) or less than the 1 percent originally programmed. In the first four months of 2002, the average monthly inflation rate continued to be below 1 percent. This remarkable achievement has led to the stabilization of the exchange rate under the floating exchange rate system implemented at the end of May 2001. While economic growth was negative for the year as a whole, there were some signs of recovery in the second half of 2001.

13. **As of December 31, 2001, all quantitative performance indicators were met,** with the exception of the ones relating to net bank credit to the government (adjusted downward for any excess of actual revenue over programmed revenue) and the nonaccumulation of wage payment arrears. **At end-March 2002, all quantitative indicators were met**, and all wage arrears were eliminated, except for CGF 458 million in the Bandundu Province (Table 3). Clearance of these arrears is dependent on the verification of the actual number of civil servants in this province, which is expected to be completed by end-June, 2002.

14. **Important progress was made in strengthening the public finances through a return to normal budgetary procedures, including the centralization of revenue and expenditure and a reduction in the use of extrabudgetary channels**. The budget for 2001 was adopted by parliament and published. In addition, procedures were strengthened to improve control and monitoring of expenditure, while regular progress reports were produced for the first time in several years. A monthly treasury cash-flow plan was strictly implemented.

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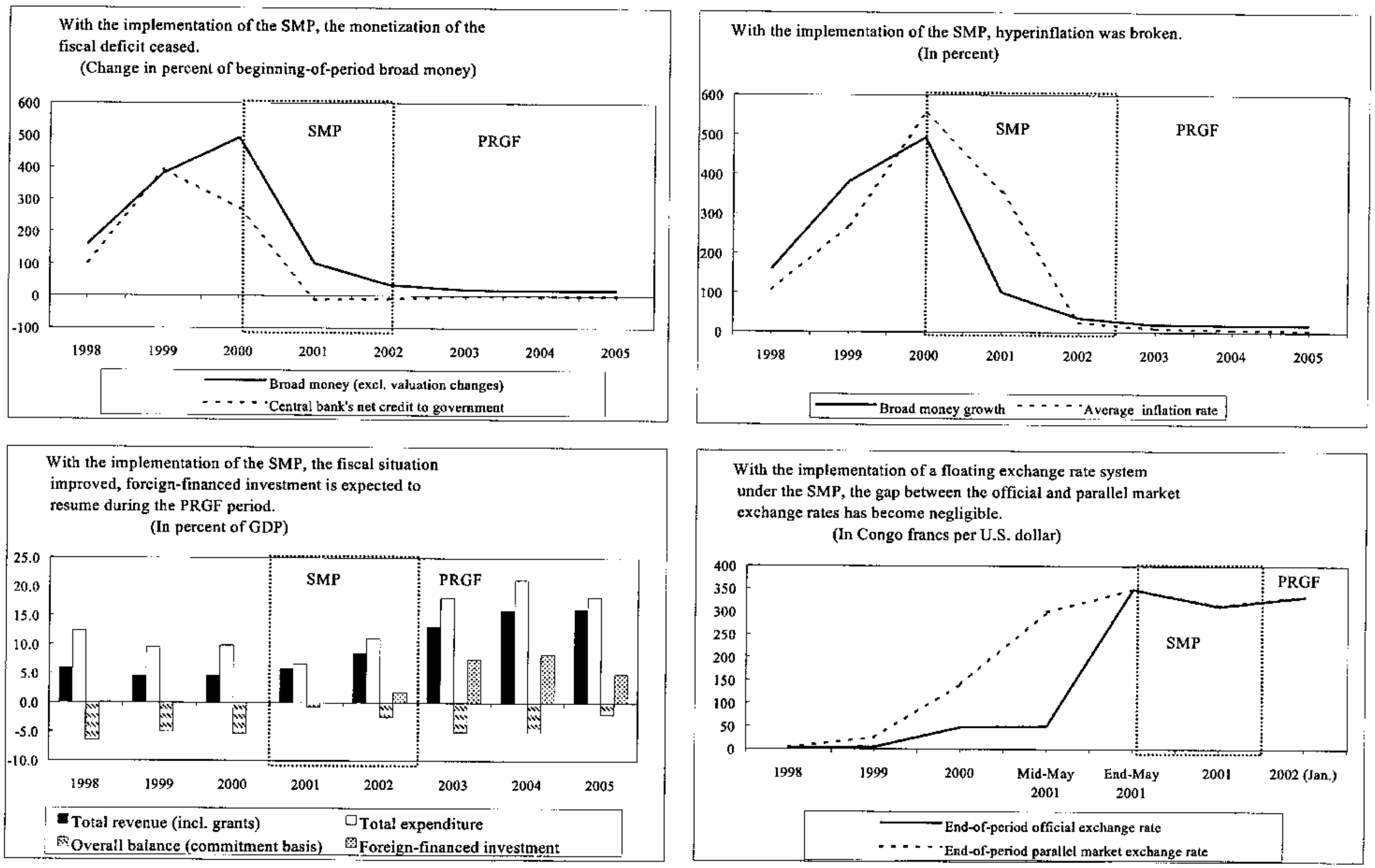
for the population. The delay in achieving this risks the credibility of the process and of the international community. Accordingly, all efforts should be made to ensure that humanitarian aid, as well as longer-term economic and development assistance, is provided to the Democratic Republic of the Congo as soon as possible in support of the peace process. Only thus can a sound basis be created for a more durable peace."

[7] A more detailed description of performance under the SMP is contained in paragraphs 6–16 of the MEFP.

Figure 1. Democratic Republic of the Congo: Selected Fiscal and Monetary Indicators



Sources: Based on data provided by the Congolese authorities; and staff estimates and projections.

15. Taking into account the recent upward revision of GDP since 1999, **the primary budget balance (on a cash basis) showed a surplus of 0.5 percent of GDP in 2001 against a targeted deficit of 0.2 percent. The overall surplus (on a cash basis) was of the same magnitude instead of a projected deficit. As a result, net bank credit to the government (without adjustment) was well below the programmed level.** Fiscal revenue was higher than programmed, amounting to 5.9 percent of the revised GDP, compared with a projection of 5.2 percent. Although the unification of the various fiscal exchange rates with the floating exchange rate was the main factor driving this increase, all revenue categories contributed to this result. Expenditure reached 6.6 percent of the revised GDP, compared with a targeted ratio of 7.1 percent.[8] However, one-third of expenditure and revenue was still made or received outside normal budgetary channels. In late 2001, a bunching of expenditure complicated the implementation of the monthly treasury cash-flow plan and led to the emergence of some wage payment arrears (less than 0.1 percent of GDP). By end-March 2002, most of these arrears had been eliminated.

16. As envisaged under the program, **monetary policy was restrictive.** Net domestic credit in 2001 increased by only 16 percent of the beginning-of-period-money stock, against an originally programmed increase of 55 percent, largely on account of lower net credit to the government. **The monetization of the budget deficit, which was the main source of hyperinflation, ceased.** In addition, the central bank stopped providing credit to the nonfinancial private sector and public enterprises. Audits of four commercial banks were completed and an internal audit of the management of the central bank was finalized. In January 2002, the authorities lowered the refinance rate from 140 percent to 90 percent.

17. **The external current account deficit, including grants, is estimated to have narrowed** from 4 percent of GDP in 2000 to 2.2 percent in 2001, primarily owing to stronger merchandise exports. Net foreign assets were slightly higher than programmed, despite delays in foreign project aid.

18. In the context of the SMP, **far-reaching structural measures were put in place, resulting in a significant change in the business environment** (Appendix V and paragraphs 14–16 of the MEFP). In addition, administrative capacity was buttressed with the help of early technical assistance (TA) from the Fund, the World Bank, and other development partners. This has permitted the drawing up of a clear road map for coordinated and targeted TA.

IV. Medium-Term Outlook, Objectives, and Policies

19. **The government's main objective over the medium term is to reconstruct and revive economic growth, so as to begin reducing the widespread poverty in the country.** To that effect, it has formulated a strategy that builds on the achievements of the SMP and

[8] The targeted ratio under the revised GDP would have been 5.2 percent.

aims at further fiscal consolidation, the pursuit of a prudent monetary policy, and the continuation of bold and far-reaching structural reforms, so as to create an environment conducive to private sector-led growth. The government's I-PRSP details the three "pillars" on which the strategy is based: (i) the restoration of peace and the vigorous promotion of good governance; (ii) macroeconomic stabilization and the achievement of equitable and sustainable growth; and (iii) the promotion of community-based initiatives (Box 3). At the same time, the I-PRSP distinguishes three distinct phases of economic development: a stabilization phase (2001–02), a reconstruction phase (2002–05), and a sustained development phase (starting in 2005).

20. **In their I-PRSP, the authorities stress that it is not feasible to try to achieve the internationally accepted goal of reducing poverty by half by 2015**. Even the reduction of the poverty rate by one-fourth, from the current rate of 80 percent to 60 percent, would require an average annual rate of real GDP growth of more than 8 percent, given the annual population growth of about 3 percent. Thus, the authorities have set, realistically in the staff's view, the macroeconomic objectives and policies as described in Box 4 and detailed in paragraphs 19 and 20 of the MEFP. They include, inter alia, (i) an average real GDP growth rate of about 5 percent over the period 2002–05, to allow for an annual average per capita increase of GDP of 2 percent; (ii) a reduction in the annual inflation rate to 5 percent by 2005; and (iii) a gradual increase in gross international reserves to about 9 ½ weeks of non aid imports of goods and services. The projected growth patterns are similar to those observed in other post-conflict countries. They are predicated on three main factors: (i) the removal of major economic distortions (notably the unification of multiple exchange rates) and the profound change in the regulatory environment will boost economic growth by improving resource allocation and supporting a more normal functioning of production and trading activities; (ii) the substantial increase in investment, driven by international aid and largely consisting of rehabilitation of infrastructure, will relieve major supply bottlenecks, leading to broad-based economic expansion; in particular the World Bank's EMRRP will boost growth in key economic sectors, including agriculture, transportation, and energy; and (iii) the reunification of the country and the restructuring of the mining sector will have strong positive impacts on real exports (an increase of about 11 percent annually during 2002–05). National savings will grow as a result of a gradual increase in government savings. It should be noted that, despite their growth over the next five years, macroeconomic aggregates (exports, imports, investment, saving, real GDP, etc.) will remain well below pre-war levels. The sensitivity of the above-mentioned targets/ projections to changes in exports is discussed in Box 5.

21. **The medium-term scenario will need to be updated to take into account the implementation of the DDRRR program, the impact of the country's reunification, and the external assistance actually mobilized**, including the precise modalities of the envisaged debt rescheduling, particularly in the context of the Paris Club and the HIPC Initiative. Concerning reunification, the staff has already initiated discussions with the authorities on its modalities and broad impact. Starting in 2003, the medium-term scenario includes preliminary estimates of its fiscal and balance of payments impact (see Box 4). In this connection, the staff has encouraged the authorities to collect more precise information

for the provinces concerned, particularly in the areas of budgetary and monetary policy. The impact of reunification will be a key aspect of the discussions for the first review under the PRGF. In particular, understandings will be reached on the main variables of the 2003 budget, which would need to be consistent with macroeconomic stability.

V. THE PROGRAM FOR 2002

22. **The program for 2002, which covers the period April 2002–March 2003, seeks to restart economic growth and build upon the gains made under the SMP.** Fiscal consolidation remains one of the cornerstones of the government's economic and financial policies. Crucial in this respect will be the implementation of a set of measures designed to strengthen the monitoring and tracking of expenditure, as well as the mobilization of revenue. The adoption and implementation of the 2002 budget within a normal budgetary process represent important steps forward in this regard. Monetary policy will continue to be prudent. The process of improving the business climate through the implementation of structural and sectoral reforms, which was initiated under the SMP, will be continued and intensified. The I-PRSP includes a number of steps toward the finalization of a full PRSP within three years. Technical and financial support of the international community would be essential for the finalization of the full PRSP.

23. **Consistent with the medium-term scenario, the program for 2002 aims at** (i) an acceleration of economic growth to 3 percent; (ii) an increase in investment from 5 percent of GDP to about 10 percent as a result of the resumption of externally financed investment; (iii) an increase in national savings from about 3 percent of GDP in 2001 to 11 percent of GDP in 2002, resulting from a rise in government savings and net transfers from abroad (including debt relief); (iv) a decline in the average inflation rate from 357 percent to 25 percent over the same period; and (v) an improvement in the external account (including grants and after debt relief) from a deficit of about 2 percent of GDP in 2001 to a surplus of about 1 percent of GDP in 2002.[9] With the resumption of international aid and possible debt relief, net international reserves of the banking system would increase by US$77 million from minus US$559 million in 2001 to minus US$482 million in 2002, and gross official reserves would increase over the same period from about 4 ½ weeks to about 6 weeks of non aid imports of goods and nonfactor services.

A. Fiscal Policy

24. **Achievement of the 2002 fiscal objectives will be based on a strengthening of revenue mobilization and expenditure control. A domestic primary surplus, on a cash basis, of 0.9 percent of GDP is targeted, up from 0.5 percent in 2001, while the overall consolidated cash balance (after possible debt relief) would show a deficit of 0.4 percent**

[9] However, the external current account deficit, including grants and before debt relief, will widen from 2.2 percent of GDP in 2001 to 3.7 percent of GDP in 2002, in line with the resumption of foreign-financed investment.

of GDP,[10] which, given the projected amount of external financing, would allow for a further reduction in net bank credit to the government (Table 5b). Total revenue (excluding grants) is expected to reach 7.3 percent of GDP, and total expenditure (on a commitment basis) 11 percent of GDP, with the latter mainly driven by the resumption in externally financed investment and external debt service. It is assumed that external payments arrears will continue to be accumulated until Fund approval of the PRGF-supported program. During 2002, the government will continue to strictly execute its monthly treasury cash-flow plan, effectively limiting expenditure to available resources. The 2002 budget covers only those provinces that are currently under government control. As already noted, the impact of reunification on the fiscal position will be discussed during the first review under the PRGF arrangement and understandings will be reached on the main budgetary variables for 2003. A contingency amount of expenditure equivalent to 0.8 percent of GDP has been set aside in the program, pending the outcome of debt rescheduling operations. If the projected amount of debt relief materializes, this contingency amount will be released for poverty-related expenditure, which still needs to be identified in consultation with Fund and World Bank staffs.

25. Revenue will increase to a large extent through the full-year impact of the 2001 unification of multiple fiscal exchange rates with the floating exchange rate. Centralizing revenue at the treasury's general account with the central bank, and ending petroleum product imports by the public oil company (COHYDRO) with petroleum production revenues as collateral, will further enhance revenue collection. In addition, stricter monitoring of customs procedures, including for special procedures such as re-exports, and the initial steps taken to modernize the tax and customs administrations are beginning to yield results. Box 6 summarizes the main issues and measures concerning the mobilization of revenue, while paragraph 26 of the MEFP contains the details.

26. To limit expenditure (including the contingency item) to the targeted ratio of 11 percent of GDP, measures aiming at further strengthening expenditure control are envisaged in 2002. Normal budgetary procedures with a fully functioning expenditure chain will be restored, and all expenditure will require prior authorization from the Minister of Finance. To this end, the budgetary control function will be reinstated, expenditure commitments and payment authorizations will be closely coordinated through a regular exchange of information among relevant departments, and the BCC and the Ministry of Finance will exchange computerized data on a regular basis. Box 6 summarizes the main issues and measures concerning expenditure control, while further details are contained in paragraph 30 of the MEFP.

27. Notwithstanding the need to achieve fiscal sustainability, it is essential that civil service wages be raised from their current very low levels, so as to contribute to the

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[10] On a commitment basis, the overall balance (excluding the net balance of the central bank's operations) is projected to show a deficit of 2.5 percent of GDP in 2002, compared with a deficit of 0.8 percent in 2001.

well-functioning of government services (Box 7). In 2002, the full-year impact of last year's wage increases is about 35 percent. A further 48 percent rise in the average wage in 2002 to partially compensate for previous years' real wage decrease is foreseen.[11] In 2002, the wage bill will be limited to CGF 43 billion, or 2.2 percent of GDP (1.5 percent of GDP in 2001). The government is committed to limiting salary outlays to the budgeted amount and refraining from making salary payments to occupied territories before reunification. The positions of 21,652 "ghost" workers that were identified through the preliminary audit of the civil service in 2001 will be eliminated. In addition, a central civil service database will be set up and linked to the payroll. Finally, a comprehensive analysis of the size and structure of the civil services in all provinces will be conducted with technical assistance from Belgium and the United Nations Development Program (UNDP).

28. **In the 2002 budget, the composition of expenditure has started to change.** Social expenditure is targeted to increase from less than 5 percent of government primary expenditure in 2001 to about 15 percent, while the combined share of defense, security, and sovereign expenditure will decrease substantially. Including the unallocated contingency expenditure, social- and infrastructure-related expenditure could reach about 3 percent of GDP, compared with less than 0.5 percent of GDP in 2001.

B. Monetary, Exchange Rate, and Other External Policies

29. **Monetary policy in 2002 will aim at achieving the overriding objective of price stability within the framework of a floating exchange rate system.** For this purpose, broad money is projected to grow by 35 percent, taking into account a slight recovery in the demand for money related to a gradual return of confidence. Reflecting further fiscal consolidation, net bank credit to the government will be reduced by 36 percent, which should allow for a 41 percent increase in credit to the private sector (Table 6). Net international reserves are projected to continue improving concomitantly with gross international reserves, which are expected to reach about six weeks of non aid imports of goods and nonfactor services.

30. **With the publication in May 2002 of the new statutes of the BCC, which enshrine its independence, the BCC is committed to actively utilizing its monetary instruments** (including refinance facilities, reserve requirements, and open market operations) **to control liquidity, while facilitating a return to a well-functioning payment system**. To achieve the latter, the BCC will gradually liquefy the bank's free reserves, but only for those banks that are judged to be viable and that meet the reserve requirements. In turn, recipient banks will have to ensure the liquidity of their customers' deposits. The BCC will limit its bank refinancing operations to short-term foreign currency swaps for domestic currency. In addition, the new statutes prohibit the central bank from financing expenditure

[11] In 2000 and 2001, the total drop in real wages was about 65 percent.

without prior authorization from the Minister of Finance and, from mid-2003, to provide credit to the government.

31. **Given the sharp deceleration in inflation, the BCC will continue to gradually decrease the refinance rate** in such a way that its annualized rate exceeds the annualized certificate of deposit rate. On May 6, 2002 the refinance rate was lowered from 90 percent to 39 percent, and the monthly rate on certificates of deposit from 7 percent to 3 percent. These certificates will become a monetary policy instrument and will no longer be used for financing budgetary operations. In addition, **the BCC will further strengthen the operational framework of its monetary programming in accordance with the recommendations of Fund TA missions**, with a view to improving the effectiveness of monetary policy.

32. **The authorities are aware of the need to strengthen the financial position of the BCC so that it can fully implement monetary policy.** An external audit of the BCC's financial position is being conducted by an internationally recognized firm. The auditor's report, to be completed by end-September 2002, will serve as the basis for an action plan that is to be finalized by end-December 2002. Already, the BCC has started to strengthen its management on the basis of the findings and recommendations of an internal management audit. Also, the BCC recently created an internal audit department and drafted an Interim Multiyear Audit Plan, which contains an analysis of the risks and weaknesses in BCC's management. Further improvements in the functioning of the BCC will be obtained through the strengthening of its accounting of foreign exchange operations and the management of its international reserves.

33. **The authorities recognize that the revival of financial intermediation and effective monetary policy call for a sound banking system.** They are preparing, with the help of the World Bank and the Fund, a comprehensive reform of the banking sector.[12] This reform consists of (i) preparing a list of banks to be closed, restructured, and privatized, and the closing by end-September 2002 of three commercial banks that are deemed to be insolvent and beyond recovery; (ii) auditing eight commercial banks (with four audits already completed) by end-September 2002; and (iii) formulating by end-December 2002 an appropriate recovery plan for the banks that are considered viable. All related quasi-budgetary costs will be fully incorporated in the budget. The reform will include the establishment of a 20 percent ceiling on government equity holdings in financial institutions. In addition, on the basis of its new statutes and the new banking law that vests it with full responsibility for supervising the financial system, the BCC will step up its surveillance of the financial system and enforce prudential rules consistent with existing international standards. The BCC also plans, with World Bank assistance, to strengthen its bank supervision department, licensing procedures, and the accounting system for banks.

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[12] A description of the DRC's banking system is contained in Box 2 of EBS/01/94 (6/22/01).

34. **In 2002, the authorities will continue to maintain the floating exchange rate system they introduced in late May 2001. The central bank will intervene in the exchange market only to smooth short-term fluctuations.**

35. **As regards the exchange system, the government undertakes not to introduce or expand exchange restrictions, reintroduce multiple exchange rates, enter into bilateral payment agreements contrary to Article VIII of the IMF Articles of Agreement, or introduce or expand import restrictions for balance of payments purposes.** The publication of the new exchange regulations in 2001 has led to the liberalization of external transactions and made them consistent, de facto, with Article VIII of the IMF Articles of Agreement. The government intends to formally accept the obligations of Article VIII in the course of 2002.

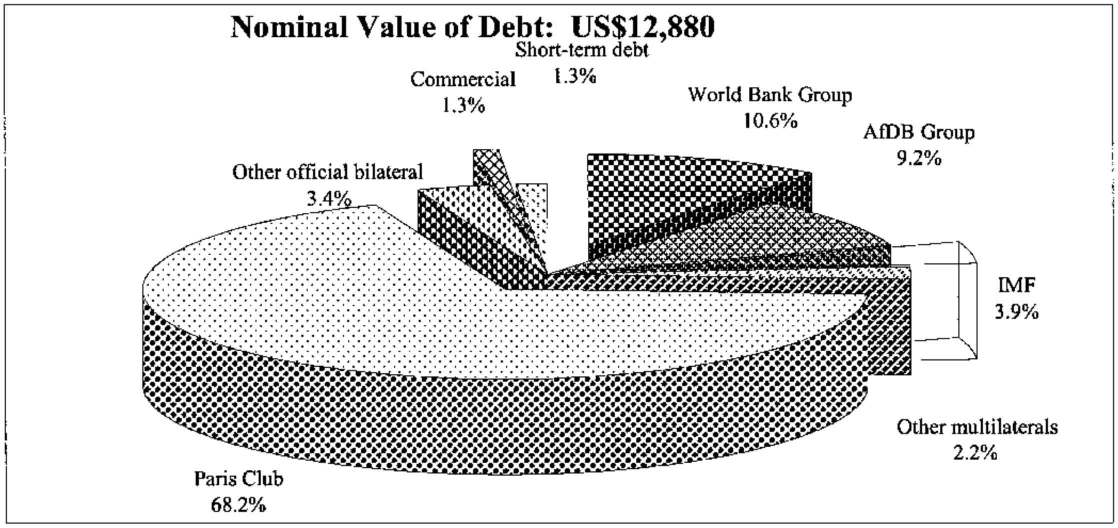
36. **The outstanding stock of external debt at the end of 2001 amounted to US$12.9 billion, of which US$10.1 billion was in arrears** (Figure 2, Box 8, and Table 9). In the context of the PRGF arrangement, the DRC could benefit from a substantial reduction in its external debt and debt-service obligations through possible comprehensive debt relief from its creditors, in particular the Paris Club. The latter could include a deferral of post-cutoff-date arrears and the capitalization of moratorium interest. The Paris Club's formal decision is anticipated in early July. The arrears with the IMF and the World Bank are expected to be cleared through bridge loans while arrears with the AfDB Group and other multilaterals will be consolidated.

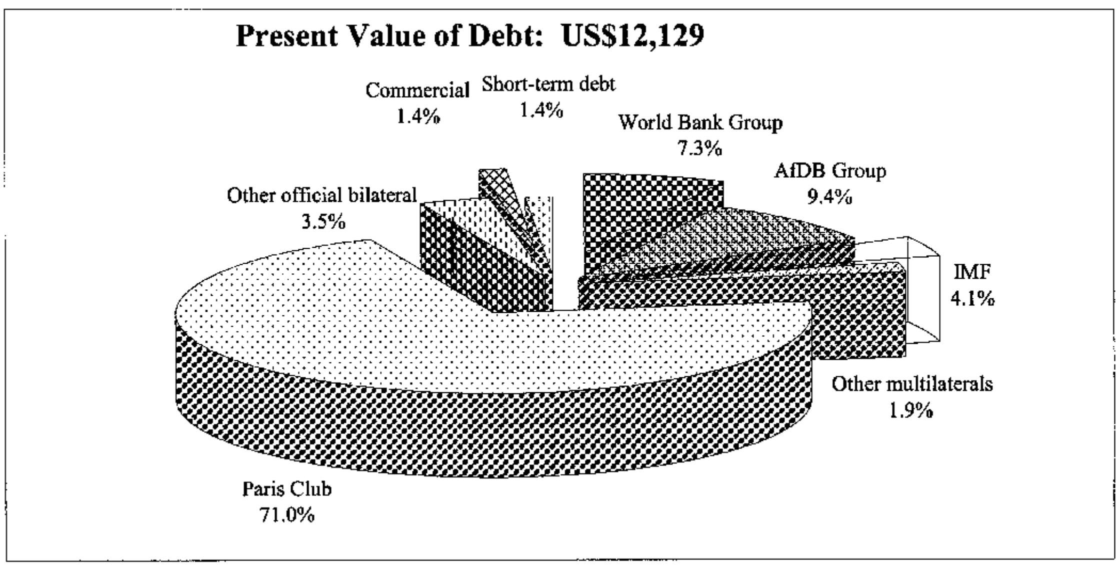
C. Structural and Sectoral Reforms

37. **To eliminate distortions and create an enabling environment for the resumption of growth and private sector-led activity, the authorities are vigorously pursuing a wide-ranging program of structural and sectoral reforms** (Box 9). **The role of government is being modified to facilitate and support, rather than compete with, private sector activity**. The reforms that are being pursued, with the help of mainly the World Bank, cover agriculture, forestry and mining, public enterprises, the financial sector, the social sectors (education, health, welfare, and community development), institutional capacity building, and the rehabilitation of key infrastructure (transportation, water, electricity, the sanitation system, urban and rural development, and the environment).

38. **Concerning the public enterprises, the preparation of the reform strategy adopted in 2001 is progressing**. A Public Enterprise Reform Steering Committee will be responsible for guiding the reform. Its main tasks will be to (i) build a consensus to enable the authorities to successfully carry out this complex reform; (ii) prepare diagnostic studies of all public enterprises and formulate a divestiture action plan by end-September 2002; and (iii) ensure that public enterprises or their assets cannot be sold by the government or the enterprises themselves without its authorization. The terms of reference have been finalized for a financial audit of the public oil company COHYDRO by an internationally recognized firm, and invitations to bid will be issued by end-July 2002. The audit will be completed by

Figure 2. Composition of Stock of External Debt at end-December 2001
Before Full Use of Traditional Debt Relief Mechanisms





end-December 2002. Pending the completion of the audit and the formulation of a restructuring (or liquidation) plan, COHYDRO ceased all importing of petroleum products financed with public resources as of end-March 2002. With the help of the World Bank, a study on public sector cross arrears, as well as arrears with the private sector, was launched. On the basis of this study, which should be finalized by December 2002, an appropriate schedule for the elimination of verified arrears will be defined.

39. **The government has, with World Bank support, begun a reform of the mining sector, including the restructuring of the state mining company (GECAMINES).** The new mining code will soon be adopted by parliament and published. The government will approve the new mining rules and regulations by end-October 2002. The new by-laws for the mining register (*cadastre minier*) are being finalized. All unexpired mining rights, whether abandoned or canceled, will be referred to a Mining Rights Validation Commission, which will be created by end-May 2002. Also, arrangements have been made for the certification of the origin of diamonds.

40. **In collaboration with the World Bank, the government is drafting a new forestry law, which could be submitted to parliament by end-June 2002.** The government has issued a ministerial decree declaring a moratorium on the issuing of new concessions, extensions, and renewals until new rules have been drawn up, and will prepare a study on forestry taxation.

D. Transparency and Governance Issues

41. **The legal and regulatory environment in the DRC has significantly improved** following the implementation of far-reaching structural measures under the SMP (Appendix V). **The government is determined to implement an additional package of measures aimed at instituting good governance and fiscal transparency**. Taking into account the conclusions of a forthcoming anti-corruption seminar, an anticorruption strategy and an action plan will be prepared by end-September 2002 with assistance from the World Bank Institute.

42. **Also by end-September 2002, the government will adopt a Code of Ethics and Good Conduct, applicable, without exception, to the entire civil service.** In addition, it will adopt as soon as possible the by-laws on implementing the BCC statutes, the new banking law, the new mining and investment codes, and the forthcoming forestry law and labor code. With assistance from the World Bank and other development partners, an anticorruption commission will be created. In addition, the government will strengthen the Audit Office and the Office of the Inspector-General of Finance, and it will take steps to strengthen procurement procedures, including the appointment of independent foreign experts to the contract award board. By end-2002, expenditure execution statements for 2001, with supporting documents, will be forwarded to the Audit Office, so that the external auditing process can begin while the 2002 budget will be fully audited by end-2003. Lastly, to promote the rule of law, the government will continue to strengthen the legal and judicial system, with the assistance of the European Union and the World Bank.

E. PRSP and Poverty Reduction

43. **The interim PRSP proposes a strategic framework for future poverty reduction policies and actions.** Over the next three years, the government will endeavor to convert this strategic framework into an operational plan. This involves the prioritization of the planned actions, an estimation of program costs, and the identification of domestic and external financing sources. In this context, action will be needed to further develop the sectoral strategies and to ensure consistency between the composition of fiscal expenditure and the PRSP. At the same time, the government will make arrangements for the management, support, and monitoring of poverty reduction actions at the grassroots level. In this connection, the scope and depth of the participatory consultations on which the formulation of the poverty reduction strategy is based will be expanded as the country reunifies (Box 10). As mentioned in the joint staff assessment, the full PRSP will be completed in early 2005, at the latest. In the mean time, the authorities intend to publish annual PRSP preparation status reports to assess progress in the design and development of the full PRSP.

F. Administrative Capacity Building and Technical Assistance

44. **The IMF, the World Bank, the AfDB, the UNDP, and several other external partners are providing technical assistance covering a broad spectrum.** Currently, four Fund resident experts are stationed in Kinshasa, covering public finances and the monetary area (Box 11). The upcoming opening of the IMF resident representative office, in addition to the existing World Bank office in Kinshasa, will help to ensure an effective monitoring of the program. The critical mass of technical assistance provided so far has enabled the authorities to start building the government's administrative and institutional capacity and improving the quality and timeliness of macroeconomic statistics, especially for the monetary and government finance sectors. While there is a need to further improve the statistical apparatus and buttress administrative capacity, in the staff's view the minimum conditions are in place for the implementation and monitoring of a program under the PRGF.

G. Financing Requirements, Access, Capacity to Repay, and Risks

45. **External financing requirements under the baseline scenario are expected to remain large under the program period** (Table 8).[13] While the external current account deficit (excluding official grants and before debt relief) is projected to almost double from about 9 percent of GDP in 2002 to about 15 percent in 2004, a trend that is similar to other post-conflict cases, the government is committed to settle or consolidate arrears, rebuilding international reserves, paying debt service after possible debt relief, and seeking donor contributions. However, despite the projected resumption of foreign investment, an increase in net capital inflows, and continuing humanitarian assistance, the financing gap after arrears clearance is projected to remain substantial, ranging from US$659 million in 2002 to

[13] The financing requirement of the 2002 program is detailed in paragraph 48 of the MEFP.

US$1,428 million in 2004. This gap is expected to be closed by project grants and loan assistance totaling US$197 million in 2002 and peaking at US$743 million in 2004, as well as by budget and balance of payments assistance from the Fund and the World Bank totaling US$49 million in 2002 and rising to US$268 million in 2005 (Box 12). In addition, following arrears clearance, all creditors are expected to provide debt relief, including HIPC Initiative assistance, totaling US$413 million in 2002 and peaking at $446 million in 2004.

46. As mentioned in paragraph 1, the proposed three-year PRGF arrangement is in an amount of SDR 580 million, to be fully drawn by 2005, when it would represent about 7.7 percent of the DRC's projected external debt stock. The improvement in the fiscal and external positions, including the timely financial support of the international community over the medium term, is expected to allow the authorities to meet their repayment obligations to the Fund. The Fund's Treasurer's department is conducting a Stage One safeguards assessment of the central bank, and its recommendations will be included in the first review of the arrangement.

47. **Nonetheless, balance of payment risks remain**, including (i) political risks in a region that has been marked by instability in the last decade, including a resumption of conflict if adequate measures of conflict prevention are not taken in a timely manner; (ii) a delay in international financial support, particularly in the form of project aid and budgetary support, which could lead to increasing adjustment fatigue; and (iii) a possible weakening of government resolve under a transitional government of national unity. However, the authorities have stressed that, with the timely support of the international community and the withdrawal of all foreign forces, they will be able to implement satisfactorily their reform agenda, as they demonstrated under the SMP.

H. Program Monitoring

48. **To ensure adequate program implementation and monitoring, the authorities have created two interministerial committees.** The first one will be responsible for monitoring the three-year program supported by the Bretton Woods institutions and will be chaired by the Minister of Finance. The second committee will be responsible for implementing the poverty reduction strategy and will be chaired by the Minister of Planning and Reconstruction. Program implementation for the first year under the PRGF arrangement will be monitored according to performance criteria and benchmarks presented in Tables 11 and 12. The definitions of the variables monitored as quantitative performance criteria and benchmarks are contained in the technical memorandum of understanding (attached to the MEFP). The prior actions for the request for the PRGF arrangement have been defined in paragraph 53 and Table 5 of the MEFP. They have all been implemented except for the publication of the mining code, which is with parliament (Table 13). Program implementation will be subject to two reviews per year, with the first to be completed by mid-January 2003, based on the end-September 2002 performance criteria, and the second by mid-July 2003, based on end-March 2003 performance criteria. Indicative performance benchmarks for end-June and end-December 2002 have already been defined. Performance criteria for

end-March 2003 will be set at the time of the first review, while reaching understandings on the main variables of the 2003 budget has been set as a prior action for the first review (paragraph 53 of the MEFP).

VI. Staff Appraisal

49. **The staff welcomes the authorities' efforts to strengthen the peace process and the inter-Congolese dialogue**, which should lead to the reunification of the country, the formation of a Government of National Unity, a new constitution, and free and transparent elections. The cease-fire is generally holding, and the withdrawal of foreign troops has started with the help of the UN Organization Mission (MONUC). In addition, a regional demobilization and reintegration plan for the Great Lakes region has received strong support from the international community.

50. **The staff commends the authorities for their steadfast implementation of their bold and front-loaded interim program monitored by the staff**. The new government under President Kabila is to be commended for bringing about a courageous turn in economic policy after years of mismanagement, corruption, and civil strife.

51. **The staff-monitored program has produced significant results, and a solid basis has been created for a three-year successor program**. The macroeconomic situation has stabilized and the vicious cycle of hyperinflation and currency depreciation has been broken. The business environment is improving, and major price distortions have been eliminated. These results were made possible by a significant strengthening of the public finances and a restrictive monetary policy. With the strict implementation of a monthly treasury cash-flow plan and the progressive return to normal budgetary procedures, the monetization of the budget deficit, the main source of hyperinflation, has ceased.

52. **The staff finds the main objectives of the authorities' three-year program realistic and consistent with the reconstruction phase outlined in their interim PRSP,** which aims at creating an enabling environment for economic growth and reducing the widespread poverty.

53. **The staff agrees that fiscal consolidation will remain one of the cornerstones of the program**. In the staff's view, the fiscal targets are attainable but require continued strong commitment to fiscal discipline and the timely implementation of measures to strengthen the mobilization of revenue, as well as the monitoring and tracking of expenditure. The staff welcomes the progressive shift toward social-related expenditure and basic infrastructure.

54. **The staff welcomes the new statutes of the central bank, which enshrine its independence** in the conduct of monetary policy and prohibit it from financing expenditure without prior authorization of the Minister of Finance. The central bank is now well positioned to achieve its overriding objective of price stability.

55. **The staff agrees that implementation of an effective monetary policy and the progressive expansion of financial savings intermediation through the banking system**

require a financially sound banking sector. The financial audit of the central bank, the strengthening of its management, and the restructuring of the commercial banks are important steps in that direction.

56. **The staff concurs with the authorities' view that the floating exchange rate system implemented in May 2001 remains appropriate**, and it welcomes the authorities' intention to formally accept the obligations of Article VIII in the course of 2002. The staff also welcomes the authorities' intention to further simplify external tariffs with technical assistance from the Fund.

57. **The staff welcomes the deepening and the sequencing of the structural and sectoral reforms envisaged in the program.** It notes that the strengthening of administrative capacity with the timely help of the international community will be crucial to ensure the success of this ambitious but much-needed reform agenda. The staff views the focus of the public enterprise reforms as appropriate, as this sector has not only been a major drain on budgetary resources but has also led to the misallocation of resources. The timely implementation of sectoral reforms, with the help of the World Bank, in the mining, forestry, water, and electricity sectors, as well as infrastructure, is also important to ensure sustainable economic growth.

58. **The legal and regulatory environment has already been significantly improved** following, inter alia, the publication of new exchange regulations, the statutes of the central bank, the banking law and the investment code, the finalization of the new mining code, the abolition of the monopoly on diamond exports, and the creation of commercial courts. To further improve this environment, the staff encourages the authorities to adopt as soon as possible the corresponding decrees and by-laws and to continue to buttress the judiciary. In this context, it will be particularly important to review all existing contracts to ensure their conformity with the new codes and laws, especially in the mining and forestry sectors. It would also be important to finalize the new labor code, which should be supportive of economic activity.

59. **The staff is encouraged by the government's determination to promote good governance and fiscal transparency**. In this regard, the staff looks forward to the finalization of the anticorruption strategy and the action plan that is being developed with the help of the World Bank.

60. **The staff notes that the return of peace and stability to the entire country will be a key element in the resumption of growth and the reduction of poverty**. The authorities are therefore encouraged to accelerate their progress toward peace and to promote an all-inclusive inter-Congolese dialogue.

61. **The staff encourages the authorities to assess the economic and financial impact of the country's reunification and to continue to pursue prudent budgetary and monetary policies in an environment of macroeconomic stability**. The preparation of the 2003 budget that will take into account the effects of reunification will be key in this respect.

62. **A number of risks remain for program implementation; the first one** is related to the current instability in the Great Lakes region and possible resumption of a full-fledged war. **The second risk** is related to growing adjustment fatigue, owing in part to the lack so far of timely project aid, which is needed to remove supply bottlenecks, and to a possible weakening of government resolve under a transitional Government of National Unity. This situation strengthens the hands of the nonreformers and may decrease the willingness to implement reforms. However, the staff shares the authorities' view that, with the timely support of the international community and the continued withdrawal of all foreign forces, they will be able to implement satisfactorily their program. The authorities stated that they were prepared to take any necessary supplementary actions to keep the program on track, including to counterbalance exogenous shocks, as they demonstrated under the SMP.

63. In view of the government's effective implementation of the SMP and the strength of its three-year program, **the staff recommends that the request for the PRGF arrangement be approved.**

64. Finally, the staff welcomes the authorities' intention to make public the staff report, the letter of intent, the I-PRSP, the joint staff assessment, and the preliminary HIPC Initiative document.

Box 1. Greater Great Lakes Region: Multi-Country Demobilization and Reintegration Program

The program objectives are to (i) provide a comprehensive regional framework for disarmament, demobilization, repatriation, resettlement, and reintegration (DDRRR) efforts for both government and irregular forces, totaling about 350,000 combatants, some 80,000 of which in the DRC; (ii) establish a single mechanism for donor coordination and resource mobilization; and (iii) serve as a platform for national consultative processes that lead to the formulation of national demobilization and reintegration programs.

In addition to the DRC, the following countries would be eligible for support, after fulfilling general and country-specific criteria: Angola, Burundi, Central African Republic, Republic of Congo, Namibia, Rwanda, Uganda, and Zimbabwe.

The multi-country demobilization and reintegration program, which was developed by World Bank staff in close collaboration with donors and UN partners, is estimated to cost US$500 million, or about US$1,500 per ex-combatant. IDA intends to provide a series of credits for national programs up to about US$150 million, with the remaining US$350 million expected to be provided by bilateral donors. The program's main components are (i) national programs; (ii) special projects; and (iii) regional activities. National programs would take up about 90 percent of the total amount. The World Bank is establishing a multidonor trust fund to channel resources to national DDRRR activities.

National programs would focus on the following five areas:

- **Disarmament**. Soldiers would be disarmed by the national army before entering the demobilization process. They would be expected to surrender (against a receipt) all weapons (including shared weapons) and munitions. The disarmament of rebel forces in the DRC would be undertaken by the United Nations Organization Mission (MONUC). The World Bank will not finance disarmament, neither through IDA, nor through the trust fund.

- **Demobilization**. The following steps would be applicable to regular soldiers and members of irregular forces alike: assembly in discharge centers, verification of ex-combatants' status and provision of nontransferable ID cards, preparation for transition to civilian life, addressing of special needs of female and child ex-combatants, and transportation to areas of return.

- **Reinsertion**. Depending on their specific situation, ex-combatants would, after extensive counseling, be provided with transitional safety net assistance to cover basic needs for a period of 6–12 months following demobilization. The use of this assistance would be verified through surveys.

- **Resettlement and reintegration**. Assistance would be provided to help ex-combatants establish sustainable livelihoods based on the following guiding principles: minimization of market distortions and maximization of beneficiary choice; assistance should lead to sustainable livelihoods; promotion of community involvement and reconciliation; and assistance should benefit the wider community.

- **Health screening and HIV/AIDS prevention** and mitigation measures would be provided during the demobilization and the reintegration phase.

Box 2. The Staff-Monitored Program, June 2001–March 2002

The staff-monitored program (SMP) coincided with the stabilization phase described in the authorities' I-PRSP.

Objectives

The main objectives were to (i) break hyperinflation; (ii) reduce the overall fiscal deficit (on a cash basis) from 3.6 percent of GDP in 2000 to 0.3 percent of GDP in 2001; and (iii) maintain a minimum level of gross international reserves of at least 2.4 weeks of non aid imports of goods and nonfactor services.

Macroeconomic policy mix

Fiscal policy

- A substantial tightening of budgetary policy was key to stopping hyperinflation, because the primary source of hyperinflation had been the unbridled monetization of an uncontrolled budgetary deficit.
- The SMP thus included a number of revenue-enhancing and expenditure-restraining measures in the 2001 budget, consistent with a substantial reduction in domestic bank financing.
- A monthly treasury cash-flow plan was strictly implemented to improve fiscal management and to ensure that monthly expenditure was in line with available resources.

Monetary and exchange rate policies

- The new exchange regulations published in February 2001 provided for a liberal exchange and payment system.
- The adoption of a floating exchange rate system on May 26, 2001 unified the then existing multiple exchange rates.
- A restrictive monetary policy consistent with the objective of breaking hyperinflation was implemented.
- Central to the successful implementation of monetary policy was the restoration of the independence of the central bank.

Structural and sectoral reforms

- A number of measures to improve resource allocation, including the removal of major economic distortions, were implemented.
- Far-reaching reforms of the legal and regulatory system, aimed at encouraging private sector activity and restoring growth were undertaken.

Social impact

- Hyperinflation is one of the most pernicious taxes on the population, particularly on wage earners and the poor; its elimination has alleviated considerably the hardship of the majority of the population.
- The liberalization of oil imports and the implementation of a transparent and automatic mechanism for the pricing of petroleum products have led to a sharp improvement in transportation as a whole and, therefore, to a better supply of basic foodstuffs.

Box 3. The Strategy for Poverty Reduction

The authorities' poverty reduction strategy centers on three key poverty reduction "pillars": (i) the political one of restoring peace and good governance; (ii) macroeconomic stabilization and achievement of equitable and sustainable growth; and (iii) the promotion of local communities and their participation in decision making not only at the local, "grassroots" level, that is, community-based initiatives, but also by providing feedback for decision making at the national level. At the same time, three distinct phases of the strategy are identified:

- **Phase I (2001–02) corresponded, on the economic side, with the period of stabilization covered by the staff-monitored program (SMP)** and, on the political side, with continuous progress in the peace process and the inter-Congolese dialogue. Concerning community-based initiatives, it involved the preparation of the I-PRSP and the first steps taken to buttress the partnership between the government and the various actors at the community level.

- **Phase II (2002–05) is to be a period of reconstruction** and includes (i) on the political side, the consolidation of peace, including the demobilization and reintegration of ex-combatants, the reunification of the country, and measures to improve governance; (ii) on the economic side, a deepening of the structural reforms to consolidate macroeconomic stability and promote sustainable growth, a "pro-poor" budget with an appropriate composition of expenditure, the rehabilitation and reconstruction of infrastructure, and the preparation of sectoral strategies; and (iii) with respect to community-based initiatives, capacity building at the grassroots level and institutional reforms at the central level. **This phase coincides with the implementation of a three-year program that could be supported by the Fund through the PRGF**; by the World Bank through an Economic Recovery Credit (ERC) and the Multisector Emergency Reconstruction and Rehabilitation Project (MERRP); by the UN, the World Bank, and other donors through the financing of the disarmament, demobilization, repatriation, resettlement, and reintegration (DDRRR) program; and, starting in 2003, possibly by resources released under the enhanced HIPC Initiative.

- **Phase III (starting in 2005) will be one of sustained development,** with a tangible reduction in poverty and a marked improvement in people's living conditions. The I-PRSP does not discuss in detail the actions and policies of this phase; this will be done in the full PRSP.

Box 4. Key Elements of the Medium-Term Program to be Supported by the PRGF

The program's time span, 2002–05, coincides with the reconstruction phase of the I-PRSP.

The program's main quantitative objectives are (i) an average real GDP growth rate of about 5 percent, thereby permitting an annual per capita increase of about 2 percent of GDP; (ii) a reduction in the annual inflation rate to 5 percent by 2005; and (iii) a gradual increase in gross international reserves to more than two months of non–aid-related imports of goods and nonfactor services by 2005.

Starting in 2003, the projections include preliminary estimates of the impact of reunification, for example, the number of civil servants (80,000) that will be added to the payroll, and a modest rise in exports, while allowing for additional imports.

The external current account deficit (including transfers and excluding possible debt relief) is expected to widen from 3.7 percent of GDP in 2002 to 7.3 percent of GDP by 2005, reflecting the country's reconstruction import needs, particularly those related to externally financed investment, and the external debt-service profile. The investment ratio is projected to increase from 5 percent of GDP in 2001 to about 19 percent in 2005 as a result of the resumption of externally financed investment. National savings would increase from 3 percent of GDP in 2001 to 16 percent in 2005, resulting from an increase in government savings and official transfers from abroad.

Macroeconomic policy mix

Fiscal policy will be geared toward achieving a further consolidation, with the domestic primary cash surplus increasing from 0.9 percent of GDP in 2002 to 5.4 percent of GDP in 2005. Key aspects of fiscal policy include further improvements in the public expenditure management system, with a view to having full tracking of expenditure, a sustained strengthening of revenue mobilization, strict adherence to a monthly treasury cash-flow plan, and a shift in the composition of expenditure toward the social sectors.

Monetary policy will aim at achieving the overriding objective of price stability within the framework of a floating exchange rate. The central bank will:

- promote the revival of financial intermediation, particularly through the restructuring of the banking system;
- strengthen bank soundness, through effective surveillance of the financial system and enforcement of prudential rules consistent with existing international standards;
- gradually restore the normal operation of the country's payment system, and
- draw up an action plan to strengthen its financial position following an external audit.

Structural and sectoral reforms will be deepened, with a view to creating an enabling environment for the resumption of growth and private sector-led activity. The reforms cover public enterprises, mining, forestry and agriculture, the social sectors, institutional capacity building, and the rehabilitation of key infrastructure.

Social impact

- The implementation of a "pro-poor" budget will address the most urgent social needs.
- The stabilization of prices will stop the erosion of the income of the poor.
- The poor will also benefit substantially from the reunification and reconstruction of the country.
- The rehabilitation of infrastructure should improve the availability, and reduce the cost, of goods and services.

Box 5. Sensitivity to Lower Export Growth

	2002	2003	2004	2005
Base case				
Real GDP (percentage change)	3.0	5.0	6.0	7.0
Exports of goods and services (in U.S. dollars; percentage change)	7.8	11.4	17.5	23.0
Current account balance, including grants, before debt relief (percent of GDP)	-3.7	-4.7	-7.7	-7.3
Gross official reserves (weeks of nonaid imports)	6.2	10.0	9.3	9.6
Debt service after possible debt relief (percent of exports)	5.1	14.5	22.3	20.5
Debt service after possible relief (percent of government revenue, excluding grants)	12.8	32.6	45.4	39.3
Alternative scenario				
Real GDP, percentage change	3.0	4.4	5.2	6.2
Exports of goods and services (in U.S. dollars; percentage change)	7.8	8.4	13.5	19.0
Current account balance, including grants, before debt relief (percent of GDP)	-3.7	-5.1	-8.6	-8.7
Gross official reserves (weeks of nonaid imports)	6.2	9.3	7.3	5.6
Debt service after possible debt relief (percent of exports)	5.1	14.9	23.6	22.4
Debt service after possible relief (percent of government revenue, excluding grants)	12.8	32.7	46.5	40.6

Sources: DRC authorities; and staff estimates and projections.

The DRC is particularly rich in natural resources and, if supported by foreign financed investment, exports are expected to provide about one-third of the economic growth through the medium term.

Assumptions

The projections shown above reflect the impact of lower export volume growth, compared with the baseline scenario, assuming an unchanged level of external assistance and investment. Growth in merchandise export receipts is 3 percentage points lower than projected in 2003 and 4 percentage points lower in both 2004 and 2005; as a result, by the end of 2005, merchandise exports are about 9 percent lower than projected.

Impact

Real GDP growth would be expected to decline by between 0.6 percent and 0.8 percent each year. Government revenues would also decline. By the end of 2005, the cumulative decline in nominal GDP would be 2 percent.

Current account: Lower exports are expected to have little impact on imports owing to the continued need for imports for reconstruction; however, this decrease can be expected to reduce somewhat investment income outflows. Lower export growth can, therefore, be expected to accentuate the deterioration in the current account (including grants and before debt relief), by as much as 1.5 percentage points in 2005.

Gross official reserves: The larger part of the impact, however, is expected to be reflected in a smaller net accumulation of net foreign assets. The central bank accumulation of reserves—gross official reserves in terms of weeks of nonaid-related imports—would be smaller in 2005 than in 2002, rather than larger as currently projected.

Debt service: Assuming that disbursements and debt service remain unchanged, the debt service after debt relief, including possible HIPC assistance, would increase relative to both exports and fiscal revenues.

Box 6. Key Issues and Measures in the Fiscal Area

Revenue collection improved substantially in 2001 but, even at the projected level of 7.3 percent of GDP in 2002, remains one of the lowest among sub-Saharan African countries. The three main revenue-collecting agencies—*Office des Douanes et des Accises* (OFIDA), for customs; *Direction Générale des Contributions* (DGC), for direct and indirect taxes; and *Direction Générale des Recettes Administratives, Judiciaires et Domaniales* (DGRAD), mainly for nontax revenues—are stepping up efforts to track key sectors of the economy (mining, forestry, and petroleum), where ad hoc (mostly off-budget) arrangements have proliferated. In addition, insufficient equipment, poor motivation, and fraud have undermined these agencies' ability to generate revenue.

Full restoration of administrative capacity will be a long process. However, some key revenue-generating measures can yield rapid results:

- reinvolvement of revenue-collecting agencies in the key sectors through strict application of existing legislation, including the recently published investment code and the soon to be approved mining code, which enshrine the principles of equitable treatment of investors/taxpayers;
- creation of a large taxpayers' unit to focus on a limited number of large taxpayers, regardless of their activities, to ensure their full taxation while avoiding multiple, and counterproductive, inspections by the various agencies;
- modernization of the revenue-collecting agencies through improved data collection and basic equipment; and
- further reforms, especially a simplification and rationalization of customs tariffs and the tax system, to eliminate distortions and provide a sound basis for economic development.

Significant progress was made in 2001 in rebuilding a basic public expenditure management function. Achievements that can already be identified are the following: (i) the budget for 2002 was finalized and approved in early January 2002 through a normal budgetary process; (ii) basic budgetary procedures with the key expenditure stages (commitment, payment authorization, and actual payment) have been in place since the middle of 2001, albeit highly centralized at the Ministry of Finance and the Treasury level; and (iii) overall fiscal reporting has been improved and made more reliable through regular reconciliation with central bank data.

Recently, important gains have also been made in reducing the incidence of off-budget expenditure. Petroleum production revenues and specific taxes on public enterprises have begun to be centralized at the treasury account at the Central Bank of the Congo (BCC) rather than in government-held commercial bank accounts. In addition, by early 2002, "payment orders" processed by the BCC without prior approval of the Minister of Finance had been reduced (about CGF 2 billion in November 2001, CGF 0.8 billion in December 2001, and CGF 0.2 billion in January 2002).

Progress is still needed to ensure the return to a normal budget execution process with built-in controls to ensure the full tracking of expenditure. This will require the following:

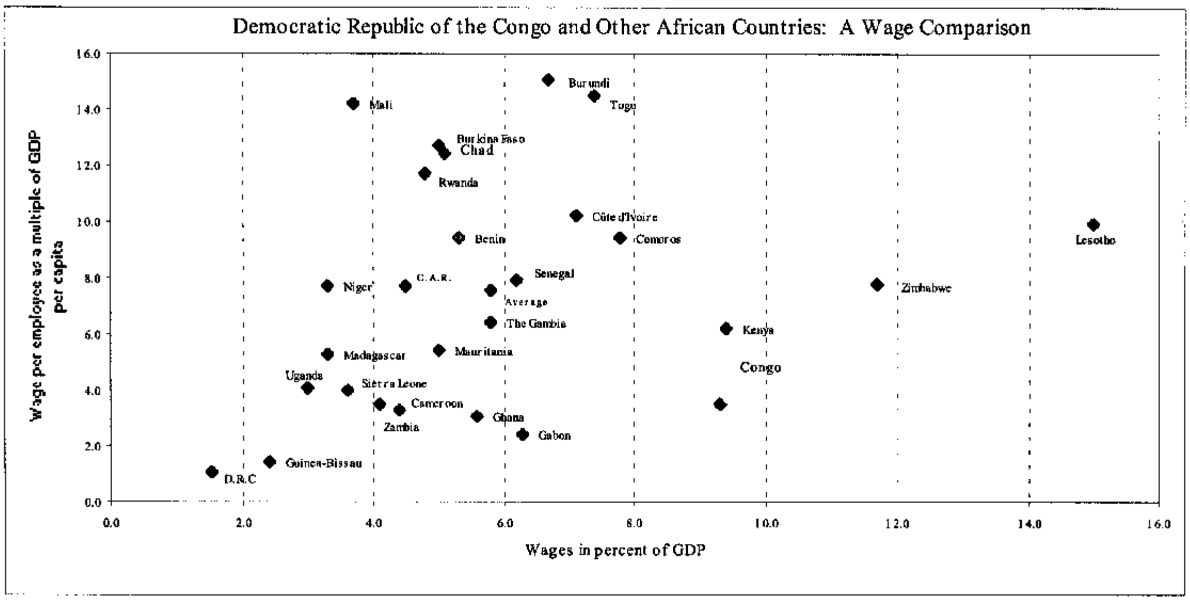
- elimination of all off-budget expenditure through the strict application of the presidential decree prohibiting expenditure without prior authorization of the Minister of Finance;
- rebuilding the key administrative departments responsible for financial control and reporting at all stages of the budget execution process;
- improved equipment and integration within each department;
- the reinstatement of controls and monitoring of bank accounts managed by institutions and ministries, and of amounts transferred to provinces; and
- undertaking public expenditure reviews, with the help of the World Bank.

Box 7: Democratic Republic of Congo and Other African Countries: A Wage Comparison

The average wage level in the civil service (excluding military and police) remains low by all standards. The wage scale (including transportation bonuses) at the beginning of 2002 was between US$4 (bottom level outside Kinshasa) and US$50 a month with an average of less than US$15. The salary of a Permanent Secretary (*Secrétaire général*) in a ministry in Kinshasa was US$35 a month.

The share in the wage bill of the military and the police, which amounted to 40 percent in 2000, was reduced to around 35 percent in 2001, and is projected to decrease further to 30 percent in 2002.

The chart below compares the DRC in 2001 with other Sub-Saharan African countries in two respects: overall central government wages in percent of GDP and civil service wages per capita as a multiple of GDP per capita (a measure of the relative well-being of the civil service compared to that of the average individual). In either case, the DRC is at the bottom end.



Box 8. External Debt

Debt estimates

The DRC's outstanding debt at end-2001 is estimated at US$12.9 billion with US$10.1 billion in arrears.

The main creditors as of end-2001 were as follows: IMF, USS503 million; World Bank Group, US$1,360 million; the African Development Bank (AfDB)/African Development Fund (AfDF), US$1,186 million; other multilaterals, US$283 million; Paris Club, US$8,780 million; other official bilaterals, US$435 million; commercial creditors, US$166 million. Short-term debt in arrears for more than one year amounted to $167 million.

The DRC accumulates about US$52 million in arrears each month, about half from unpaid debt service on current maturities and half from late interest on accumulated arrears. From end-December 2001 to the end of May 2002, the DRC's external debt will have increased by US$261 million and arrears outstanding will have increased to US$10,342 million. The latter category comprises the IMF, US$507 million; World Bank Group, US$331 million; AfDB/AfDF, US$966 million; other multilaterals, US$173 million; Paris Club, US$7,855 million; other official bilaterals, US$291 million; commercial, US$49 million; and short-term debt, US$169 million.

Paris Club rescheduling

It is expected that the Paris Club and other bilateral and commercial creditors will agree to a comprehensive treatment of debt, including the following:

(i) A consolidation of pre-cutoff-date arrears (US$6,830 million at end-2001) and the rescheduling of debt issued prior to the cutoff date (1983) on Naples flow terms (67 percent forgiveness of debt service falling due during the consolidation period, and the rescheduling of the remaining 33 percent with a three-year consolidation period);

(ii) The capitalization of moratorium interest generated by the rescheduling of arrears and pre-cutoff-date maturities; and

(iii) The exceptional treatment of post-cutoff-date arrears (US$656 million at end-2001), which would be rescheduled over five years at market rates with a one-year grace period.

HIPC Initiative

Eligibility. The DRC is eligible for assistance under the HIPC Initiative since it is IDA and PRGF eligible. As discussed in the DRC's preliminary HIPC document, it is anticipated that the DRC will qualify for HIPC relief as the end-2001 ratio of net present value (NPV) of debt to the three-year (1999–2001) historical average of exports exceeds 150 percent.

Sustainability. Following arrears clearance and related rescheduling operations and before HIPC Initiative assistance, total debt service would increase substantially from US$56 million in 2002 to US$228 million in 2003 and subsequently to US$679 million in 2005, or from 5 percent of exports of goods and services in 2002 to 17 and 40 percent in 2003 and 2005, respectively.

Impact of HIPC. Under current estimates, assistance under the HIPC Initiative, with a decision point expected in early 2003, would reduce the NPV of the debt stock from US$12.1 billion at end-2001 to US$1.5 billion in end-2001 NPV terms (if delivered unconditionally).

Debt service. Taking account of new financing, total debt service after HIPC Initiative assistance would rise to US$178 million in 2003 and US$357 million in 2005 (14.5 and 20.5 percent of exports, respectively). Debt service on public debt would decline significantly in the longer term, falling below 10 percent of exports in 2008 and ranging between 4–5 percent beyond 2010.

Box 9. Structural Conditionality Under the PRGF-Supported Program

Status of structural measures taken under the staff-monitored program (SMP)

Key structural measures were taken at the start of the program. These include the introduction of a floating exchange rate system, the liberalization of all prices, except for water, electricity, and transportation, the introduction of an automatic and transparent pricing mechanism for petroleum products, and liberalization of the diamond market.

Other key structural measures relate to public finances, the initiation of public enterprise reform, the restructuring of the central bank (including securing its independence through new statutes) and the commercial banks, reform of the Judiciary and the adoption of a new investment code and the finalization of a new mining code. Only the publication of the new statutes of the central bank and the new mining code have met with some delays.

Taken together, these measures eliminated major distortions in the economy and started the process of creating an environment conducive for private sector-led activity.

Key structural performance criteria and benchmarks in the PRGF-supported program

The audit of the central bank and the subsequent formulation of an action plan would strengthen its management and ability to effectively implement monetary policy. Likewise, the placement into receivership of three commercial banks and the drawing up by end-September of the list of other banks to be liquidated, restructured, or privatized, would significantly strengthen the financial sector, contribute to a restoration of confidence, and promote financial reintermediation. The audit of the state oil company, COHYDRO, and the formulation of an action plan for the restructuring of the state mining company, GECAMINES, will pave the way for a strengthening of the public finances and improved resource allocation. The preparation of an action plan for the fight against corruption and adoption of the Code of Ethics and Good Conduct for the whole civil service would significantly enhance transparency and efficiency of the public sector.

World Bank lending conditionality

Structural areas covered by the World Bank in its Economic Recovery Credit (ERC) include public enterprise reform, governance, financial sector restructuring, and mining and forestry. In the forestry sector, where the overall objective is to foster sustainable development and use of the DRC's forests, conditionality relates to the presentation of a revised forestry law, which will ensure that cutting rights are based on market principles and that concessionaries comply with land management plans. In the mining sector, the ERC's conditionality relates to the creation of a commission that is to validate mining titles under the new mining code and a commission to oversee the restructuring plan for GECAMINES.

Box 10. Interim PRSP—Participatory Consultations

With the collapse of the state and the concomitant deterioration, if not disappearance, of basic government services, local communities have developed initiatives and procedures to ensure the provision of a range of basic services, including health, education, agriculture, and the protection of human rights. These procedures have effectively prevented the collapse of Congolese society. The interim PRSP seeks to identify and strengthen these procedures so that they can serve as the basis for the development and implementation of a poverty reduction strategy.

The government of the DRC, through the Ministry of Planning and Reconstruction, created a Technical Committee for the Elaboration of Poverty Reduction Strategies in the DRC and National Reconstruction (TC). The members of the TC are representatives of line ministries, including Economy, Finance, and the Budget; Planning; Infrastructure and Environment; Education; Health; Social Affairs; and Agriculture; the private sector; civil society; donor agencies; and small farmers. The TC organized participatory consultations, so as to allow the general population to discuss and influence government policies and the decision-making processes that have an impact on their lives.

The TC prepared the key activities for the consultations, with World Bank assistance, as follows:

- training the TC members in participatory methods and concepts;
- recruiting 56 "participation specialists," introducing them to PRSP concepts and challenges, and training them in the design and implementation of the participatory consultation process; and
- designing the strategy and agenda of the participatory consultations, and the estimation of their cost.

The participatory consultations took place in November and December 2001 in four provinces under the central government's control: Kinshasa (ten consultation sites), Katanga (four sites), Bas-Congo (three sites), and Kasai Oriental (one site). **Consultations had also been arranged in Kivu with the rebel administration,** but the UN could not provide travel clearance in time to include these consultations in the sample. The number of participants per site was limited to 100. Participants were representatives from decentralized line ministries, civil society organizations, nongovernmental organizations (NGOs), women's and youth groups, religious groups, farmers' groups, parliamentarians, and private sector institutions. Participants addressed and made contributions to the following poverty issues:

- perceptions, causes, manifestations, evolution, and consequences of poverty in their lives, the economy, and society;
- strategies and priority actions for poverty reduction;
- priority sectors for the short and medium terms; and
- constraints on the implementation of the priority actions and plans.

The participatory consultations have set the tone for community involvement in the DRC's socioeconomic recovery process. **Rebel groups and the unarmed opposition participating in the inter-Congolese dialogue in Sun City, South Africa, have indicated their full subscription to the interim PRSP methodology**. Discussants have identified corruption, economic mismanagement, and civil strife as the major determinants of poverty.

Box 11. Technical Assistance

The existing administrative capacity in most ministries and institutions has been weak. The reinstatement of regular administrative processes has been impaired by both a lack of experience and an absence of basic equipment. A strongly staffed resident technical assistance program, coupled with a substantial amount of external assistance, is key to addressing administrative shortcomings in the short run and strengthening significantly the country's institutional capacity.

In the fiscal area, and in addition to several short-term missions in January 2002, three IMF resident experts were posted for an initial six-month assignment:

- For customs administration, the objective is to help sustain the modernization effort (monitoring capacity, one-stop window, and computerization).
- For tax administration, the aim in the short run is to focus on the available resources for the main tax base (creation of a large taxpayers' unit) and on improving monitoring and controls (taxpayer's identification number, and targeting of key economic sectors).
- For public expenditure management, the main objectives are to reinstate regular administrative budget execution processes, and to enhance the Ministry of Finance's monitoring and reporting capacity to enable full tracking of expenditure.
- In parallel, the Fund is providing assistance on public finance and real sector statistics.

In the monetary and exchange areas, a multisector Fund mission in February–March 2001 helped put in place a road map for technical assistance (TA) concerning monetary and exchange policy and central bank management. The road map has been implemented as follows:

- TA for the introduction of a floating exchange rate system in May 2001.
- TA in the drafting of key legislation: the statutes of the central bank, the banking law, and the foreign exchange regulations.
- In October 2001, the Fund provided TA in the areas of financial intermediation, monetary management, foreign exchange markets and operations, and central bank audit and organization. Several follow-up missions will take place in 2002.
- Posting of a resident Fund expert to help strengthen monetary and exchange rate policy, and bank supervision.

Additional assistance is being provided by other donors. The World Bank is providing TA, notably in the areas of public enterprise reform, the restructuring of the banking system, public expenditure review, governance, and the I-PRSP (the latter together with the UNDP). The European Union (EU) is providing TA for the reform of the judiciary, and the International Labor Organization for the draft of the new labor code. Belgium, together with the UNDP, is providing TA for civil service reform.

Coordination of technical assistance. To ensure well-coordinated and well-sequenced TA from the international community and to avoid duplication, a TA coordinating committee has been created with the help of the World Bank.

Box 12. Projected External Assistance 1/

(In millions of U.S. dollars)

	2001 Est.	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.
Grants	256	321	491	523	357
Multilaterals	151	171	166	127	152
Humanitarian	112	55	45	34	75
World Bank post-conflict	1	30	20	0	0
EMRRP	0	0	12	29	28
Projects outside the EMRRP	37	86	90	64	49
Bilaterals	105	150	324	396	205
Humanitarian	103	80	60	58	85
EMRRP cofinancing	0	38	229	307	100
Projects outside the EMRRP	1	33	35	31	20
Loans (net of arrears clearance)	10	89	399	552	557
Multilaterals	0	78	337	475	410
World Bank	0	59	270	407	342
EMRRP	0	29	170	235	142
Budget support	0	30	75	172	200
Other projects	0	0	25	0	0
IMF net credit	0	19	67	68	68
Bilaterals	10	11	62	77	147
EMRRP cofinancing	0	2	52	72	131
Projects outside the EMRRP	10	10	10	5	17
Total	265	411	890	1,074	914
Humanitarian assistance and World Bank, Paris Club grants	217	165	125	91	160
Project spending, grants and loans	48	197	623	743	486
Balance of payments/budget support loans	0	49	142	240	268

Sources: Congolese authorities; and staff estimates and projections.

1/ Based on projected disbursements by implementing agency.

The framework incorporates **estimates of total external assistance (after arrears clearance) of US$4.9 billion** over 2002–05 (US$1.5 billion in 2004 alone): US$1.6 billion in assistance on debt service (including HIPC Initiative resources) and US$3.3 billion in additional grant and loan assistance.

Grant and loan assistance. The US$3.3 billion in additional assistance is expected to (i) be allocated for humanitarian aid (US$541 million), for project aid (US$2 billion), and budget and balance of payments support (US$699 million); (ii) be equally distributed between grants (US$1.7 billion) and loans (US$1.6 billion); and (iii) shift sharply away from grants in 2002 toward loans by 2005, reflecting the shift away from humanitarian assistance toward project aid and budget and balance of payments support.

The World Bank. The World Bank is expected to provide net additional assistance totaling US$1,078 million (other than arrears clearance), all but US$50 million in IDA credits. A post-conflict grant of US$50 million has already been approved. The World Bank is also expected to provide US$454 million for the Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP), US$25 million for a mining sector project, and US$477 million for budget support.

Project aid. The projections include US$2.1 billion in project aid: US$1.6 billion for the EMRRP and US$0.5 billion in other project aid. The EMRRP is fully financed in 2002, but about US$376 million in cofinancing to complement the World Bank contribution has yet to be identified for subsequent years.

Budget and balance of payments support. The framework incorporates US$477 million in IDA fast-disbursing credits for budget support, as well as US$222 million in PRGF resources from the Fund.

Table 1. Democratic Republic of the Congo: Fund Position During the Period of the PRGF Arrangement, June 2002–July 2005

	2001 Arrears as of Dec. 31	2002 Jan.-Jun.	2002 Jul.-Dec.	2003 Jan.-Jun.	2003 Jul.-Dec.	2004 Jan-Jun.	2004 Jul.-Dec.	2005 Jan-Jun.	2005 Jul.-Dec.
	(In millions of SDRs)								
Disbursements									
Poverty Reduction and Growth Facility (PRGF)		420.0	0.0	26.7	26.7	26.7	26.7	26.7	26.7
Repurchases/repayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears clearance (on 5/31/02)		405.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears end-March 2001		402.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in arrears April-May 2002 (estimated)		3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest		1.2	2.0	2.5	2.5	2.8	2.8	3.0	3.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF		0.0	0.8	1.3	1.3	1.6	1.6	1.8	1.8
SDR charges		1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total Fund credit outstanding (end of period)	400.2	420.0	420.0	446.7	473.3	500.0	526.6	553.3	580.0
Ordinary resources	157.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural Adjustment Facility (SAF) arrangements	142.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest	100.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	0.0	420.0	420.0	446.7	473.3	500.0	526.6	553.3	580.0
	(In percent of quota, unless otherwise specified) 1/								
Total Fund credit outstanding (end of period)	75.1	78.8	78.8	83.8	88.8	93.8	98.8	103.8	108.8
PRGF disbursements	0.0	78.8	0.0	5.0	5.0	5.0	5.0	5.0	5.0
Repurchases/repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.2	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Debt service (in percent of exports of goods and nonfactor services) 2/	0.0		0.4		0.5		0.5		0.4

Sources: International Monetary Fund, Treasury's Department; and staff projections.

1/ All percentages are expressed in terms of the DRC's quota under the Eleventh General Review (SDR 533 million) that will apply after clearance of arrears. The current quota amounts to SDR 291 million.

2/ Before possible HIPC assistance.

Table 2. Democratic Republic of the Congo: Proposed Schedule of Disbursement Under the PRGF Arrangement, 2002–05

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 420 million	June 12, 2002	Executive Board approval of the three-year PRGF arrangement.
SDR 26.7 million	January 15, 2003	Observance of the performance criteria for September 30, 2002 and completion of the first review under the PRGF arrangement.
SDR 26.7 million	July 15, 2003	Observance of the performance criteria for March 31, 2003 and completion of the second review under the PRGF arrangement.
SDR 26.7 million	January 15, 2004	Observance of the performance criteria for September 30, 2003 and completion of the third review under the PRGF arrangement.
SDR 26.7 million	July 15, 2004	Observance of the performance criteria for March 31, 2004 and completion of the fourth review under the PRGF arrangement.
SDR 26.7 million	January 15, 2005	Observance of the performance criteria for September 30, 2004 and completion of the fifth review under the PRGF arrangement.
SDR 26.7 million	May 30, 2005	Observance of the performance criteria for March 31, 2005 and completion of the sixth review under the PRGF arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 3. Democratic Republic of the Congo: Quarterly Quantitative Indicators, June 2001–March 2002 1/

(In millions of Congo francs, unless otherwise indicated)

	Stock						Cumulative Changes 2/					
	2001				2002		2001			2002		
	End-May		End-December		End-March		End-December			End-March		
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog. (With adjust.)	Prog.	Act.	Prog. (With adjust.)
Net bank credit to the government 3/ 4/	23,014	17,172	18,638	11,198	16,102	3,756	-4,376	-5,974	-36,512	-6,912	-13,416	-12,650
Net bank credit to public sector enterprises	603	684	800	829	1,000	1,027	197	145		397	343	
Cumulative wage arrears	0	0	0	800	0	458	0	800		0	458	
New nonconcessional external borrowing contracted or guaranteed by the government or the Central Bank of the Congo (BCC)	0	0	0	0	0	0	0	0		0	0	
Net foreign assets of the BCC (stocks, floor) 5/ (in millions of U.S. dollars)							-593	-586		-593	-573	
Deposits of a monthly amount of SDR 100,000 in an account held with the Bank for International Settlements								met			met	
Memorandum item:												
Base money (stock)	26,517	30,522	22,141	36,914	35,324	40,516						

1/ The indicators and the procedures for monitoring the indicators are defined in the technical memorandum of understanding for the 2001 enhanced interim program (Appendix I, Attachment II of the Letter of Intent of June 20, 2001).

2/ Cumulative changes are calculated from end-May 2001 onward.

3/ For actual stocks, transitory expenditure (expenditure items in transit) are not excluded from government deposits with the BCC.

4/ In 2001, any excess of total revenue net of refunds to the revenue-collecting agencies (régies financières) over and above the revenue programmed in the monthly treasury cash-flow plan will lower the ceiling on net bank credit to the government. For the first quarter of 2002, the performance indicator on net bank credit to the government will be adjusted downward by 25 percent of the total surplus over and above the revenue programmed in the monthly cash-flow plan, net of transfers to revenue-collecting agencies (régies financières).

5/ The net foreign assets of the BCC have been revised, based on new information.

6/ Stock valued at the program exchange rates for the Staff-Monitored Program (SDR1= US$1.2298; and US$1 = CGF50).

Table 4. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000-05

	2000 Act.	2001 Prog.	2001 Est.	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	-6.2	0	-4.4	3	5	6	7
Nongovt. consumption per capita (in U.S. dollars)	77	92	92	97	101	107	115
Nominal GDP per capita (in U.S. dollars)	94	107	107	109	116	125	137
GDP deflator	589	260	386	23	9	6	6
Consumer prices, annual average	554	299	357	25	9	6	5
Consumer prices, end of period	511	99	135	13	6	6	5
External sector							
Exports, f.o.b. (in U.S. dollar terms)	-8	1	5	8	11	18	23
Imports, f.o.b. (in U.S. dollar terms)	46	-16	5	36	42	24	8
Export volume	-4	12	2	8	11	13	12
Import volume	48	-18	10	37	40	22	6
Terms of trade	10	-11	-12	3	8	4	4
Nominal effective exchange rate 1/	-91	...	-77	...	...	...	...
Real effective exchange rate 1/	-37	...	11	...	...	...	...
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)						
Money and credit							
Broad money	493	53	102	35	....	....	....
Net foreign assets	-710	0	6	36	....	....	....
Net domestic credit	343	55	16	2	....	....	....
Net credit to the government	272	15	-11	-6	....	....	....
Credit to the private sector	61	39	25	7	....	....	....
Credit to the parastatals	10	2	2	1	....	....	....
Central bank refinance rate (level in percent) 2/	120	...	140	39	....	....	....
	(In percent of GDP)						
Central government finances							
Revenue (excluding grants)	4.5	5.2	5.9	7.3	8.4	9.6	11.1
Grants (including relief aid)	0.0	0.0	0.0	1.2	4.7	6.4	5.2
Expenditure 3/	9.8	7.1	6.6	11.0	18.1	21.1	18.2
Domestic primary cash balance 4/	-3.5	-0.2	0.5	0.9	2.4	3.8	5.4
Overall balance (commitment basis)	-5.3	-1.9	-0.8	-2.5	-5.0	-5.1	-2.0
Overall consolidated cash balance	-3.6	-0.3	0.5	-0.4	-1.7	-2.3	-1.0
Investment and saving							
Gross national savings	0.4	...	2.9	11.0	15.9	16.9	16.1
Government	-4.9	-1.6	-0.7	2.8	6.9	8.7	7.8
Nongovernment	5.3	...	3.6	8.3	9.1	8.2	8.3
Gross domestic savings	5.6	...	6.2	6.8	8.2	9.9	11.7
Government	-3.2	...	0.6	1.9	2.7	4.1	5.7
Nongovernment	8.8	...	5.6	4.9	5.4	5.8	6.0
Investment	4.4	...	5.1	9.9	16.5	19.9	18.8
Government 5/	0.4	0.3	0.1	2.9	8.5	10.9	8.8
Nongovernment 6/	4.0	...	5.0	7.0	8.0	9.0	10.0
	(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Exports of goods and nonfactor services	963	839	1,016	1,101	1,226	1,431	1,741
Imports of goods and nonfactor services 7/	905	1,104	953	1,286	1,769	2,158	2,322
External current account, incl. grants, before debt relief (in percent of GDP) 7/	-4.0	-14.0	-2.2	-3.7	-4.7	-7.7	-7.3
External current account, excl. grants, before debt relief (in percent of GDP) 7/	-8.1	-18.1	-6.7	-9.1	-12.2	-14.9	-11.6
External current account, incl. grants, after debt relief (in percent of GDP) 7/ 8/	-4.0	-14.0	-2.2	1.1	-0.5	-3.0	-2.6
Gross official reserves (end of period)	51	52	64	111	216	260	321
Gross official reserves (weeks of non aid imports of goods and nonfactor services)	3.8	2.4	4.7	6.2	10.0	9.3	9.6
External public debt							
Total, including IMF 9/	12,609	12,957	12,880	8,890	9,159	9,415	9,430
Of which: arrears	9,604	10,027	10,082	0	0	0	0
Net present value (NPV) of debt 10/	11,888	...	12,129	...	...	...	...
Scheduled debt service (incl. interest on arrears) 11/	724	757	728	56	178	319	357
In percent of exports of goods and nonfactor services	75	90	72	5	15	22	21
In percent of government revenue	331	333	217	50	21	27	27
Exchange rate							
Units of local currency per U.S. dollar (end of period)	50	...	312	...	...	...	...

Sources: Congolese authorities; and staff estimates and projections.

1/ Annual averages based on official rates. Minus sign indicates depreciation.
2/ For 2002, as of May 6.
3/ Including interest due on external debt and, from 2003 onward, expenditure financed by resources released under the HIPC Initiative.
4/ Revenue (excluding grants) minus expenditure (excluding interest on debt and foreign-financed expenditure).
5/ From 2003 onward, includes investment financed by resources released under the HIPC Initiative.
6/ From 2003 onward, includes capital projects financed through nongovernmental organizations (NGOs).
7/ Based on revised customs data, a major downward adjustment was made for 1996-2001 imports.
8/ After possible debt relief on interest and HIPC Initiative-related resources.
9/ End-of-period debt stock, including arrears and before HIPC Initiative-related resources.
10/ The net present value of external public debt is 94 percent of the nominal value, reflecting the significant stock of arrears.
11/ From 2002 onward, after possible debt relief.

Table 5A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05

	2000	2001		2002	2003	2004	2005
	Act.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
	(In millions of Congo francs, unless otherwise indicated)						
Total revenue and grants	15,091	58,915	91,470	167,624	297,064	409,418	469,174
Total revenue	15,091	58,915	91,470	143,946	189,901	246,191	319,914
Customs and excise (OFIDA)	4,948	25,000	31,368	58,066	84,241	105,702	124,239
Direct and indirect taxes (DGC)	3,917	10,424	21,560	41,729	49,710	65,984	99,591
Petroleum (royalties and taxes)	1,091	11,989	4,475	22,576	32,125	35,160	38,284
Off-budget revenue	3,835	2,896	24,826	0	0	0	0
Other	1,300	8,606	9,240	21,574	23,825	39,344	57,799
Total grants	0	0	0	23,678	107,163	163,227	149,260
Of which: HIPC Initiative debt relief 1/	...	...	...	...	15,838	45,268	103,356
Total expenditure	32,988	80,393	103,341	217,954	411,538	539,944	527,486
Current expenditure	27,803	67,990	84,040	152,732	213,139	254,289	272,204
Wages	7,312	20,885	23,540	42,868	59,343	66,135	75,750
Interest due 2/	6,173	21,617	19,532	60,460	94,189	121,280	120,412
Transfers and subsidies	2,260	6,637	4,984	9,544	11,585	13,800	16,617
Other current expenditure	12,058	18,851	35,983	39,859	48,022	53,074	59,425
Of which: centralized payments	1,663	6,248	1,692	8,206	10,778	12,356	13,728
Off-budget expenditure	3,835	2,896	17,404	0	0	0	0
Capital expenditure	1,062	3,227	1,694	42,061	176,310	233,705	150,032
Foreign financed	0	0	0	33,787	168,288	225,683	142,010
Domestic financed	1,062	3,227	1,694	8,274	8,022	8,022	8,022
Other operations	0	0	203	200	0	0	0
Guarantee and Contingency Fund	0	6,280	0	1,000	6,251	6,682	1,893
Net lending	287	0	0	5,744	0	0	0
Unallocated poverty-related expenditure 3/	0	0	0	16,218	0	0	0
HIPC Initiative-related expenditure	...	...	...	...	15,838	45,268	103,356
Overall balance (commitment basis)	-17,897	-21,479	-11,871	-50,331	-114,474	-130,526	-58,312
Domestic primary balance (commitment basis) 4/	-11,723	139	7,661	20,238	56,678	98,478	158,206
Change in arrears 5/	5,715	18,245	19,787	-1,970	-2,000	-2,000	-2,000
Overall balance	-12,181	-3,234	7,916	-52,301	-116,474	-132,526	-60,312
Domestic primary balance (cash basis) 4/	-11,723	-2,621	8,461	18,268	54,678	96,478	156,206
Central bank operational result 6/	...	...	...	-3,713	-947	0	0
Overall consolidated fiscal balance	...	...	...	-56,014	-117,421	-132,526	-60,312
Total financing	11,774	3,234	-6,420	56,014	117,421	132,526	60,312
Domestic financing	11,774	3,234	533	-7,450	0	1,000	3,000
Central bank	12,061	234	-1,983	-4,000	0	0	0
Commercial banks	-287	3,000	-548	0	0	0	0
Certificates of deposit (net)	49	3,000	1,022	0	0	0	0
Other	-336	0	-1,570	0	0	0	0
Nonbanks (certificates of deposit)	0	0	3,065	-3,450	0	1,000	3,000
Foreign financing	0	0	-6,953	63,463	117,421	131,526	57,312
Nondomestic nonresident banks	0	0	-6,953	6,953	0	0	0
Amortization due before debt relief	-23,375	-86,835	-87,351	-99,713	-121,653	-146,964	-156,934
Change in arrears 7/	23,375	86,835	87,351	-3,243,226	0	0	0
Additional financing	0	0	0	20,001	102,978	168,031	166,580
Financing gap before debt relief	0	0	0	-3,379,449	-136,096	-110,459	-47,666
Arrears consolidation 7/	0	0	0	1,975,613	0	0	0
Arrears cancellation 7/	0	0	0	1,267,613	0	0	0
Debt relief 8/	0	0	0	136,222	136,096	110,459	47,666
Financing gap after debt relief	0	0	0	0	0	0	0
Discrepancy 9/	-407	0	1,496	0	0	0	0
	(In percent of GDP, unless otherwise specified)						
Memorandum items:							
GDP (in billion of Congo francs)	335	1,128	1,556	1,976	2,270	2,556	2,893
Revenue	4.5	5.2	5.9	7.3	8.4	9.6	11.1
Wages	2.2	1.9	1.5	2.2	2.6	2.6	2.6
Current primary expenditure (cash basis)	6.5	4.4	4.1	4.8	5.3	5.3	5.3
Overall balance (commitment basis)	-5.3	-1.9	-0.8	-2.5	-5.0	-5.1	-2.0
Domestic primary cash balance 4/	-3.5	-0.2	0.5	0.9	2.4	3.8	5.4
Domestic primary cash balance, excluding unallocated expenditure	-3.5	-0.2	0.5	1.7	2.4	3.8	5.4
Overall consolidated cash balance 10/	-3.6	-0.3	0.5	-0.4	-1.7	-2.3	-1.0

Table 5B. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05 (concluded)

	2000	2001		2002	2003	2004	2005
	Act.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise indicated)						
Total revenue and grants	4.5	5.2	5.9	8.5	13.1	16.0	16.2
Total revenue	4.5	5.2	5.9	7.3	8.4	9.6	11.1
Customs and excise (OFIDA)	1.5	2.2	2.0	2.9	3.7	4.1	4.3
Direct and indirect taxes (DGC)	1.2	0.9	1.4	2.1	2.2	2.6	3.4
Petroleum (royalties and taxes)	0.3	1.1	0.3	1.1	1.4	1.4	1.3
Off-budget revenue	1.1	0.3	1.6	0.0	0.0	0.0	0.0
Other	0.4	0.8	0.6	1.1	1.0	1.5	2.0
Total grants	0.0	0.0	0.0	1.2	4.7	6.4	5.2
Of which: HIPC Initiative debt relief 1/	...	...	...	...	0.7	1.8	3.6
Total expenditure	9.8	7.1	6.6	11.0	18.1	21.1	18.2
Current expenditure	8.3	6.0	5.4	7.7	9.4	9.9	9.4
Wages	2.2	1.9	1.5	2.2	2.6	2.6	2.6
Interest due 2/	1.8	1.9	1.3	3.1	4.1	4.7	4.2
Transfers and subsidies	0.7	0.6	0.3	0.5	0.5	0.5	0.6
Other current expenditure	3.6	1.7	2.3	2.0	2.1	2.1	2.1
Of which: centralized payments	0.5	0.6	0.1	0.4	0.5	0.5	0.5
Off-budget expenditure	1.1	0.3	1.1	0.0	0.0	0.0	0.0
Capital expenditure	0.3	0.3	0.1	2.1	7.8	9.1	5.2
Foreign financed	0.0	0.0	0.0	1.7	7.4	8.8	4.9
Domestic financed	0.3	0.3	0.1	0.4	0.4	0.3	0.3
Other operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Guarantee and Contingency Fund	0.0	0.6	0.0	0.1	0.3	0.3	0.1
Net lending	0.1	0.0	0.0	0.3	0.0	0.0	0.0
Unallocated poverty-related expenditure 3/	0.0	0.0	0.0	0.8	0.0	0.0	0.0
HIPC Initiative-related expenditure	...	...	...	...	0.7	1.8	3.6
Overall balance (commitment basis)	-5.3	-1.9	-0.8	-2.5	-5.0	-5.1	-2.0
Domestic primary balance (commitment basis) 4/	-3.5	0.0	0.5	1.0	2.5	3.9	5.5
Change in arrears 5/	1.7	1.6	1.3	-0.1	-0.1	-0.1	-0.1
Overall balance	-3.6	-0.3	0.5	-2.6	-5.1	-5.2	-2.1
Domestic primary balance (cash basis) 4/	-3.5	-0.2	0.5	0.9	2.4	3.8	5.4
Central bank operational result 6/	...	...	...	-0.2	0.0	0.0	0.0
Overall consolidated balance	...	...	...	-2.8	-5.2	-5.2	-2.1
Total financing	3.5	0.3	-0.4	2.8	5.2	5.2	2.1
Domestic financing	3.5	0.3	0.0	-0.4	0.0	0.0	0.1
Central bank	3.6	0.0	-0.1	-0.2	0.0	0.0	0.0
Commercial banks	-0.1	0.3	0.0	0.0	0.0	0.0	0.0
Certificates of deposit (net)	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Other	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Nonbanks (certificates of deposit)	0.0	0.0	0.2	-0.2	0.0	0.0	0.1
Foreign financing	0.0	0.0	-0.4	3.2	5.2	5.1	2.0
Nondomestic nonresident banks	0.0	0.0	-0.4	0.4	0.0	0.0	0.0
Amortization due before debt relief	-7.0	-7.7	-5.6	-5.0	-5.4	-5.7	-5.4
Variation of arrears 7/	7.0	7.7	5.6	-164.1	0.0	0.0	0.0
Additional financing	0.0	0.0	0.0	1.0	4.5	6.6	5.8
Financing gap before debt relief	0.0	0.0	0.0	-171.0	-6.0	-4.3	-1.6
Arrears consolidation 7/	0.0	0.0	0.0	100.0	0.0	0.0	0.0
Arrears cancellation 7/	0.0	0.0	0.0	64.1	0.0	0.0	0.0
Debt relief 8/	0.0	0.0	0.0	6.9	6.0	4.3	1.6
Financing gap after debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy 9/	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
Memorandum items:							
GDP (in billion of Congo francs)	335	1,128	1,556	1,976	2,270	2,556	2,893
Current primary expenditure (cash basis)	6.5	4.4	4.1	4.8	5.3	5.3	5.3
Domestic primary cash balance, excluding unalliocated expenditure 4/	-3.5	-0.2	0.5	1.7	2.4	3.8	5.4
Overall consolidated cash balance 10/	-3.6	-0.3	0.5	-0.4	-1.7	-2.3	-1.0

Sources: Congolese authorities; and staff estimates and projections.

1/ HIPC Initiative debt relief corresponds to the additional amount of debt relief stemming from the HIPC operation after arrears treatment and Naples flow operation.

2/ Interest scheduled, excluding interest on arrears before 2002, and interest due before Naples from 2002.

3/ Contingent expenditure that will be mobilized only if the debt rescheduling assumptions materialize.

4/ The domestic primary balance is defined as revenue (excluding grants) less expenditure (excluding interest on debt and foreign-financed expenditure).

5/ Internal and external arrears. External arrears accruing in the first months of 2002 before the debt-relief operations are not shown as they are treated during the same year.

6/ Central Bank operational net losses amounted to CGF 15.7 billion in 2001 (1 percent of GDP).

7/ In 2002, arrears include interest and principal.

8/ Debt relief includes rescheduling on interest and principal under Naples flow terms, and consolidation of moratorium interest.

9/ Discrepancy between monetary and fiscal data.

10/ Cash balance after interest rescheduling. For 2002, cash balance derived from the treasury plan.

Table 6. Democratic Republic of the Congo: Monetary Survey, 2000-02

	2000 Act.	2001 1/ Prog.	2001 1/ Est.	2001 2/ Est.	2002 3/ Prog.
	(In millions of Congo francs)				
Net foreign assets	-28,522	-28,522	-27,245	-175,333	-151,155
Net domestic credit	16,678	28,806	20,261	24,556	25,637
Net credit to government	13,730	18,638	11,284	11,198	7,198
Credit to the private sector	2,539	11,041	8,148	10,892	15,323
Credit to the parastatals	409	800	829	2,466	3,116
Broad money (M2)	22,004	33,732	44,479	67,202	90,721
Narrow money (M1)	18,557	29,794	40,144	40,144	52,974
Currency in circulation	15,963	24,828	30,368	30,368	36,355
Demand deposits	2,594	4,966	9,776	9,776	16,619
Quasi money	3,447	3,937	4,335	27,059	37,747
Time deposits in domestic currency	0	5	25	25	35
Foreign currency deposits	3,446	3,931	4,310	27,034	37,712
Import deposits	1,554	1,954	1,262	7,914	9,655
Other items, net (including valuat. change)	-35,402	-35,402	-52,724	-225,894	-225,894
Of which: valuation change	-27,928	-27,928	-28,878	-169,959	...
	(Annual change in percent)				
Net foreign assets	-1,211	0	4	-515	14
Net domestic credit	321	73	21	47	4
Net credit to government	278	36	-18	-18	-36
Credit to the private sector	795	335	221	329	41
Credit to the parastatals	715	96	103	503	26
Broad money (M2)	493	53	102	205	35
Narrow money (M1)	436	61	116	116	32
Currency in circulation	442	56	90	90	20
Demand deposits	401	91	277	277	70
Quasi money	1,291	14	26	685	40
Time deposits in domestic currency	-80	1,379	6,867	6,867	40
Foreign currency deposits	1,301	14	25	684	40
Import deposits	658	26	-19	409	22
Other items, net	-1,564	0	-49	-538	0
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)				
Net foreign assets	-710	0	6	-667	36
Net domestic credit	343	55	16	36	2
Net credit to government	272	22	-11	-12	-6
Credit to the private sector	61	39	25	38	7
Credit to the parastatals	10	2	2	9	1
Broad money (M2)	493	53	102	205	35
Import deposits	36	2	-1	29	3
Other items, net	-897	0	-79	-866	0
Memorandum items:					
Velocity (GDP/ broad money)	15	33	30	23	22
Net foreign assets (in millions of U.S. dollars)	-570	-570	-545	-559	-482
Of which: Central Bank of the Congo	-606	-593	-586	-600	-573

Sources: Congolese authorities; and staff estimates and projections.

1/ Excluding valuation changes.

2/ At end-period exchange rate.

3/ At an exchange rate of US$1 = CGF313.6.

Table 7. Democratic Republic of the Congo: Balance of Payments Summary, 2000–05

	2000 Act.	2001 Prog.	2001 Est.	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.
	(In millions of U.S. dollars, unless otherwise indicated)						
Current account	-194	-610	-124	-222	-308	-562	-600
Merchandise trade	223	-98	238	59	-223	-351	-177
Exports, f.o.b.	892	770	940	1,013	1,128	1,326	1,632
Imports, f.o.b. 1/	-669	-868	-702	-955	-1,351	-1,678	-1,808
Of which : aid related imports 2/	-129	-133	-169	-245	-493	-553	-447
Services	-165	-167	-176	-244	-320	-375	-404
Receipts	71	69	75	87	98	105	109
Of which : MONUC 3/	2	...	8.9	17	21	20	13
Expenditure	-236	-236	-251	-331	-418	-480	-513
Of which : aid-related imports 2/	-64	-27	-79	-104	-153	-151	-137
Income	-388	-447	-414	-315	-272	-378	-400
Receipts	17	16	18	20	21	21	20
Of which : MONUC 3/	1	0	2	4	5	5	3
Expenditure	-405	-463	-432	-335	-294	-399	-420
Of which : interest payments 4/	-385	-421	-410	-311	-267	-346	-342
Of which : IMF charges	-17	-17	-16	-3	-3	-3	-4
penalty interest on arrears	-283	-249	-319	-144	0	0	0
Current unrequited transfers	136	102	228	278	506	543	381
Of which : official aid	199	177	256	321	491	523	357
Capital account	-388	-145	-347	73	-18	162	223
Official capital	-339	-335	-308	99	-19	65	44
Gross disbursements 5/	0	0	10	402	331	484	489
Of which : net new financing	0	0	10	70	331	484	489
Amortization 6/	-339	-335	-318	-302	-351	-419	-445
Private capital (net)	-50	146	-39	-26	1	97	179
Of which : foreign direct investment	74	0	83	112	129	206	271
Balance before errors and omissions	-582	-755	-471	-148	-327	-400	-377
Errors and omissions	-247	0	-216	0	0	0	0
Overall balance	-829	-756	-686	-148	-327	-400	-377
Financing	829	756	686	-9,656	-113	-46	-53
Net change in non-Fund arrears 7/	742	740	698	-9,579	0	0	0
Net banking sector reserves (increase, -)	87	16	-11	-77	-113	-46	-53
Of which : net Fund credit 8/	17	16	16	19	67	68	68
Financing gap before possible exceptional assistance	0	0	0	-9,804	-440	-446	-430
Possible exceptional assistance	0	0	0	9,804	440	446	430
Items related to arrears clearance	0	0	0	9,391	0	0	0
Consolidation/cancellation of end-2001 arrears (ex. IMF) 7/	0	0	0	9,579	0	0	0
Consolidation of penalty interest on arrears accumulated in 2002	0	0	0	144	0	0	0
Repayment of World Bank bridge loan 5/	0	0	0	-331	0	0	0
Assistance on debt service	0	0	0	413	440	446	430
Relief from reschedulings/Naples flow 9/	0	0	0	319	199	129	60
Capitalization of moratorium interest 10/	0	0	0	95	194	186	75
HIPC-related resources 11/	0	0	0	0	47	131	295
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Current account balance, incl. grants, before debt relief 1/	-4.0	-14.0	-2.2	-3.7	-4.7	-7.7	-7.3
Current account balance, excl. grants, before debt relief 1/	-8.1	-18.1	-6.7	-9.1	-12.2	-14.9	-11.6
Current account balance, incl. grants, after debt relief 1/, 12/	-4.0	-14.0	-2.2	1.1	-0.5	-3.0	-2.6
Current account balance, excl. grants, after debt relief 1/, 12/	-8.1	-18.1	-6.7	-4.3	-8.0	-10.2	-7.0
Gross official reserves (millions of U.S. dollars)	51	52	64	111	216	260	321
In weeks of nonaid imports	3.8	2.4	4.7	6.2	10.0	9.3	9.6

Sources: Congolese authorities; and staff estimates and projections.

1/ Estimates of non-aid merchandise imports have been adjusted downward for 1996-2001 since May 2001 as a result of a better reconciliation of banking, customs and tax revenue data.

2/ An average of about 80 percent of official grant and loan assistance is assumed to be spent on imports of goods and services, including freight and insurance. Direct MONUC imports are not included.

3/ Expenditures of the U.N. peacekeeping forces, MONUC, are included on a net basis and include estimates for local purchases of goods and services, salaries of local employees, and expenditures by expatriate MONUC staff in the DRC. The impact of the DDRRR program is not yet included.

4/ Includes interest on current maturities plus projected penalty interest on arrears up to end-May 2002. Thereafter includes interest on current maturities plus interest on rescheduled debt.

5/ Includes a $331 million disbursement by the World Bank to repay the bridge loan incurred for the clearance of arrears expected in June 2002.

6/ Includes amortization on current maturities up to 2001. Thereafter also includes principal on rescheduled debt.

7/ For 2002, the reduction in arrears for all creditors is equal to the amount of arrears outstanding as of end-2001.

8/ Includes the accumulation of arrears to the IMF prior to 2002. In 2002, net Fund credit is net of the reduction in arrears.

9/ Includes debt-relief from bilateral and multilateral creditors, other than the IMF, including debt relief on the accumulation of arrears on current maturities in 2002. Paris Club and other bilateral creditors are assumed to agree to reschedule debt on Naples flow terms and to provide exceptional treatment of post-cutoff date arrears.

10/ Paris Club and other bilateral creditors are expected to provide additional assistance through the capitalization of moratorium interest.

11/ Additional debt relief resources expected in 2003 and related to the HIPC Initiative (a decision point is expected in early 2003). For bilateral debt, this includes debt relief beyond Naples flow terms and the capitalization of moratorium interest expected to be provided in 2002 as well as additional debt relief expected on Naples stock terms.

12/ Includes debt relief on interest from the rescheduling of debt on Naples flow terms and the capitalization of moratorium interest, plus HIPC resources related to debt-relief on both interest and principal, plus the consolidation of penalty interest on arrears in 2002.

Table 8: Democratic Republic of the Congo - Financing Requirements, 2002-05
(in millions of US dollars)

	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.
Financing gap before normalization 1/	**-967**	**-1329**	**-1520**	**-1344**
Humanitarian Assistance and WB Post-Conflict recovery grants	165	125	91	160
Humanitarian assistance	135	105	91	160
World Bank post-conflict grant	30	20	0	0
Financing gap after humanitarian assistance and WB post-conflict grant	**-803**	**-1205**	**-1428**	**-1184**
Reduction in arrears outstanding at end-2001 2/	-10082	-	-	-
IMF 3/	-503	-	-	-
World Bank 3/	-318	-	-	-
African Development Bank	-942	-	-	-
Other multilaterals	-169	-	-	-
Bilaterals and commercial	-7982			
Short term	-167			
Financing gap after reduction in arrears	**-10884**	**-1205**	**-1428**	**-1184**
Clearance of arrears 2/	10225	-	-	-
Consolidation and cancellation of arrears outstanding at end-2001	10082	-	-	-
IMF 3/	503	-	-	-
World Bank 3/	318	-	-	-
African Development Bank	942	-	-	-
Other multilaterals	169			
Bilaterals and commercial	7982			
Short term	167			
Cancellation of interest on arrears in 2002 4/	144	-	-	-
Financing gap after arrears clearance	**-659**	**-1205**	**-1428**	**-1184**
Assistance on debt service	413	440	446	430
Debt relief from reschedulings/Naples flow 5/	319	199	129	60
Relief on current maturities	201	199	129	60
Relief on non-Fund arrears on current maturities accumulated in 2002 5/	117	-	-	-
Capitalization of moratorium interest 6/	95	194	186	75
HIPC related resources 7/	0	47	131	295
Financing gap after assistance on debt service	**-246**	**-765**	**-983**	**-754**
Project grant and loan assistance 8/	197	623	743	486
World Bank: Emergency Multisector Rehabilitation and Reconstruction Period (EMRRP)	29	170	235	142
World Bank: other project credits	3	26	0	2
UN: project grants	26	28	27	22
AfDB: project grants	1	1	0	1
European Union: EMRRP grants	0	12	29	28
EU: other project grants outside the EMRRP	56	59	38	25
Bilateral donors: EMRRP grants and loans	39	281	379	231
Bilateral donors: other project grants and loans	42	45	36	37
Financing gap after project financing	**-49**	**-142**	**-240**	**-268**
New budget and balance of payments loan assistance	49	142	240	268
IMF	19	67	68	68
World Bank	30	75	172	200
Financing gap after new loan (non-project) financing	**0**	**0**	**0**	**0**
Memorandum items:				
Projected stock of arrears at arrears clearance 9/	**10342**			
IMF	507			
WB	331			
AfDB	966			
Other multilaterals	173			
Bilateral and commercial	8196			
Short term	169			
of which: arrears outstanding as of end-2001	10082			
IMF	503			
WB	318			
Other creditors	9,261			

Sources: Congolese authorities; and staff projections.

1/ Financing gap excluding grants and new disbursements and including projected interest on arrears for January–May 2002.

2/ The reduction in arrears for 2002 on a calendar year basis is equal to the amount of arrears as of end-2001.

3/ The IMF and World Bank are scheduled to clear arrears through a bridge loan equal to the amount of arrears outstanding projected at the time of clearance, expected in June 2002, and which therefore includes accumulation of arrears on current maturities and interest on arrears in 2002.

4/ The projected accumulation of arrears on current maturities and penalty interest on arrears are both already included in the current account and consequently in the initial financing gap.

5/ Includes debt relief from bilateral and multilateral creditors, other than the IMF. Paris Club and other bilateral and commercial creditors are expected to provide debt relief on Naples flow terms and exceptional treatment of post-cutoff arrears.

6/ Paris Club and other bilateral and commercial creditors are expected to provide additional assistance through the capitalization of moratorium interest.

7/ Includes additional debt relief from 2003 related to the HIPC Initiative.

8/ By implementing agency. Includes currently unidentified bilateral cofinancing for the EMRRP.

9/ Arrears at end-2001 plus interest on arrears and accumulation of arrears on current maturities in 2002.

Table 9. Democratic Republic of the Congo: Nominal, Net Present Value, and Arrears of External Debt Outstanding by Creditor Groups, End-December 2001

	Nominal Debt Stock		Net Present Value of Debt		Arrears	
	US$ million	Percent of total	US$ million	Pecent of total	US$ million	Percent of total
Total	12,879.6	100.0	12,129.7	100.0	10,081.6	100.0
Multilateral	3,332.1	25.9	2,760.5	22.8	1,932.2	19.2
World Bank Group	1,359.7	10.6	880.5	7.3	317.6	3.2
IBRD	128.0	1.0	128.0	1.1	128.0	1.3
IDA	1,231.7	9.6	752.5	6.2	189.6	1.9
African Development Bank (AfDB) Group	1,186.3	9.2	1,141.4	9.4	942.3	9.3
AfDB	1,000.7	7.8	1,014.1	8.4	900.5	8.9
African Development Fund (AfDF)	185.6	1.4	127.2	1.0	41.8	0.4
IMF	502.9	3.9	502.9	4.1	502.9	5.0
European Investment Bank	20.9	0.2	20.9	0.2	20.9	0.2
European Union	168.1	1.3	135.5	1.1	79.6	0.8
European Union administered by IDA	11.4	0.1	7.4	0.1	2.3	0.0
IFC	29.2	0.2	29.2	0.2	29.2	0.3
International Fund for Agricultural Development (IFAD)	25.8	0.2	14.7	0.1	9.5	0.1
Arab Bank for Economic Development in Africa (BADEA)	21.5	0.2	21.5	0.2	21.5	0.2
Development Bank of the Great Lakes States (BDEGL)	5.7	0.0	5.7	0.0	5.7	0.1
OPEC Fund	0.7	0.0	0.7	0.0	0.7	0.0
Bilateral and commercial	9,380.4	72.8	9,202.1	75.9	7,982.3	79.2
Paris Club	8,779.6	68.2	8,608.7	71.0	7486.4	74.3
Post-cutoff date	951.1	7.4	882.7	7.3	656.4	6.5
Official Development Assistance (ODA)	632.6	4.9	567.5	4.7	349.3	3.5
Non-ODA	318.5	2.5	315.2	2.6	307.0	3.0
Pre-cutoff date	7,828.5	60.8	7,726.0	63.7	6,830.0	67.7
ODA	1,668.5	13.0	1,542.1	12.7	1,181.3	11.7
Non-ODA	6,159.9	47.8	6,184.0	51.0	5,648.7	56.0
Other official bilateral	435.0	3.4	428.4	3.5	346.8	3.4
Post-cutoff date	153.8	1.2	151.7	1.3	115.2	1.1
ODA	29.0	0.2	25.0	0.2	9.3	0.1
Non-ODA	124.9	1.0	126.7	1.0	105.8	1.0
Pre-cutoff date	281.2	2.2	276.7	2.3	231.6	2.3
ODA	40.6	0.3	40.6	0.3	40.6	0.4
Non-ODA	240.6	1.9	236.2	1.9	191.1	1.9
Commercial	165.8	1.3	165.0	1.4	149.1	1.5
Post-cutoff date	83.1	0.6	82.8	0.7	77.6	0.8
Pre-cutoff date	82.7	0.6	82.2	0.7	71.5	0.7
Short-term debt	167.1	1.3	167.1	1.4	167.1	1.7
Multilateral	30.4	0.2	30.4	0.3	30.4	0.3
Bilateral and commercial	136.8	1.1	136.8	1.1	136.8	1.4
Post-cutoff date	64.7	0.5	64.7	0.5	64.7	0.6
Pre-cutoff date	72.1	0.6	72.1	0.6	72.1	0.7

Sources: Congolese authorities; and staff estimates.

Table 10. The Democratic Republic of the Congo and Sub-Saharan Africa: Selected Poverty and Living Standard Indicators
(In percent, unless otherwise specified)

Indicator	DRC Latest single year	Sub-Saharan Africa (1993–99)
Population (in millions) (2001)	52	643
Population growth	3	2.6
GDP per capita in US$ (2001)	107	500
Infant mortality rate (per thousand, 1998)	129	91.8
Child mortality rate (per thousand, 1998)	213	161
Maternal mortality rate (per 100,000/live births)	1289	...
HIV/AIDS prevalence (2001)	5.1	8.0
HIV/AIDS prevalence for women in conflict areas	8.0	...
Literacy rate (2001)		
Male	79.8	69
Female	51.9	53
Gross school enrollment rate (1998)		
Male	49.7	85
Female	32.3	71
Impact of Conflict		
Child soldiers (thousands)	10.0–15.0	
Displaced persons (millions)	3.0–4.0	
Deaths from deprivation (millions)	3.0	

Sources: I-PRSP, DRC: Social Sector and Poverty Indicators, June 12, 2000.

Table 11. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicators, June–December 2002 1/

(In millions of Congo francs, unless otherwise indicated)

	Stock End-December 2001	Cumulative Changes 2/ 2002		
		End-June performance indicators	End-September performance criteria	End-December performance Indicators
Net foreign assets of the BCC (in millions of U.S. dollars) 3/	-600	0	0	0
Net domestic assets of the BCC 3/	239,772	-1,881	-2,822	-3,762
Net bank credit to the government 4/ 5/	11,198	-4,609	-5,148	-4,000
BCC credit to nonfinancial public sector enterprises	2,071	0	0	0
BCC credit to nonfinancial private sector enterprises	1,244	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government or the BCC 6/	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government or the BCC 7/	0	0	0	0
External debt arrears (In millions of U.S. dollars)	10,082	0	0	0
Wage arrears	800	-800	-800	-800
Deposit of a monthly amount of SDR 100,000 in an account held with the Bank for International Settlements until the IMF's Executive Board consideration of the government's three-year program				
Memorandum item:				
Base money	36,914	2,015	3,023	4,030

1/ Quantitative performance criteria and indicators and the procedures for monitoring are defined in the technical memorandum of understanding attached to the letter of intent (EBS/02/76).

2/ Cumulative changes are calculated from end-December 2001 onward.

3/ The stock of net foreign assets and net domestic assets of the Central Bank of the Congo (BCC) are valued at the program exchange rates (SDR1 = US$1.26537; and US$1 = CGF 313.6).

4/ Any nonproject external budgetary assistance, including external debt rescheduling, that exceeds program levels, will be used to finance poverty reduction expenditure. In the event that such assistance falls short of program levels, the corresponding contingent expenditure item will be reduced accordingly.

5/ Twenty-five percent of any revenue (excluding grants) in excess of program levels will be used to reduce the stock of certificates of deposit (CDs) issued before end-March 2002.

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcesssional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

7/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

Table 12. Democratic Republic of the Congo:
Structural Performance Criteria and Indicators, 2002

Measures	Status
Structural performance criteria	
Completion of the financial audit of the Central Bank of the Congo (BCC)	By end-September 2002
Preparation of a list of banks to be liquidated, privatized, or restructured, and placement into receivership of the NBK, BCA, and BCCE	By end-September 2002
Publication of a Code of Ethics and Good Conduct applicable to the whole civil service, without exception	By end-September 2002
Structural performance indicators	
Preparation of a global strategy and action plan for the fight against corruption	By end-September 2002
Completion of the formulation of a strategy for the restructuring of the state mining company (GECAMINES)	By end-September 2002
Drafting of an action plan, taking into account the recommendations of the BCC financial audit	By end-December 2002
Completion of the financial audit of the state oil company (COHYDRO)	By end-December 2002

Table 13. Democratic Republic of the Congo:
PRGF-Supported Three-Year Program—Prior Actions

Action	Status
For submission to the Board—Three-year program under the Poverty Reduction and Growth Facility (PRGF)	
Publication of the 2002 budget in compliance with the program targets	Done (January 2002)
Presidential decree notifying that all budgetary spending—without exception—must be authorized by the Minister of Finance before disbursement	Done (April 13, 2002)
Publication of the new statutes of the Central Bank of the Congo (BCC) enshrining its independence and abolishing any financing of budgetary expenditure without prior authorization from the Ministry of Finance	Done (May 6, 2002)
Selection of an internationally reputed firm to undertake the financial audit of the BCC	Done (March 25, 2002)
Elimination of all wage payment arrears and compliance with the quantitative indicators	Met[1]
Publication of the new mining code	With parliament, should be adopted and published soon
Creation of two interministerial committees by presidential decree, the first of which will be responsible for monitoring the three-year program supported by the Bretton Woods institutions, and chaired by the Minister of Finance, and the second of which will be responsible for implementing the strategy to reduce poverty and chaired by the Minister of Planning and National Reconstruction	Done (April 13, 2002)
For completion of the first semiannual review of the program	
Preparation of the 2003 budget, and agreement with Fund staff on the main budgetary aggregates	Mid-December 2002

[1] Except for CGF 458 million in the Bandundu Province. Clearance of these arrears is dependent on the verification of the actual number of civil servants in this province.

Democratic Republic of the Congo: Relations with the Fund
(As of April 30, 2002)

I. Membership Status: Joined: September 28, 1963

II. General Resources Account:	**SDR Million**	**In Percent of Quota**
Quota	291.00	100.00
Fund holdings of currency	448.11	153.99

III. SDR Department:	**SDR Million**	**In Percent of Allocation**
Net cumulative allocation	86.31	100.00

IV. Outstanding Purchases and Loans:	**SDR Million**	**In Percent of Quota**
Stand-By Arrangements	126.83	43.58
Extended Arrangements	7.63	2.62
Contingency and Compensatory Financing Facility	22.65	7.78
Structural Adjustment Facility Arrangements	142.91	49.11

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00
SAF	May 15, 1987	May 14, 1990	203.70	145.50
Stand-By	May 15, 1987	May 14, 1988	100.00	24.50

VI. Projected Obligations to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	**Forthcoming**				
	April 30, 2002	**2002**	**2003**	**2004**	**2005**	**2006**
Principal	300.00					
Charges/interest	102.20	5.60	7.60	8.20	8.60	8.60
Total	402.20	5.60	7.60	8.20	8.60	8.60

VII. Exchange Rate Arrangement:

The Democratic Republic of the Congo's currency is the Congo franc (CGF), which, since May 26, 2001, has been freely floating. On April 30, 2002, the rate was US$1=CGF 308.27. From July 1, 1998 through May 25, 2001, a multiple exchange rate system was in effect, implying an official rate, the most recent one being US$1=CGF 50, and a rate determined in the parallel market.

VIII. Last Article IV Consultation:

(a) Consultations with the Democratic Republic of the Congo are on the standard 12-month cycle.

(b) The last Article IV consultation was concluded by the Executive Board on July 13, 2001 (EBS/01/94; 6/22/01).

IX. Safeguards Assessment

A Stage One safeguards assessment is under way.

X. Technical Assistance:

Subject	Department	Staff Member	Date
Monetary statistics	STA	Mr. Papadacci	June 29–July 12, 2000
	Ms. Tanase		
Exchange rate system	MAE	Mr. Bussers	May 9–14, 2001 July 1-7, 2001
Capacity-building assistance to the central bank	MAE	Mr. Laurens Mr. Sarr Mr. Akitoby Mr. Paul Mr. Bussers Mr. Tavernier	October 12–26, 2001
Tax administration/policy	FAD	Mr. Corfmat Mr. Fossat	May 11–21, 2001
Real sector and government finance statistics	STA	Mr. Marie Mr. Gorter	June 4-13, 2001
Expenditure management	FAD	Mr. Schiller Mr. Fournel Mr. Barrier	August 4–18, 2001

XI. Short-Term Resident Experts:

Expenditure control and monitoring	Mr. Catalan
Customs administration	Mr. Bremeersch
Tax administration	Mr. Schlotterbeck
Monetary policy and programming	Mr. d'Ambrières

XI. Resident Representative: The resident representative was recently appointed, and is expected to assume his duties by end-June 2002.

DEMOCRATIC REPUBLIC OF THE CONGO: RELATIONS WITH THE WORLD BANK GROUP

The overall objective of the World Bank's activities is to support the transition to peace and stability in the DRC and the subregion. The strategy for reengagement in the DRC is set forth in the Transitional Support Strategy (TSS) discussed by the Board on July 31, 2001, which will be updated periodically. The TSS has four areas of focus: (i) meeting basic and urgent needs, (ii) rebuilding effective public institutions and policies, (iii) revitalizing economic activity; and (iv) rebuilding administrative and implementation capacity. The TSS promotes "early wins" to build a track record for the government to begin to restore confidence among the local population, donors and private investors. The Bank has reopened a country office in Kinshasa and a Resident Representative assumed his post in December 2001.

The Transitional Support Strategy

Objective	Description of Program or Activity
Meeting basic and urgent needs	• Support social service delivery and social infrastructure ruined by looting, war, and years of neglect. • Reintegrate ex-combatants and displaced households. • Establish and support an anti-HIV/AIDS task force. Establish facilities for safe blood transfusion.
Rebuilding effective public institutions and policies	• 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 nongovernmental groups.
Revitalizing economic activity	• Aid the private sector through reconstruction of essential infrastructure. • Initiate community-driven development activities. • Revive the food linkages between farmer and consumer. • Introduce regulatory and other incentives for investment while ensuring that the benefits of natural resource wealth can be broadly shared by all.
Rebuilding administrative and implementation capacity	• Develop an implementation capacity to manage donor aid efficiently, transparently, and without corruption.

The World Bank's financial support is provided or envisaged through five instruments:

- **Emergency Early Rehabilitation Project (EERP).** A USS$50 million grant was approved on July 31, 2002 at the same time as the TSS. Most of the funds provided under the EERP have been committed in support of road rehabilitation (Kinshasa–Matadi, the country's only seaport), community development projects, the fight against AIDs, technical assistance (including an audit of the central bank, revision of investment and mining codes, and deepening of the work on an I-PRSP). These complement activities funded under a Bank-administered donor Emergency Trust Fund (Emergency Stabilization and Recovery Project) of US$10 million, which finances small community type projects in a variety of areas: water, roads, agriculture, and others. These steps are essential prerequisites to further development assistance measures.

- **Post-conflict and institutional development (IDF) grants.** Post-conflict grants (US$3 million) are financing the preparation of the demobilization and reintegration program for vulnerable groups and the reintegration of street children in urban areas; a grant has been approved to prepare for a household survey and another for labor-intensive social infrastructure reconstruction in rebel-controlled Kisangani. IDF Grants supported the drafting of a new mining code, the elaboration of a mining cadastre, and audits of commercial banks as a prelude to their liquidation or restructuring.

- The proposed **Economic Recovery Credit** (ERC) (US$450 million), under preparation, is scheduled for Board presentation in the second week of June 2002. The ERC would provide financing mainly for the repayment of a bridge loan used to settle DRC's arrears to the World Bank (US$331 million). In general, the credit is in support of the government's reform program in the areas of (i) governance (overall strategy to improve governance and reduce corruption, improve environment for private sector development, and improve quality of public expenditures and services); (ii) reform of the public enterprise sector; and (iii) initial steps toward management of natural resources (mining and forestry). The structural components of the PRGF and the ERC are largely equivalent or complementary.

- The proposed **Emergency Multisector Rehabilitation and Reconstruction Project** (EMRRP), with US$454 million to be provided by IDA over a two-year period (and another US$900 million through co-financing) scheduled for Board presentation in early July 2002 to support rehabilitation in key sectors. The EMRRP would pull together the country's most urgent and non-deferrable rehabilitation needs and provide a framework for channeling donor support.

  The proposed program would help prevent the further deterioration of health and loss of life by increasing food security, delivering health care and other basic services, restoring water and energy supply services, and improving public health conditions in cities. It would also help lay the groundwork for policy and institutional reforms and an investment program for the country's development.

The overall purpose of the proposed EMRRP is to initiate the long-term process of reconstruction and economic rehabilitation. The program comprises five components: (i) rehabilitation and reconstruction of critical infrastructure (transport, water, electricity, and urban infrastructure); (ii) agriculture; (iii) delivery of social services (education, health, and social protection) and community development; (iv) development of sector strategies for the medium and long term, and strengthening of human and institutional capacities; and (v) management, monitoring, and evaluation of the implementation of the project.

- **A Multi-Country Demobilization and Reintegration program** in the amount of US$150 million, with another US$350 million in the form of cofinancing, about one-fourth of the total amount would benefit the DRC.

Other Activities

Public Expenditure Review

A public expenditure analysis cycle will focus on the role of central government in (a) providing services in key sectors (health, education, transport and infrastructure) and more importantly in (b) increasing the availability of these services as currently provided by the private/nongovernmental sector, whose role has increased dramatically as the state's ability to meet basic needs has withered away. It will contribute to a budget law for 2003 that has improved estimates for budget allocations for all categories of recurrent and capital expenditure.

Emergency Trust Fund

An Emergency Stabilization Recovery Project is providing assistance to help tackle the worst aspects of poverty via projects in the health, education, agriculture, water, and infrastructure rehabilitation sectors. The World Bank is administering this trust fund for the DRC on behalf of donors with initial support from Belgium and Canada; supplemental Belgian and Canadian contributions have been received. The Netherlands and the European Commission have recently pledged funds and work is underway to receive the contributions.

IFC

Arrears to the IFC are about US$59 million. All the IFC's prior investments have been written off. IFC is currently monitoring improvements in the investment climate.

MIGA

Currently, MIGA is not in a position to issue guarantees for projects in the DRC because the country has not paid in full its capital subscription. The total subscription is US$3,657,160, of which the amount required to be paid in order to become current is US$274,287. MIGA does not have any exposure in the DRC. However, investors have expressed interest in the agribusiness, manufacturing, mining, power, and telecommunications sectors.

Democratic Republic of the Congo: Statistical Issues

Despite a difficult environment, the DRC authorities have continued to produce a vast array of statistics, most of which are contained in the Annual Report of the Central Bank of Congo (BCC). The BCC also issues a monthly Statistical Bulletin. A comprehensive set of external debt statistics is being compiled by the *Office de Gestion de la Dette Publique (OGEDEP).* The coverage and sectoral areas identified for improvement are described below.

Fund fact-finding missions in real sector and government finance statistics visited Kinshasa in June 2001, with a view to making recommendations for improvements in the short and medium run. In both areas, the technical assistance will need to be supported by capacity building, covering not only training, data processing, and communications, but also (and foremost) basic needs (such as furniture and supplies, air conditioning, building repair, etc.).

National accounts

The aggregated national accounts are available in constant and current prices. They are produced by the Directorate of Research of the BCC and published on an annual basis. The methodology for preparing the national accounts conforms to the 1968 System of National Accounts (SNA) and is based on the balance sheets of enterprises and the results of surveys of public and semipublic enterprises and agencies. However, most of these surveys date back to the late 1980s. The activities of the traditional sector (including the informal sector) are also included, using extrapolation techniques based on industry-specific data. On average, the traditional sector accounts for more than 60 percent of GDP.

The fact-finding mission of June 2001 recommended that priority be given to the national accounts. A technical assistance mission may take place in FY 2003.

Employment and unemployment

Annual data on employment in the central government are available from the Ministry of Economy, Finance, and the Budget, together with employment in the formal sector.

Prices

Various consumer price indices are calculated for Kinshasa by the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy. The IESR also calculates a monthly consumer price index for the Lumumbashi markets. The household surveys on which these calculations are based date back to the late 1980s.

Government accounts

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting records on the government cash operations it executes. The Treasury produces two sets of monthly statistics based on its own records. One relates to the data executed through the

Central Bank and are reconciled with BCC data. The other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double entry public accounting system and provide insufficient details about the nature of expenditure owing to problems in the expenditure chain. However, the Treasury has started to produce, on a quarterly basis, expenditure data reports broken down by ministry and institutions.

The ongoing improvements in tax administration and expenditure control will have a positive impact on the quality and timeliness of fiscal statistics. In parallel with technical assistance in the public expenditure management area, and during a fact-finding mission in June 2001, a work program for public finance statistics improvement was developed and agreed with the authorities. This program would consist of several visits by a peripatetic expert and would aim at producing a well-documented set of government finance statistics in a format common to francophone countries in the region and familiar to Fund staff. A preliminary version of this presentation is close to being completed.

Monetary accounts

The Directorate of Research of the BCC regularly produces timely monetary statistics. Overall, the reliability of these statistics is good. Nevertheless, problems remain concerning the sectorization of the accounts.

However, since the last money and banking statistics mission in June 2000, only data for interest rates (through December 2000) have been reported by the BCC for publication in International Financial Statistics (IFS). A follow-up monetary and financial statistics mission is planned during FY2003. The mission will address the outstanding statistical issues and will provide assistance to the BCC in resuming the regular and timely reporting of monetary data to STA.

Balance of payments

The balance of payments is prepared on an annual basis, based on information on exports and imports of large public and semipublic enterprises, the BCC's payments records, and a survey of residents' foreign accounts operations. The official data are adjusted significantly to take account of the informal sector. Data on foreign aid flows are provided by the local United Nations Development Program (UNDP) office, which collects them from the European Union, embassies, and nongovernmental organizations.

Given the various data sources, the balance of payments is compiled partly on a cash basis and partly on a transactions basis.

External and domestic debt

External and domestic debt statistics are compiled by OGEDEP and are of reasonable quality for external debt, despite the virtually complete absence of computer equipment. Domestic debt and, in particular, cross arrears in the public sector, are yet of very poor quality.

However, the World Bank is providing assistance in the compilation of cross arrears in the public sector, and public sector arrears with the private sector.

Public enterprise sector

There is no centralized, comprehensive database on the operations of the public enterprises. However, some information is made available to Fund missions by individual enterprises. Data are on an annual basis and become available with at least a six-month delay. As part of the public enterprise reform, the World Bank is collecting data on the public enterprise sector.

Social indicators

The most consistent data sets are those assembled for the UNDP human development, human poverty, and gender-related development indices, and for two multiple indicator cluster surveys in 1996 and 2001, in collaboration with the UNICEF. A national household living standards survey will be undertaken with the help in particular of IDA. In addition, in the context of the interim poverty reduction strategy paper (I-PRSP), the authorities, with assistance from the World Bank and the UNDP, have initiated work to construct a database for social indicators. They are considering participation in the IMF's General Data Dissemination System (GDDS), which would provide a framework for statistical development and capacity building and would cover economic and socio-demographic (population, health, education, and poverty) indicators.

Democratic Republic of the Congo: Core Statistical Indicators
(As of May 30, 2002)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price index	Exports and Imports	Current Account Balance	Overall Govern-ment Balance	National Accounts	External Debt
Date of latest observation	5/28/02	3/31/02	3/31/02	3/31/02	3/31/02	5/6/02	5/26/02	2001	2001	3/31/02	2001	Dec. 2001
Date received	5/29/02	4/26/02	4/26/02	4/26/02	4/26/02	5/7/02	5/28/02	4/15/02	4/15/02	4/24/02	4/25/02	3/25/02
Frequency of data 1/	D	M	M	M	M	M	M	A	A	M	A	A
Frequency of reporting 1/	D	M	M	M	M	M	M	V	V	M	V	V
Source of data 2/	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	E	E	E	E	E	C	C	V	V	E	V	V
Confidentiality 4/	C	A	A	A	A	A	A	A	A	A	A	A
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	M	A	A

1/ Frequency of data, reporting, and publication: D=daily, W=weekly, M=monthly, Q=quarterly, or A=annually.
2/ Source of data: A=direct reporting by central bank, Ministry of Finance, or other official agency, or N=official publication or press release.
3/ Mode of reporting: E=electronic data transfer, C=cable or facsimile, T=telephone, M=mail, V=staff visits, or O=other.
4/ Confidentiality: A=for use by staff only, B=for use by the staff and the Executive Board, or C=for unrestricted use.

Democratic Republic of Congo: Governance and Transparency Issues

After decades of corruption, mismanagement, and the collapse of the state, the new authorities recognize that good governance and transparency are essential to create an environment conducive to private sector-led activity. Consequently, their promotion has been given high priority. Under the staff-monitored program (SMP) covering June 2001–March 2002, key corrective measures were taken, while further actions are envisaged during the Poverty Reduction and Growth Facility (PRGF) arrangement period.

Measures taken under the SMP

The following fiscal and public sector reforms were implemented:

- rehabilitation of public finances, including a return to a normal budgetary process;
- strengthening of revenue-collecting agencies and public expenditure control, with three Fund TA resident experts posted in Kinshasa to help strengthen tax administration, customs administration, and expenditure management; and
- initiation of a public enterprise reform program, with World Bank assistance.

Transparency and accountability in public resource management were improved through the following actions:

- reduction of the use of extrabudgetary channels;
- reduction of customs and tax exemptions, tax evasion, and fraud;
- preliminary financial audits of the customs and tax departments and of most of the public enterprises (following these audits, most directors of revenue-collecting agencies and public enterprises were dismissed and replaced);
- strengthening of the management of the Central Bank of the Congo (BCC) on the basis of recommendations of an internal management audit;
- preliminary audit of the size of the civil service, which identified 21,652 "ghost" workers; and
- replacement of all provincial governors. The new governors have attended a seminar on good governance.

The legal and regulatory system is being changed profoundly with the adoption of the following measures:

- new foreign exchange legislation and the unification of multiple exchanges rates;
- liberalization of all prices, except those of certain public utilities, adjusted to reflect changes in their respective costs;
- liberalization of oil imports, accompanied by a transparent and automatic mechanism for the pricing of petroleum products;
- new statutes for the central bank, enshrining its independence;
- publication of a new investment code, which provides equal treatment of investors;

- the drafting of a new mining code, labor code, and a new forestry law;
- the abolition of the diamond export monopoly and the implementation of certification of origin;
- the replacement of exceptional courts for business and economic affairs by commercial courts; and
- the strengthening of the judiciary, with the support of the European Union.

Measures planned within the framework of the PRGF

Building on its achievements under the SMP, the government is determined to introduce a set of measures aimed at strengthening good governance and fiscal transparency. These include the following:

Governance-related measures under structural performance criteria and indicators

- completion of the financial audit of the BCC and drafting of an action plan taking into account the recommendations of the audit;
- publication of a Code of Ethics and Good Conduct applicable to the whole civil service, without exception;
- preparation of a global strategy and action plan for the fight against corruption;
- completion of the financial audit of the state-owned oil company, COHYDRO; and
- completion of the formulation of a strategy for the restructuring of the state mining company, GECAMINES.

Other governance-related measures envisaged

- effective centralization of revenue in the Treasury's account at the central bank;
- provision of measures under the 2002 budget to eliminate all extrabudgetary procedures, on the basis of a Presidential decree notifying that all budgetary spending—without exception—must be authorized by the Minister of Finance;
- rehabilitation of the budgetary control function;
- production of the information needed for improved tracking of expenditures;
- audit of the budget execution statements for 2001, with supporting documents, by the Audit Office by end-2002; and audit of the 2002 budget by end-2003; and
- audits of all public enterprises.

Statement by the IMF Staff Representative
June 12, 2002

This statement provides information that has become available since the circulation of the staff report (EBS/02/76 Supplement 1). It does not alter the thrust of the staff appraisal.

1. **Security and Political Developments**

- With regard to the peace process, the UN Secretary-General has named Mustapha Niasse, former Prime Minister of Senegal, as his Special Envoy to help negotiate an all-inclusive power-sharing agreement. Mr. Niasse will work closely with the facilitator of the inter-Congolese dialogue, Sir Ketumile Masire.

- In the political area, consultations are underway with representatives of the *Mouvement pour la Libération du Congo* (MLC) to finalize the new constitution, while deliberations continue on the formation of a transition government.

2. **Recent Economic and Financial Developments**

- The cumulative rate of inflation through end-May was 3.1 percent, and the annualized rate stood at 7.6 percent, compared with 13 percent in the program. The exchange rate has depreciated somewhat, with the end-May rate standing at US$ 1 = 324 CGF, compared with US$ 1 = 312 CGF at end-December 2001.

- On May 21, the central bank refinance rate was lowered further from 39 percent to 12 percent, to reflect the sharp deceleration in inflation. The monthly rate on certificates of deposit was also reduced, from 3 to 0.7 percent.

- Preliminary fiscal data through April indicate that the cumulative primary and consolidated overall surpluses (January-April) are on target. Net bank credit to the government is lower than programmed as net non-bank credit (certificates of deposit) is somewhat larger than anticipated.

- The mining code is before Parliament and is expected to be adopted and published soon. With this exception, all prior actions for the requested PRGF arrangement have been met, and the proposed decision in the staff report has been changed accordingly. The implementation of other structural reform measures is on track.

3. **The Status of the Bridge Loan**

Belgium, France, South Africa, and Sweden have agreed to provide a bridge loan to clear the DRC's arrears with the Fund and finance the reserve asset portion of the country's increased quota subscription under the Eleventh General Review of Quotas.

4. **The Status of the Arrears Clearance with the World Bank and the African Development Bank**

- A comfort letter from the World Bank indicates that the financing of the bridge loan that will serve to clear the DRC's arrears has been secured.

- On June 6, 2002, an informal meeting of the Board of Directors of the African Development Bank Group generally supported the approach to settle the DRC's arrears with that institution through a partial payments/partial consolidation approach. The President of the AfDB has sent a letter to Management to that effect. The actual size of the consolidated loan would depend on the amount of donor resources that could be realized before July 1, 2002. A formal board meeting is expected later in June.

- The DRC's program for 2002 is in principle fully financed.

5. **The Red Mountain Case**

Background

The Red Mountain Company, which is based in Alabama, had purchased in the secondary market US$800,000 of debt originally held by creditors of the London Club, with a face value of US$8.5 million. Red Mountain initiated litigation against the DRC in September 1998 over the DRC's default of the Refinancing Credit Agreement. In January 2000, Red Mountain obtained a judgment in an English court for an amount of $22.5 million. Red Mountain proceeded to judgment enforcement actions in the United Kingdom, United States (California), France, Belgium, and Bermuda. Notably, in California, Red Mountain obtained an order that, among other things, enjoins the DRC, until satisfaction of the judgment, from making payments anywhere in the world on external indebtedness unless the DRC proportionally pays Red Mountain.

Settlement of the case

The parties closed the settlement last week. The cash amount of the settlement was US$8.2 million (out of a claim of around $27 million, including post-judgment interest). As a result of the settlement, the California court on June 11, 2002 dismissed the case against DRC and vacated the court order.

Press Release No. 02/27
FOR IMMEDIATE RELEASE
June 12, 2002

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$750 million PRGF Arrangement for the Democratic Republic of the Congo

The Executive Board of the International Monetary Fund (IMF) has approved a three-year SDR 580 million (about US$750 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Democratic Republic of the Congo (DRC). The DRC will be able to draw up to SDR 420 million (about US$543 million) under the arrangement immediately. The remaining SDR 160 million (about US$207 million) will be drawn in six equal installments following performance reviews.

The PRGF is the IMF's concessional facility for low income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board meeting on the Democratic Republic of the Congo, Horst Köhler, Managing Director and Chairman, stated:

"The Fund welcomes progress made by the authorities to strengthen the peace process and the inter-Congolese dialogue, which should lead to the reunification of the country, the formation of a government of national unity, a new constitution, and free and transparent elections. The cease-fire has generally held since early 2001 and the withdrawal of foreign troops has started with the help of the UN Organization Mission (MONUC). Clearly, the return of peace and stability to the entire country will be a key element in the resumption of economic growth and a reduction of poverty. The Fund strongly encourages the authorities and all interested Congolese parties to buttress the progress toward peace and to promote an all-inclusive inter-Congolese dialogue with the full support of the international community, including the United Nations and the Organization of African Unity.

"The Fund commends the authorities for the steadfast implementation of their bold and front-loaded interim economic and financial program that has been monitored by the staff (SMP). The SMP (covering June 2001-March 2002) has produced significant results. In particular, the vicious cycle of hyperinflation and currency depreciation has been broken, the rehabilitation of public finances has progressed steadily, major economic distortions have been eliminated, and fundamental improvements in the judiciary and in the regulatory environment are being made.

"The Fund welcomes the clearance of the DRC's arrears with the Fund and the forthcoming clearance of the DRC's arrears with the World Bank, and commends the authorities for their actions to restore normal relations with the international community. It expresses its appreciation to Belgium, France, South Africa, and Sweden for having contributed to the financing of a bridge loan to clear the DRC's arrears with the Fund and help pay the reserve asset portion of the increased quota subscription under the 11th General Review of Quotas. The Fund welcomes the treatment of the DRC's arrears to the African Development Bank Group through a partial payment/partial consolidation approach. Other multilateral creditors have agreed in principle to consolidate the DRC's arrears, and Paris Club creditors have agreed in principle to a comprehensive rescheduling on terms consistent with the program's assumptions.

"The Fund commends the authorities for completing an interim PRSP, which provides the context for a national dialogue on the poverty reduction strategy and which contains a coherent analytic and operational framework for the design and the implementation of poverty reduction policies. The Fund endorses the recommendations of the joint World Bank and Fund staff assessment of the interim PRSP, which provides a sound basis for the development of a participatory full PRSP. The implementation of the interim PRSP and the preparation of a full PRSP represent a challenge for the Government which will need to be supported by extensive technical and financial assistance from the donor community.

"The achievements under the staff-monitored program have created a solid basis for a PRGF-supported program and have paved the way for debt relief under the enhanced HIPC Initiative. The main objectives of the authorities' three-year program are realistic and consistent with the reconstruction phase outlined in their interim PRSP, which aims at creating an enabling environment to boost economic growth and begin reducing poverty.

"Achieving the program's targets will call for further fiscal consolidation, a prudent monetary policy consistent with maintaining price stability within the framework of a floating exchange rate system, and a deepening of structural and sectoral reforms.

"Fiscal consolidation remains one of the cornerstones of the program. Key aspects of fiscal policy will include the timely implementation of measures to enhance revenue mobilization, strengthening the monitoring and tracking of expenditure, strict adherence to a monthly treasury cash-flow plan, and a shift in the composition of expenditure toward the social sectors. The presidential decree that stipulates that all budgetary expenditures require prior authorization from the Minister of Finance is especially to be welcomed.

"The new statutes of the central bank enshrine its independence in the conduct of monetary policy, and the on-going financial audit of the central bank by an internationally recognized firm is an important step. However, effective monetary policy and financial re-intermediation call for a financially sound banking sector. The authorities are therefore urged to accelerate their effort to restructure the commercial banks.

"The Fund welcomes the deepening and the sequencing of structural and sectoral reforms envisaged in the program. The strengthening of administrative capacity, with the timely help of the international community, will play a crucial role in ensuring program success. The focus of the reforms of public enterprises is appropriate, as this sector has been a major drain on budgetary resources and a locus of resource misallocation. With the help of the World Bank, timely implementation of reforms in the mining, forestry, water and electricity sectors, and in rural infrastructure will also be important to ensure sustainable economic growth.

"The authorities are to be commended for their determination to promote good governance and transparency. An anti-corruption strategy will be finalized soon and an action plan is being developed with the help of the World Bank. The authorities also plan to audit expenditure execution statements for 2001 budget by end-2002, while the 2002 budget, including military expenditure, will be audited by end-2003.

"Overall, the Fund considers that the PRGF-supported program represents an important step by the authorities to reconstruct the economy and revive growth, thus laying the basis for reducing widespread poverty. The authorities' efforts deserve the timely support of the international community, technical assistance and highly concessional financial aid. The projections made in the preliminary HIPC Initiative document indicate that the NPV of debt-to-exports ratio would remain significantly above 150 percent during the interim period. The Fund considers that with continued strong performance under the PRGF arrangement, a decision point could be envisaged at the time of the first review of the program, expected in January 2003, and that the completion point could be reached in early 2006," Mr. Köhler said.

ANNEX

Recent Political and Economic Developments

To address the DRC's alarming political and socio-economic situation, President Joseph Kabila has formulated three main objectives: to achieve peace through reactivation of the Lusaka peace accord; to buttress the inter-Congolese dialogue; to resume normal relations with the international community, and stabilize the macroeconomic situation and liberalize the economy.

The authorities have implemented a staff-monitored program (SMP) covering June 2001-March 2002, which aimed principally at stabilizing the economy, and laying the foundation for the restoration of growth and reconstruction. Under the SMP, the authorities took bold and front-loaded measures, including the introduction of a floating exchange rate system in May 2001. The SMP has already produced significant results, particularly the breaking of the vicious circle of hyperinflation and currency depreciation, and the rehabilitation of public finances, including a return to normal budgetary process, the centralization of revenue and expenditure, and a reduction in the use of extra budgetary channels.

Progress in the structural area includes the removal of major economic distortions, notably through the unification of multiple exchange rates and liberalization of the prices of goods, including a transparent and automatic mechanism for the prices of petroleum products, and profound changes in the regulatory environment and the judiciary.

Program summary

Consistent with the medium-term scenario, the program for 2002 aims at an acceleration of economic growth to 3 percent; an increase in investment from 5 percent of GDP in 2001 to about 10 percent as a result of the resumption of externally financed investment; an increase in national savings to 11 percent of GDP in 2002 from about 3 percent of GDP in 2001, reflecting a rise in government savings and net transfers from abroad, a decline in the average inflation rate to 25 percent from 357 percent over the same period; and an improvement in the external account to a surplus of about 1 percent of GDP in 2002 compared with a deficit of about 2 percent of GDP in 2001.

Achievement of the 2002 fiscal objectives will be based on a strengthening of revenue mobilization and expenditure control. During 2002, the government will continue to strictly execute its monthly treasury cash-flow plan, effectively limiting expenditure to available resources. The 2002 budget covers only those provinces that are currently under government control. To limit expenditure to the targeted ratio of 11 percent of GDP, measures aimed at strengthening expenditure control are being implemented and will be deepened.

Monetary policy will continue to be prudent and will aim at achieving the overriding objective of price stability within the framework of a floating exchange rate system. The authorities are preparing, with the help of the IMF and the World Bank, a comprehensive reform of the banking sector.

The process of improving the business climate through the implementation of structural and sectoral reforms, which was initiated under the SMP, will be intensified. The role of the government is being modified to facilitate and support, rather than compete with, the private sector. In particular, the Government is determined to promote good governance and fiscal transparency. In this regard, an anti-corruption strategy will be finalized and an action plan will be developed with the help of the World Bank. The government has also, with World Bank support, begun a reform of the mining and forestry sectors, including the restructuring of the state mining company (GECAMINES).

The interim Poverty Reduction Strategy Paper (I-PRSP) proposes a strategic framework for future poverty reduction policies and measures. In this context, action will be needed to further develop sectoral strategies and to ensure consistency between the composition of fiscal expenditure and the PRSP. A full PRSP is expected to be completed in early 2005.

As a prerequisite for Board consideration of the new PRGF arrangement, the DRC successfully cleared its arrears to the IMF for SDR 403.9 million (about US$522 million). The arrears clearance was made possible through bridge loans provided by four member countries including France, Belgium, South Africa and Sweden. Following the clearance of arrears, the IMF Executive Board took decisions to lift all remedial measures that had been imposed under the IMF's arrears strategy and restored the country's eligibility to use IMF resources and its voting and related rights in the IMF.

The Democratic Republic of Congo joined the Fund on September 28, 1963. The country's new quota in the IMF amounts to SDR 533 million (about US$689 million).

Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05

	2000 Act.	2001 Prog.	2001 Est.	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	-6.2	0	-4.4	3	5	6	7
Nongovernment consumption per capita (in U.S. dollars)	77	92	92	97	101	107	115
Nominal GDP per capita (in U.S. dollars)	94	107	107	109	116	125	137
GDP deflator	589	260	386	23	9	6	6
Consumer prices, annual average	554	299	357	25	9	6	5
Consumer prices, end of period	511	99	135	13	6	6	5
External sector							
Exports, f.o.b. (in U.S. dollar terms)	-8	1	5	8	11	18	23
Imports, f.o.b. (in U.S. dollar terms)	46	-16	5	36	42	24	8
Export volume	-4	12	2	8	11	13	12
Import volume	48	-18	10	37	40	22	6
Terms of trade	10	-11	-12	3	8	4	4
Nominal effective exchange rate 1/	-91	...	-77	...	...	...	...
Real effective exchange rate 1/	-37	...	11	...	...	...	...
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)						
Money and credit							
Broad money	493	53	102	35	....	....	....
Net foreign assets	-710	0	6	36	....	....	....
Net domestic credit	343	55	16	2	....	....	....
Net credit to the government	272	15	-11	-6	....	....	....
Credit to the private sector	61	39	25	7	....	....	....
Credit to the parastatals	10	2	2	1	....	....	....
Central bank refinance rate (level in percent) 2/	120	...	140	39	....	....	....
	(In percent of GDP)						
Central government finances							
Revenue (excluding grants)	4.5	5.2	5.9	7.3	8.4	9.6	11.1
Grants (including relief aid)	0.0	0.0	0.0	1.2	4.7	6.4	5.2
Expenditure 3/	9.8	7.1	6.6	11.0	18.1	21.1	18.2
Domestic primary cash balance 4/	-3.5	-0.2	0.5	0.9	2.4	3.8	5.4
Overall balance (commitment basis)	-5.3	-1.9	-0.8	-2.5	-5.0	-5.1	-2.0
Overall consolidated cash balance	-3.6	-0.3	0.5	-0.4	-1.7	-2.3	-1.0
Investment and saving							
Gross national savings	0.4	...	2.9	11.0	15.9	16.9	16.1
Government	-4.9	-1.6	-0.7	2.8	6.9	8.7	7.8

Nongovernment	5.3	...	3.6	8.3	9.1	8.2	8.3
Gross domestic savings	5.6	...	6.2	6.8	8.2	9.9	11.7
Government	-3.2	...	0.6	1.9	2.7	4.1	5.7
Nongovernment	8.8	...	5.6	4.9	5.4	5.8	6.0
Investment	4.4	...	5.1	9.9	16.5	19.9	18.8
Government 5/	0.4	0.3	0.1	2.9	8.5	10.9	8.8
Nongovernment 6/	4.0	...	5.0	7.0	8.0	9.0	10.0
	(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Exports of goods and nonfactor services	963	839	1,016	1,101	1,226	1,431	1,741
Imports of goods and nonfactor services 7/	905	1,104	953	1,286	1,769	2,158	2,322
External current account, including grants, before debt relief (in percent of GDP) 7/	-4.0	-14.0	-2.2	-3.7	-4.7	-7.7	-7.3
External current account, excluding grants, before debt relief (in percent of GDP) 7/	-8.1	-18.1	-6.7	-9.1	-12.2	-14.9	-11.6
External current account, including grants, after debt relief (in percent of GDP) 7/ 8/	-4.0	-14.0	-2.2	1.1	-0.5	-3.0	-2.6
Gross official reserves (end of period)	51	52	64	111	216	260	321
Gross official reserves (weeks of non aid imports of goods and nonfactor services)	3.8	2.4	4.7	6.2	10.0	9.3	9.6
External public debt							
Total, including IMF 9/	12,609	12,957	12,880	8,890	9,159	9,415	9,430
Of which: arrears	9,604	10,027	10,082	0	0	0	0
Net present value (NPV) of debt 10/	11,888	...	12,129	...	...	...	...
Scheduled debt service (incl. interest on arrears) 11/	724	757	728	56	178	319	357
In percent of exports of goods and nonfactor services	75	90	72	5	15	22	21
In percent of government revenue	331	333	217	50	21	27	27
Exchange rate							
Units of local currency per U.S. dollar (end of period)	50	...	312	...	...	...	...

Sources: Congolese authorities; and IMF estimates and projections.

1/ Annual averages based on official rates. Minus sign indicates depreciation.

2/ For 2002, as of May 6.

3/ Including interest due on external debt and, from 2003 onward, expenditure financed by resources released under the HIPC Initiative.

4/ Revenue (excluding grants) minus expenditure (excluding interest on debt and foreign-financed expenditure)

5/ From 2003 onward, includes investment financed by resources released under the HIPC Initiative.

6/ From 2003 onward, includes capital projects financed through nongovernmental organizations (NGOs).

7/ Based on revised customs data, a major downward adjustment was made for 1996-2001 imports.

8/ After possible debt relief on interest and HIPC Initiative-related resources.

9/ End-of-period debt stock, including arrears and before HIPC Initiative-related resources.

10/ The net present value of external public debt is 94 percent of the nominal value, reflecting the significant stock of arrears.

11/ From 2002 onward, after possible debt relief.

Statement by Alexandre Barro Chambrier, Executive Director for the Democratic Republic of the Congo

I. INTRODUCTION

1. Relations between the Democratic Republic of the Congo (DRC) and the international financial community have been interrupted for the last twelve years, including suspension of voting rights in the Fund, over the past eight years. Today's Board discussion marks a watershed in the relations between the Fund and the DRC.

2. Thanks to the concerted efforts of a number of its bilateral partners, for which my authorities are thankful, the DRC has cleared its arrears to the Fund, through a bridge loan, opening the way for the Fund to play its catalytic role, and for other members of the international financial community to bring much needed assistance to the DRC.

3. This development has also been brought about thanks to the determined leadership of the new President that took office in early 2001, and who has shown great resolve in addressing the political, economic and social problems facing the country. In that respect, he has revived the Lusaka Peace Agreement, and initiated economic and structural reforms in the context of a staff-monitored program (SMP), which has been boldly implemented with impressive results.

4. Recent developments on the political front have been encouraging. In spite of many hurdles innate to any negotiation process, my authorities' commitment to restore peace in the DRC and bring about political stability, led to the revival of the Lusaka Peace Agreement, through the holding of the Inter-Congolese dialogue in Sun City, South Africa, in March-April 2002; and the signing of an agreement with one of the main rebel groups, and with a majority of representatives of civil society. Another positive development on the political front is that the cease-fire has been generally observed since early 2001, and some foreign troops have been withdrawn from the DRC's territory. The political agenda for the coming months includes the formation of a transition government of national unity, consistent with the agreement reached in Sun City; the drafting of a new constitution, the implementation of a Disarmament, Demobilization, Repatriation, Resettlement and Reintegration (DDRRR) program, with assistance from the United Nations and the World Bank, and the holding of free and transparent elections, scheduled to take place in about 30 months.

5. Mindful of the importance of peace for the success of their economic strategy, and for poverty reduction, my authorities are continuing discussions aimed at securing a broad agreement with all parties involved in the peace talks. Hence, since the end of the Inter-Congolese Dialogue in Sun City, several meetings have taken place with representatives of different groups and mediators from DRC's partners. However, they would like to stress that this is a long process that requires the good will of all parties, including the neighboring countries involved in the conflict.

6. The economic and financial situation, as well as the infrastructure of the DRC were destroyed by more than a decade of mismanagement, political turmoil, and armed conflicts. Therefore, decisive and bold actions were needed to repair the economic and social fabrics of the country. Measures to achieve this objective were initiated in the context of a staff-monitored program (SMP) in early 2001. These measures were put in place in a very difficult environment, without external financial assistance, in a situation of high expectations from a population that had seen its purchasing power vanish, and where the delivery of basic social services, including education and health, had virtually disappeared. Against this background, performance under the program has been impressive in many regards: the vicious circle of hyperinflation and currency depreciation was broken, major price distortions were eliminated, the fiscal position improved, monetary policy was tightened, and a floating exchange rate system was introduced. The authorities also prepared an interim poverty reduction strategy paper (I-PRSP), outlining their priorities in the fight against the widespread poverty that deepened in recent years.

7. My Congolese authorities believe they have demonstrated their resolve to break away from past economic management practices, and to achieve a peaceful resolution of the armed conflict. Although measures implemented in the context of the SMP have had high social costs for a population that was already afflicted by the disintegration of the social and economic fabrics, the population has been supportive so far, and it is hopeful that there will be light at the end of the tunnel. Consequently, my authorities are convinced that failure to seize the unique window of opportunity being offered now, could compromise progress made during the last twelve months. Without strong financial support from the international community, the reform efforts currently underway, cannot be sustained. In this context, my authorities are hopeful that in recognition of their efforts to improve macroeconomic management and governance, and the strengths of the three-year program of adjustment agreed with the staff, the country will be granted access to IMF financing under the PRGF, and would be considered eligible to benefit from assistance under the enhanced HIPC Initiative. This assistance is of critical support to their current efforts to secure peace, reunify the country, and pave the way for sustainable growth and poverty reduction. My authorities believe that progress achieved in macroeconomic stabilization is important to consolidate peace, just as the latter is needed for the pursuit of adjustment efforts.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

8. Economic and financial management were completely turned around in mid-2001, as my Congolese authorities initiated the implementation of new policies and reforms, in the context of their interim program. Significant results were achieved in a nine-month period. At end-December 2001, all quantitative and structural indicators but two were met, while at end-March 2002, all quantitative indicators under the program were observed. The population's purchasing power was strengthened with the elimination of the monetization of the fiscal deficit, which had led to a vicious circle of hyperinflation and currency depreciation. The monthly average inflation rate left the double-digit range and has remained below 1 percent per month between June 2001 and May 2002. Hence, the annualized rate of inflation dropped from 632 percent during the period January-May 2001, to less than 8

percent during the same period of 2002. Economic activity is estimated to have recovered in the second part of 2001, which augurs well for growth prospects in the near term.

9. Fiscal management was significantly improved through sustained efforts to raise revenue, keep expenditure under control, and strictly adhere to a monthly cash-flow plan. As a result, the domestic primary balance turned into a surplus instead of a programmed deficit, revenues were above the program objectives, and expenditures remained below the expected levels. Furthermore, my authorities took the necessary actions to reinstate normal budgetary procedures, centralize revenue and expenditure, and eliminate extra budgetary channels. As they have indicated in their letter of intent, they are aware that further progress is needed in this area, and have taken steps to strengthen budget execution procedures further in 2002, while increasing the focus on pro-poor outlays.

10. Good performance in the fiscal area favorably contributed to developments in the monetary sector, helping the monetary authorities to maintain a restrictive policy stance, as called for under the SMP. Furthermore, with inflationary pressures receding, the refinance rate of the Central Bank was reduced from 140 percent in June 2001 to 39 percent in May 2002. In view of the critical importance of a healthy banking system for financial intermediation and support of economic activity, my authorities are working on an action plan to enhance the conduct of monetary policy, and to restructure the banking system.

11. There were also encouraging developments in the foreign exchange market, where fluctuations that followed the introduction of a floating system in May 2001 faded in the following months, transactions in foreign currency in the interbank market increased, and the spread between the reference exchange rate and the free market one narrowed to less than 1 percent at end-December 2001, down from 600 percent before the introduction of the new system.

12. Consistent with their determination to turn around the country's economic and financial management, and to significantly improve its growth prospects, my authorities initiated an ambitious structural reform agenda, with assistance from their development partners. Important steps were thus taken to eliminate price distortions and improve resource allocation, strengthen the management of public enterprises in view of the preparation of a privatization and restructuring program for the sector, and improve the business environment. In the fiscal area, my authorities also took actions to improve efficiency in revenue collecting agencies, and expenditure control.

13. Regarding the promotion of good governance and the rule of law, the authorities prepared an anticorruption action plan, and a Code of Ethics and Good Conduct for civil servants. Future actions, supported by the World Bank and the European Union, would include the setting of an anticorruption commission, the strengthening of the Audit Office and the Office of the Inspector-General of Finance, the preparation of a procurement code, and the strengthening of the legal and judicial systems.

14. In the social sector, it is worth to note that, although some of the measures under the SMP had an initial unfavorable impact on prices, the stabilization of the macroeconomic

situation, and the breaking of hyperinflation have contributed to the improvement in the supply of basic foodstuffs and transportation, thus alleviating somewhat the hardship of the population. However, more has to be done, not only to address the basic needs of the population in priority sectors, but also to cushion the social impact of adjustment measures for the most vulnerable portions of the population.

15. My authorities are of the view that measures and reforms implemented during the SMP have laid a good foundation for the deepening of reforms in the context of a medium-term program. Such a program, adequately supported by external financial and technical assistance, will help them consolidate the results achieved thus far, and strengthen the social consensus, as well as the ownership of the program, for the continued implementation of reforms that the country needs to be able to fully realize its potential. More importantly, a medium-term program will enable the authorities to begin effectively addressing poverty-related issues in the context of their poverty reduction strategy, and to find solutions for the more immediate fallouts from the armed conflicts, particularly in certain areas of the country.

III. MEDIUM TERM PROSPECTS AND PROGRAM FOR 2002

16. For the medium term, my authorities' strategy is centered on poverty reduction, through actions on the political and economic fronts, aimed at creating an investment-friendly environment, and increasing transparency and good governance. This strategy is detailed in the I-PRSP that the authorities have prepared after broad consultations with stakeholders at the national and provincial levels. It comprises three stages, the first of which has been completed with measures put in place under the SMP. The second stage coincides with the implementation of a three-year program for which my authorities are requesting support from the Fund under the PRGF. It is expected that the implementation of the program would lead to significant improvement in savings and investment ratios; an expansion in output with the real GDP growth rate reaching an average of 5 percent, after continuous decline in the past several years; the achievement of an annual inflation rate around 5 percent at the end of the period; and the strengthening of the external position. The program will also make it possible for the DRC to eliminate arrears on external debt and to remain current on its external debt obligations. Also, an inventory of domestic payment arrears is planned, the results of which will help to put in place a program for their clearance. The last stage of the authorities' medium term strategy will be fully developed in the PRSP, and will focus on policy-mix and reforms needed to address the country's development challenges in a longer-term perspective.

17. For 2002, the program's objectives are fully in line with the authorities' medium-term strategy. Building on progress made under the SMP, financial policies will remain prudent and mutually supportive, while structural reforms will be deepened to further improve resource allocation, strengthen the regulatory framework and the judicial system, and restore a well-functioning payment system. The consolidation of the fiscal position will remain the cornerstone of the authorities' strategy, while monetary policy will continue to be prudent, consistent with the programmed objective of price stability within the framework of a floating exchange rate system.

18. Decisive actions have been taken to bolster revenue collection, and to overhaul budget execution procedures, so as to safeguard the attainment of fiscal targets for 2002. In the particular case of expenditure, programmed measures will strengthen its management and monitoring, while improving coordination between all agencies involved in the execution of the budget, and ensuring the elimination of extrabudgetary operations. My authorities believe that those measures, as outlined in paragraph 30 of their LOI, together with the review of public expenditures, scheduled to be completed with assistance from the World Bank by end-September 2002, will help them establish a solid foundation for the preparation and execution of the 2003 Budget Law. At the same time, they are committed to continue prudently executing and monitoring the budget, based on a cash-flow plan. This execution will, however, reflect the change in expenditure composition in favor of priority sectors, as established in the I-PRSP. In view of the dramatic decline in real wages over the past several years, and taking into account the need to strengthen administrative capacities, my authorities are planning to adjust wages upwards, within the programmed fiscal targets, while at the same time initiating an overall reform of the civil service.

19. The authorities have also prepared an ambitious agenda of measures and reforms for the banking system, aimed at improving the management of the Central Bank of Congo (BCC), and the conduct of its functions, enhancing the health of commercial banks, and encouraging financial intermediation. In this context, new statutes of the BCC were issued in May 2002, and its management will be improved based on recommendations from an internal audit, IMF technical assistance missions, and an external audit scheduled to be completed at end-September 2002. Furthermore, the financial position of the BCC will be strengthened through the implementation of a cash-flow plan. At the same time, my authorities have drawn a rehabilitation and privatization program for the banking sector, in collaboration with the World Bank, as described in paragraph 37 of the LOI. My Congolese authorities remain committed to the implementation of a flexible exchange rate, and intend to formally accept the obligations of Article VIII of the Fund, before the end of the year.

20. My authorities are aware of the crucial need to maintain the momentum of the reform agenda initiated under the SMP, in order to achieve their medium term objectives. They are therefore, working with the World Bank for the preparation and implementation of reforms in key sectors as described in paragraphs 39-46 of the LOI. They are convinced that these reforms, together with the sound financial and economic policies they have put in place, are the best way forward for the DRC, and the best tools in the fight against poverty.

IV. POVERTY-RELATED ISSUES AND THE HIPC INITIATIVE

21. The debt sustainability analysis indicates that, the DRC's external debt will remain at unsustainable levels for the next ten years, if debt relief is limited only to existing traditional mechanisms. In the meantime, and as indicated in my authorities I-PRSP, some 80 percent of the population is living at the brink of what human dignity can endure, on less than 20 cents a day. Compelling evidence of the depth of poverty exists in many areas, and is evident in the outbreak of diseases, including those already eradicated in other developing countries. In this context, my authorities have given the highest priority to poverty

alleviation, in the context of their poverty reduction strategy. However, they are constrained by the availability of resources and by the high burden of external debt obligations. As they normalize relations with creditors, remaining current on external debt obligations will add to existing constraints on budgetary allocations for pro-poor spending.

22. Preliminary estimates indicate that assistance under the enhanced HIPC Initiative will bring the NPV of DRC's debt-to-exports ratio to 132 percent by 2006. My authorities believe that this assistance is an essential complement to their poverty reduction efforts, and hope therefore, that the DRC will be considered eligible to benefit from assistance under the enhanced HIPC Initiative, with a decision point early next year.

V. CONCLUSION

23. My Congolese authorities have continued their unrelenting efforts to achieve peace and political stability in the framework of the Lusaka Peace Agreement. They have established a good track record of policy and reform implementation under a staff-monitored program. Significant results have been achieved including macroeconomic stabilization, the breaking of hyperinflation, the improvement of the fiscal position, the liberalization of the economy, and the stabilization of the exchange rate. The authorities have prepared an interim poverty reduction strategy paper, and have reached an agreement with the staff of the Fund on a three-year adjustment program, which aims at strengthening growth prospects, improving resource allocation in the economy, and consolidating progress made under the SMP. A structural reform agenda consistent with the medium-term strategy is under preparation with assistance from the World Bank. Based on these elements, my authorities' commitment to reforms, and the support by the international community to assist the DRC reestablish relations with its creditors, I would like to ask my colleagues for their full support of the DRC's request to use Fund resources under the PRGF, and to consider the country eligible to receive assistance under the HIPC Initiative, with a decision point early next year.

24. Finally, I would like to thank Management and the staff for their continued support to the DRC. The staff's dedication and good work is highly valued by my authorities, who are also very appreciative of efforts, contributions and support to the peace process, from the United Nations, and from their bilateral and multilateral partners.