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Democratic Republic of the Congo: Second Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—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 second review under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the second review under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **June 7, 2003,** 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 July 8, 2003**. 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 **July 23, 2003** updating information on recent development.

- a Press Release summarizing the **views of the Executive Board as expressed during its July 23, 2003 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.

Interim Poverty Reduction Strategy Paper Preparation Status Report
Joint Assessment of the Interim Poverty Reduction Strategy Paper Preparation Status Report
Enhanced Initiative for Heavily Indebted Poor Countries (HIPC)—Decision Point Document

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

DEMOCRATIC REPUBLIC OF THE CONGO

Second Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Donal Donovan and Anthony Boote

July 8, 2003

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Discussions. Discussions for the second review under the Poverty Reduction and Growth Facility (PRGF) were held in Kinshasa during May 24–June 7, 2003. The mission took part in a Council of Ministers' meeting on economic and financial affairs and also attended a meeting with all advisors of President Kabila. The mission met, inter alia, with the Ministers of Finance and the Budget; Economy; Mining and Hydrocarbons; and Civil Service; the Governor of the Central Bank of the Congo (BCC); other senior officials; and representatives of civil society and the international community. The mission also met with representatives of the main parties that will form the new government.

The staff team. The mission comprised Messrs. Clément (head), Gons, Akitoby (all AFR), Calcoen (FAD), House (EP, PDR), Ms. Denis (Research Assistant, AFR), and Ms. Malouf-Hardesty (staff assistant, AFR). Mr. Horton from the World Bank participated in the mission. An African Development Bank mission visited Kinshasa at the same time. The mission was assisted by Mr. Kouwenaar, the Fund's Senior Resident Representative in Kinshasa. Mr. Guetat, Advisor to the Executive Director, participated in the meetings.

Political situation. Major progress has been made in consolidating the peace process, which culminated in the nomination of the transitional government and other institutions on June 30, 2003. An international committee has been created to monitor the transition process, which will lead to elections after two years. However, fighting among rebel groups in the northeast Ituri region has continued, with appalling atrocities, particularly in the town of Bunia. The UN Security Council on May 30, 2003 authorized the establishment of an Interim Emergency Multinational Force in Bunia until September 1, 2003, with a broader mandate than the existing UN Observation Mission in the DRC.

PRGF arrangement. A three-year arrangement of SDR 580 million (108.8 percent of quota) was approved on June 12, 2002. Two tranches totaling SDR 446.7 million have been disbursed, and SDR 26.7 million would become available at the completion of this review.

Enhanced HIPC Initiative decision point. The HIPC Initiative document will be submitted for the Board's consideration, together with the staff report for the second review.

Program implementation. Overall macroeconomic performance under the program (covering April 2002–July 2005) was broadly satisfactory during the first year, with good progress on the structural side. While overall fiscal performance was broadly on track, the anticipated shift in the composition of expenditure toward pro-poor spending has still not materialized because of a shortfall in foreign-financed investment and increases in military- and sovereignty-related expenditure owing to costs related to the inter-Congolese dialogue and the security vacuum created by the withdrawal of foreign troops. The authorities have requested waivers for the nonobservance of three quantitative performance criteria and one continuous performance criterion for end-March 2003 (most of which were missed by relatively small margins), as well as for the nonobservance of the structural performance criterion on the establishment of new expenditure procedures, which was met with some delay.

Program for 2003. The program for 2003 aims at further fiscal consolidation via a supplementary budget that takes into account the immediate impact of reunification. Monetary policy will continue to be prudent within the framework of a floating exchange rate system. Structural and sectoral reforms will be deepened to further improve the business climate.

I. Introduction

1. Discussions for the second review under the Poverty Reduction and Growth Facility (PRGF) were held in Kinshasa during May 24–June 7, 2003. In the attached letter of intent dated July 3, 2003 and signed by His Excellency President Joseph Kabila (Appendix I), and in the memorandum on economic and financial policies (MEFP) (Appendix I, Attachment I), and in the technical memorandum of understanding (Appendix I, Attachment II), the authorities review recent political and economic developments and the progress made during October 2002–March 2003, and outline the policies to be implemented during the rest of 2003, taking account of the ongoing reunification of the country. The letter also requests waivers for the nonobservance of three quantitative performance criteria and one continuous performance criterion for end-March 2003 (most of which were missed by small margins), namely, the floor on the net foreign assets of the Central Bank of the Congo (BCC), the ceiling on the net domestic assets of the BCC, the ceiling on net bank credit to the government, and the continuous criterion relating to the abolition of budgetary expenditure financed by the BCC without the prior authorization of the Ministry of Finance, as well as the nonobservance of the structural performance criterion on the establishment of new expenditure procedures, reinstating and rationalizing the full expenditure chain. Prior actions for completing the second review are set out in Table 5 of Appendix I. Table 1 summarizes the Fund's position during the program period, and Table 2 indicates the phasing of remaining purchases.

2. Summaries of the Democratic Republic of the Congo's (DRC) relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively. The Fund and World Bank staffs have maintained close contacts with the African Development Bank (AfDB) Group and other multilateral creditors. The Fund and the World Bank have also coordinated closely their activities relating to the DRC with other members of the international community. In early April 2003, Paris Club creditors provided financing assurances for the topping up of the September 2002 Paris Club rescheduling to Cologne terms. A donors' meeting is likely to take place in the last quarter of 2003.

II. Recent Political and Security Developments

3. **Remarkable progress has been made in consolidating the peace process, culminating in the imminent installation of the transitional government and other institutions.** The new Transitional Constitution was enacted on April 4, 2003. President Kabila was sworn in as President of the DRC on April 7, 2003 for a two-year transition period, after which free and transparent elections are to be held. An all-inclusive transitional government, comprising the President, four vice-presidents, 36 ministers, and 25 vice-ministers, was nominated on June 30, 2003. The four Vice-Presidents are Mr. Bemba (Mouvement de Libération du Congo), Mr. Ruberwa (Rassemblement Congolais pour la Démocratie-Goma), Mr. Yerodia (Mouvance Présidentielle), and Mr. Z'Ahidi (unarmed political opposition). An international committee has been created to monitor the transition process.

4. **However, outbursts of violence have continued to occur.** In this context, fighting among rebel groups exploiting historical rivalries between two ethnic groups (the Hemas and the Lendus) in the northeast Ituri region has taken place, giving rise to appalling atrocities, particularly in the town of Bunia. The UN Security Council on May 30, 2003 authorized the establishment in Bunia of an Interim Emergency Multinational Force (IEMF), comprising about 1,400 soldiers, including 700 soldiers from France, with a broader mandate than the existing UN Observation Mission in the DRC (MONUC). The Security Council stressed that the IEMF was to be deployed on a strictly temporary basis in order to reinforce MONUC. It demanded that all parties to the conflict in Ituri cease hostilities immediately, and that all Congolese parties and all states in the Great Lakes region cooperate with the IEMF and the MONUC to stabilize the situation in Bunia. A recent UN Security Council delegation that visited the Great Lakes region stated that **stabilization of the situation in Ituri will require strong and sustained international pressure** on all parties in the conflict and their foreign allies to cease hostilities, the provision of arms, and the illegal exploitation of the DRC's natural resources. President Kabila has requested an extension of the IEMF's mandate beyond its current September 1, 2003 expiration date.

III. Recent Economic Developments and Performance Under the PRGF-Supported Program During 2002 and the First Quarter of 2003

5. **Overall macroeconomic performance under the program (covering April 2002–July 2005) was broadly satisfactory for the first year (Figure 1), with good progress also on the structural side (Box 1).** Preliminary data confirm that, for the first time in 13 years, economic growth, estimated at 3 percent, resumed in 2002 (Table 3). Growth occurred in all sectors, except for manufacturing.[1] The end-period annual inflation rate, as measured by the consumer price index (CPI), decreased sharply from 135 percent at end-2001 to about 16 percent at end-December 2002, compared with a target of 13 percent. In 2003, the end-period CPI rose by 4.6 percent through end-May, mainly reflecting the pass-through of the recent increases in international oil prices to domestic prices of petroleum products (9 percent on February 15, and another 10 percent on March 17). The underlying rate of inflation, excluding the increase in petroleum prices and the related increase in transport tariffs, is about 2.5 percent, in line with the target of 6 percent initially projected for end-December 2003. After depreciating by 23 percent in 2002, the Congo franc has remained stable so far in 2003, fluctuating narrowly around a rate of US$1 = CGF 415 (Figure 2).

6. **Overall fiscal performance at end-2002 was better than originally programmed.** The domestic primary balance (on a cash basis) showed a surplus of 1.4 percent of GDP

[1] According to the new investment promotion agency that was created to simplify administrative procedures, more than 40 investment applications from the domestic and foreign private sector, amounting to some US$1.3 billion over the period 2003–07, have been approved.

instead of the 0.9 percent programmed, and the consolidated overall balance (including larger-than-expected central bank losses) on a cash basis was in equilibrium, compared with the targeted deficit of 0.4 percent. Total revenue (excluding grants) at end-2002 exceeded the target by 6 percent, reflecting higher-than-expected petroleum receipts. While total expenditure was lower than envisaged, current expenditure, particularly on goods and services, was higher than anticipated despite measures taken in November and December to freeze nonessential expenditure. This excess is on account of the continued increase (partly extrabudgetary) in military- and sovereignty-related expenditures associated with the inter-Congolese dialogue and the security needs following the withdrawal of foreign troops. In addition, domestic arrears on utility payments, estimated at 0.6 percent of GDP at end-2002,[2] accumulated; however, no wage payments arrears accumulated. Taking into account the larger-than-expected nonproject budgetary aid disbursements by the World Bank, net bank credit to the government (without adjustment) at end-2002 was substantially lower than programmed.

7. **The overall fiscal outcome during the first quarter of 2003 was broadly in line with program objectives.** Total receipts (excluding grants) were in line with the target. Although total expenditure remained lower than programmed because of a shortfall in foreign-financed investment and lower external debt service, domestic primary expenditure was higher than anticipated on account of a continued increase (partly extrabudgetary) in military- and sovereignty-related expenditure. Thus, the continuous performance criterion relating to the abolition of budgetary expenditure financed by the BCC without the prior authorization of the Ministry of Finance was not observed,[3] while the originally planned 10 percent wage increase did not take place. The primary domestic surplus was lower than programmed, by 0.4 percentage point of GDP, while the overall consolidated balance showed a smaller deficit. Nevertheless, net credit to the government (without adjustment for net nonproject budgetary aid) was lower than anticipated.

8. **Thus, while overall fiscal performance has been broadly on track, the anticipated shift in the composition of expenditure toward pro-poor spending has still not materialized,** given the shortfall in foreign-financed investment[4] and social outlays and the increase in security- and sovereignty-related expenditure. At end-2002, while the

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[2] The procedures for the treatment of cross-arrears of domestic debt and the timetable for their clearance, as well as an action plan to improve the control of utility outlays, will be prepared by end-2003, with the help of the World Bank (MEFP, para. 37).

[3] The authorities noted that the Minister of Finance had been informed of these expenditures beforehand but that the appropriate authorizing documentation had not been prepared in a timely manner.

[4] External project aid disbursements were lower than expected, pending the nomination of the new all-inclusive government, which is expected to consolidate the peace process.

combined share of defense, security, and institutional spending amounted to 48 percent of government primary expenditure, social expenditure accounted only for 7 percent of government primary expenditure, instead of the targeted 15 percent.

9. **Further progress has been achieved in strengthening tax and customs administrations and reforming the tax structure** (see MEFP, para. 9, and Box 3). In particular, the Large Taxpayers' Unit was established in March 2003 and is now operational. The reform of the Customs and Excise Office (OFIDA), approved in March 2003, is being implemented satisfactorily, with the one-stop window (*guichet unique*) scheduled to open at end-June 2003. In addition, new tariffs and indirect taxation laws were adopted in March 2003 to simplify the tariff structure, extend the scope of the turnover tax, and rationalize the levies on petroleum products. The new tariff law establishes a simplified tariff involving three rates (5, 10, and 20 percent), while eliminating the surtax and preferential treatment options. Also, the Directorate General of Administrative and State Revenues (DGRAD) has prepared a plan to reduce the number of taxes it administers (MEFP, para. 9).

10. **Progress in improving expenditure management has been slower than anticipated** (MEFP, paras. 10–11). The budget for 2003 is now presented according to a new expenditure nomenclature. However, the effective implementation of the newly adopted expenditure procedures reinstating and rationalizing the full expenditure chain is proceeding with some delay, in part owing to administrative reasons. The procedures manual and the reorganization of the relevant directorates have now been approved by the Minister of Finance, and the effective implementation of the rationalization of the full expenditure chain has just started. The General Accounting Office (*Cour des Comptes)* has begun the audits of the 2001 and 2002 budget executions, which are expected to be completed by end-July 2003 and end-September 2003, respectively.

11. **On the monetary side,** in light of the acceleration of inflation in the last quarter of 2002, the BCC increased its refinancing rate from 12 percent to 27 percent in January 2003; it made a downward adjustment to 25 percent in late May 2003, keeping the rate positive in real terms. The real interest rate remains relatively high, owing to the high risk premiums. In mid-December 2002, the BCC launched its own liquidity control instrument (*billet de trésorerie*), with a maturity of one to four weeks. The interest rate on this instrument was 26 percent in the first quarter of 2003. In 2002, broad money grew by 26 percent, compared with the 35 percent projected under the program. Net domestic credit declined by 16 percent of the beginning-of-period money stock, against an originally programmed increase of 2 percent, on account of much lower net bank credit to the government, which shrank by 17 percent of the beginning-of-period money stock, instead of the programmed 6 percent decline. Credit to the private sector and credit to the parastatals only increased slightly, compared with a planned increase of 8 percent. After several years of decline, the net foreign assets of the banking system are estimated to have increased in 2002, albeit more slowly than targeted.

12. At end-March 2003, the outcomes relating to the quantitative performance criteria were verified by an international audit firm. **The nonobservance of three quantitative**

performance criteria and one continuous performance criterion can be traced to higher-than-anticipated military- and sovereignty-related expenditure, owing to costs related to the inter-Congolese dialogue and the security vacuum created by the withdrawal of foreign troops. In this context, the ceiling on net bank credit to the government, adjusted for net external nonproject disbursements, was missed (by 0.2 percent of GDP), as was the adjusted ceiling on the net domestic assets of the BCC (by 0.6 percent of GDP). To accommodate the higher-than-expected current expenditure without igniting inflation, the BCC chose to sell part of its gross reserves against Congolese francs, thereby breaching the performance criterion on the floor of the net foreign assets of the BCC (by US$7 million). The authorities agreed that this policy was not sustainable and that better control of military- and sovereignty-related expenditure was needed (which would be made easier with the formation of an all-inclusive government and the reunification of the country). Overall, money supply increased by 6 percent during the first quarter of 2003, instead of the 4 percent programmed (Table 5).

13. **The central bank (BCC) made good progress in implementing its action plan,** which aims at strengthening accounting procedures, the management of international reserves, and internal audit procedures, as well as the control and supervision of the banking system (MEFP, Table 3). The BCC's Board of Governors was appointed in May 2003, in line with its new statutes.

14. **Concerning the external sector,** the current account balance, including grants and after debt relief, improved substantially in 2002, turning from a deficit of 4.7 percent of GDP in 2001 to a surplus of 2.1 percent of GDP. This improvement reflected in part an upturn in diamond exports. The capital account is also estimated to have shifted from a large deficit in 2001 to a surplus in 2002 on account of a sharp increase in official net disbursements and in direct investment (Table 6). The resulting surplus in the balance of payments allowed for a buildup in reserves, albeit slightly smaller than programmed. Official reserves increased in 2002 to 3.6 weeks of non-aid-related imports of goods and services, after having declined in 2001 to 1.4 weeks of non-aid-related imports of goods and services. Based on the end-2001 debt sustainability analysis, the stock of external debt is estimated to have decreased to US$10.4 billion at end-December 2002 (about 189 percent of GDP), reflecting the impact of arrears clearance operations and the Paris Club rescheduling (Table 3). The DRC has remained current on its external debt-service obligations (except for debt service for which rescheduling agreements are under negotiation), and no external payments arrears on debt service have accumulated.

15. **The government also made good progress on structural and sectoral reforms** (MEFP, paras. 18–28). In the governance area, the BCC has issued regulations to combat money laundering, which will be refined as necessary, with Fund technical assistance, when the legal framework for combating corruption, money laundering, and transnational crime is established. As part of the overall reform of the banking sector, the audits of nine commercial banks have started (scheduled for completion in August 2003), and five banks—three of them state-owned—are being liquidated. The Steering Committee on the Reform of Public Enterprises (COPIREP) has been established, and its members are being selected. The

regulations to implement the new mining code were issued by presidential decree on April 4, 2003. In addition, progress was made in preparing the restructuring of the public copper mining company (GECAMINES) with the establishment of a restructuring committee and the adoption of a social plan (financed by the World Bank). In the forestry sector, the government has initiated a sectoral economic review, the recommendations of which (expected in October 2003) will be taken into account in the 2004 budget law and in the implementation regulations for the new forestry code. Finally, a PRSP Preparation Status Report was finalized by the authorities and discussed with the Fund and the World Bank staffs, as well as the donor community. The report, together with the Joint Staff Assessment (JSA), is being presented to the Boards of the IMF and World bank at the time of the second review under the PRGF.

IV. Report on the Policy Discussions and the Program for 2003

A. Medium-Term Macroeconomic Framework and Balance of Payments Prospects

16. **While the updated objectives for 2003 are in line with the preliminary objectives set out during the first review under the PRGF arrangement, the medium-term macroeconomic framework for 2003–05 has been updated** to take into account (i) new information on the immediate impact of reunification; (ii) the external debt sustainability analysis using 2001 as the reference year and reflecting the estimated impact of the September 2002 Paris Club rescheduling, including the somewhat higher than previously projected debt service in 2003;[5] (iii) new information on international assistance, including that anticipated under the enhanced HIPC Initiative; and (iv) the revised terms of trade and oil price projections in the World Economic Outlook.

17. The updated macroeconomic objectives and policies include, inter alia, (i) average real GDP growth of about 6 percent over the period 2003–05, implying an annual average increase in per capita GDP of about 3 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 10½ weeks of non-aid-related imports of goods and services (see Tables 3 and 6). The projected growth patterns are similar to those observed in other post-conflict countries and are predicated on three main factors: (i) the continued removal of major economic distortions and a profound change in the regulatory environment, which will boost total factor productivity; (ii) a substantial increase in investment, driven by international aid and largely

[5] Debt-service data presented in EBS/03/12 on the basis of end-2001 debt stocks reflect preliminary estimates of the impact of the 2002 Paris Club rescheduling and, from 2003, possible assistance under the enhanced HIPC Initiative. Debt-service data presented in this report reflect the results of a full end-2001-based DSA. Given the progress made in updating the debt database for end-2002, the enhanced HIPC Initiative decision point document will be using 2002 as the reference year.

consisting of infrastructure rehabilitation, which should help relieve major supply bottlenecks; and (iii) the reunification of the country and the restructuring of the mining sector, which will have strong positive impacts on real exports. Domestic savings would grow as a result of a gradual increase in both government and nongovernment domestic savings. However, despite their anticipated increase over the next five years, macroeconomic aggregates (exports, imports, investment, saving, real GDP, etc.) would remain well below prewar levels. The sensitivity of these projections is discussed in the forthcoming enhanced HIPC Initiative decision point document.

18. **The external current account deficit**, including grants but before debt relief, is expected to widen to 8.6 percent of GDP in 2005 from about 3 percent in 2002. Similar to developments in other post-conflict countries, investment goods imports, driven by the return of external assistance and reconstruction, are expected to lead this trend. The program is, in principle, financed through end-2005, with the bulk of program financing being provided by multilateral creditors, and project financing being provided by both multilateral and bilateral creditors (Table 9).

19. **In preparation for the decision point under the enhanced HIPC Initiative, the government has concluded bilateral agreements with all its Paris Club creditors except Japan, and arrears clearance procedures with all of its multilateral creditors, except the European Investment Bank (EIB) and the BDEGL (Banque de développement des Grands Lacs)**. The government has contacted its non-Paris Club bilateral creditors to pursue similar agreements. As for its commercial creditors, the government has solicited the Bank of Tokyo, which is the contact bank for the London Club on the DRC, to provide the required statistical data on the DRC's outstanding debt to London Club creditors.

B. Macroeconomic Framework for 2003

20. **Against the backdrop of reunification, the program for 2003 seeks to consolidate the resumption of growth and macroeconomic stability**. Fiscal consolidation will remain one of the cornerstones of the government's economic and financial policies, while monetary policy will continue to be prudent within the framework of a floating exchange rate system. The government will deepen the structural and sectoral reforms in order to continue to improve the business climate.

21. **Consistent with the revised macroeconomic framework, the program for 2003 aims at** (i) an acceleration of economic growth to 5 percent; (ii) a sharp increase in investment to 13.5 percent of GDP as a result of the resumption of foreign-financed investment; (iii) an increase in national saving to almost 14 percent of GDP, resulting from a rise in government savings and net transfers from abroad (including debt relief); (iv) a decline in the average annual inflation rate to 14 percent, consistent with an end-period rate of 8 percent; and (v) a widening in the external current account deficit (including grants and before debt relief) from about 3 percent of GDP in 2002 to almost 4 percent of GDP in 2003, in line with the resumption of foreign-financed investment (see Table 3). Gross official

reserves are targeted to more than double to eight weeks of non-aid-related imports of goods and services.

Fiscal policy

22. **Fiscal policy for 2003 will continue to aim at fiscal consolidation while improving transparency and the tracking of public expenditure, as well as reorienting the composition of the budget toward pro-poor spending.** In line with the broad fiscal objectives included in the last staff report (EBS/03/12; 2/5/03), the government adopted a supplementary 2003 budget in June 2003, which will be submitted to parliament in its first session in July 2003 and presented according to the new expenditure classification system. The supplementary budget for 2003 takes into account (i) the immediate effects of the reunification, via the revenue and expenditure levels that can be estimated on the basis of reliable information (Box 4); (ii) new information on external debt service and international assistance; (iii) the impact of the tariff and indirect taxation reforms; and (iv) delays in the civil service reform. **The authorities agreed with the staff that the supplementary budget should be seen as an intermediate instrument toward a reunification and pro-poor budget for 2004** that will be discussed at the time of the third review (Box 4). In this regard, a particular challenge will be the creation of a fully accountable professional army and police force, taking into account the timely implementation of the regional demobilization and reintegration program. Also critically important are measures to ensure that revenue collected in the reunified provinces is transferred to the general treasury account.

23. Achievement of the 2003 fiscal objectives will be based on the continued implementation of revenue mobilization measures and better control of expenditure. The government will also continue to strictly execute its monthly treasury cash-flow plan, effectively limiting expenditure to available resources. **A domestic primary surplus, on a cash basis, of 1.7 percent of GDP is targeted, up from 1.4 percent in 2002, while the overall consolidated cash balance (including the net financial balance of BCC operations) would show a deficit (cash basis) of 1.4 percent of GDP** (Table 4). Given the expected net foreign financing, there will be no net credit to the government. Total receipts (excluding grants) are expected to reach 8.3 percent of GDP in 2003 (a 25 percent increase over 2002), and total expenditure, driven by foreign-financed investment and the resumption of interest payments on external debt, will rise sharply to 15.2 percent of GDP, an increase of 76 percent (Table 4).

24. **Revenue would increase in 2003 to a large extent through the impact of the implementation of the tariff and indirect taxation reforms, as well as ongoing administrative reforms** (MEFP, paras. 34–36). The authorities will continue to implement policy and administrative reforms aimed at simplifying the tax system, improving the effectiveness of tax and customs administrations, and alleviating administrative burdens on taxpayers. These include (i) the timely adoption of decrees to implement the indirect taxation reform; (ii) efforts to simplify customs procedures and reorganize provincial customs offices; (iii) the further modernization of the Directorate General of Taxes, with a focus on strengthening the Large Taxpayers' Unit and simplifying the taxation of small and medium-

sized enterprises; (iv) the elimination of a number of taxes for which there is no legal basis; (v) the removal of the quasi taxation of petroleum products in the new price structure; and (vi) the elimination of unjustified and ad hoc exemptions, all advance tax payments, and all offsetting of taxes due with claims on the government, except with respect to the collection of taxes paid in excess.

25. **To achieve the 2003 expenditure target, the authorities will need to contain current expenditure, particularly for defense and institutions, within the limits incorporated in the supplementary budget** (MEFP, paras. 32 and 37). The wage bill (excluding pensions) is targeted to increase by 19 percent. The government will make no wage payments in the reunified provinces until the employees who are to receive them have been identified and procedures are in place to ensure that wage payments are made to the intended recipients. The growth of the wage bill reflects a wage increase earmarked solely for the civil service (the military and the police having already received an increase at the start of the year) of 10 percent in July 2003, the elimination of 26,000 previously identified "ghost workers" by end-July 2003 from the government payroll, the retirement of 10,000 civil servants by year's end (for which financial assistance is being solicited from the World Bank), the establishment of new institutions, and the payment of wages in the reunified provinces to 102,000 workers (Box 4). A civil service reform will be undertaken with financial support from the World Bank and bilateral donors.

26. **The government is firmly committed to pursuing reforms aimed at improving the control and tracking of public expenditure, as well as the transparency of fiscal management** (Box 2 and MEFP, para. 39). Accordingly, the BCC will henceforth refrain from financing any expenditure not previously authorized by the Minister of Finance (a continuous performance criterion), and priority will be given to the implementation of the new expenditure chain. Critical steps toward effective implementation of the new expenditure chain include (i) the government's approval of the new procedures manual and of the reorganization of the four directorates involved (a prior action for the conclusion of the second review); (ii) introduction of the commitment voucher (*bon d'engagement*) by end-June 2003; (iii) installation of a new computer system that will record all the stages of the expenditure chain; and (iv) full implementation of the new budget classification system with the 2003 supplementary budget. In this context, the tracking of poverty reduction spending—financed by HIPC Initiative debt relief or otherwise—will be made easier by the special code for these expenditures in the new budget classification system.

27. **The 2003 budget, as amended by the supplementary budget, involves a significant shift in the composition of expenditure toward pro-poor spending, compared with 2002 budget outturns**. Thus, with the restoration of peace, the shares of military and security spending and of sovereignty expenditure are not to exceed 1.6 percent and 1.1 percent of GDP, respectively, in 2003, while the share of pro-poor spending is targeted to reach 2 percent of GDP. Pro-poor spending is defined in the new classification system based on the review of public expenditure undertaken with the World Bank and on the priorities in the interim I-PRSP, the coverage of which will be extended to the entire territory. These expenditures include spending financed with resources released under the enhanced HIPC

Initiative, which are expected to amount to 0.4 percent of GDP. A special subaccount will be opened at the BCC by end-June 2003 to deposit resources released under the enhanced HIPC Initiative.

Monetary and financial sector policies

28. **Monetary policy in 2003 will continue to 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 20 percent, in line with the growth rate of nominal GDP. The BCC will make no new advances to the government (in accordance with its new statutes), and net bank credit to the government will not increase. This should allow for a 61 percent increase in credit to the private sector albeit from a low base (Table 5). Net international reserves are projected to continue improving concomitantly with the rise in gross international reserves.

29. The BCC will retain its independence in the conduct of monetary policy. The government is committed to obtaining parliamentary approval for an amendment of Article 168 of the newly adopted Transitional Constitution, which states that the BCC is under the supervision of the Ministry of Finance.

30. The BCC is committed to stepping up the implementation of its action plan (MEFP, Table 3). Although some key measures in this plan have already been taken, full implementation of the plan should be completed as soon as possible, as it is crucial to the recovery of the BCC.

31. The BCC will continue to strengthen the operational framework for its monetary program, as recommended by the IMF's technical assistance missions. The recent introduction of short-term paper (*billets de trésorerie*) has given the bank a monetary policy instrument to regulate liquidity.

32. **In the context of strengthening the financial system** and with a view to reviving financial intermediation and increasing the effectiveness of monetary policy, the BCC plans to take the following steps: (i) introduce new instructions for prudential ratios by end-July 2003; (ii) develop plans for the restructuring of commercial banks based on the external audits, by end-December 2003; and (iii) after discussions with banks, adopt a formal framework for on-site and off-site inspections by end-August 2003.

External sector policies

33. **The authorities agreed with the staff that the DRC's floating exchange rate system remains appropriate.** The authorities are committed to limiting their foreign exchange market interventions to smoothing short-term exchange rate fluctuations. In February 2003, the government accepted the obligations of Article VIII, Sections 2(*a*), 3, and 4. As noted in the MEFP (para. 46), the government will continue its efforts to eliminate the remaining restrictions.

34. **With regard to trade policy**, the authorities have maintained the temporary quantitative restrictions established to deal with the alleged dumping of certain textile products (printed fabrics). The staff urged the authorities to consult with the World Trade Organization in order to seek an appropriate alternative to these restrictions. The government will continue to deepen its ongoing customs reforms, consistent with the DRC's obligations deriving from its membership in the Common Market for Eastern and Southern Africa (COMESA).[6]

35. **With regard to external debt policy** (MEFP, para. 47), no arrears on external debt service will be accumulated, and the government will continue its efforts to conclude rescheduling agreements with its non-Paris Club bilateral creditors and commercial creditors on terms comparable to those obtained in the context of the Paris Club. With the assistance of the international community, the authorities are also making efforts to improve their management of external debt.

C. Structural and Sectoral Policies

36. **The authorities agreed that their wide-ranging and bold program of structural and sectoral reforms should be deepened** (MEFP, paras. 48-55). The reforms that are being pursued, mainly with the help of the World Bank, cover agriculture, forestry and mining, public enterprises, the financial sector, the social sectors (education, health, social protection, 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).

D. PRSP and Poverty Reduction

37. **In their PRSP preparation status report, the authorities have identified the key steps needed for the completion of the full PRSP in the third quarter of 2005** (MEFP, para. 56). At the same time, the government intends to make arrangements for the management, support, and monitoring of poverty reduction actions at the grassroots level. By end-August 2003, a campaign will be carried out with World Bank assistance to provide information and education on (i) the process of drafting the full PRSP; (ii) the organization of participatory consultations at the national, provincial, local, and community levels; and (iii) the final preparations for the poverty survey, to be launched in July 2003 and completed in July 2004. As the country reunifies, the government will take steps to extend the coverage of the interim PRSP to all provinces.

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[6] With an overall IMF trade restrictiveness index score of 3 (with 10 being the most restrictive), the DRC's trade regime has been among the more liberal of those in COMESA.

E. Administrative Capacity Building, Technical Assistance, and Statistical Issues

38. **The DRC's statistical data and institutional capacity have been gradually improving, with the help of technical assistance from the international community.** However, weaknesses remain, especially in the area of national accounts, balance of payments, and external and domestic debt management. The authorities intend to complete the remaining steps necessary for participation in the IMF's General Data Dissemination System (GDDS), which would provide a framework for statistical development. The authorities have requested an extension of Fund technical assistance in the areas of expenditure and budget management, and customs and tax administration. With the country's reunification, the authorities also intend to request assistance from the international community, including the Fund and the World Bank, in identifying technical assistance needs and drawing up a clear road map of possible measures to buttress the administrative capacity of the provinces and relations between the central government and the provinces.

V. PRGF Arrangement Monitoring

39. The two interministerial committees—the first responsible for the three-year economic program and chaired by the Minister of Finance, and the second responsible for the poverty reduction strategy and chaired by the Minister of Planning—will continue to monitor closely the implementation of the PRGF-supported program and the poverty reduction strategy. Monitoring will be made easier by the planned establishment of a computer link for daily information sharing between the BCC and the Ministry of Finance.

40. Three prior actions for the completion of the second review under the PRGF arrangement are to be implemented by end-June 2003 (MEFP, para. 58). Program implementation will continue to be subject to semestrial reviews and monitored according to performance criteria, indicative targets and structural benchmarks presented in paragraphs 59 and 60, and Tables 4 and 5 of the MEFP.

VI. Staff Appraisal

41. **The consolidation of the peace process, culminating in the imminent installation of the transitional government and other institutions, represents a milestone toward lasting peace and the country's reunification** and sets the stage for a two-year transition period leading to free, fair, and transparent elections. **The conflict in the northeast Ituri region, however, could threaten the peace process, with adverse effects on the program.** The return of lasting peace and stability to the entire country is a key element in the resumption of growth and reduction of poverty. The staff supports the call for all parties participating in the inter-Congolese dialogue to respect and effectively implement the power-sharing agreement governing the transition period.

42. **The staff commends the authorities for their steadfast program implementation during the first year under the PRGF arrangement despite difficult circumstances,**

including relatively small amounts of foreign budget and project assistance. After 13 years of negative growth, real GDP growth has become positive. Inflation has continued to decrease sharply, while the exchange rate has stabilized. The progressive return to a normal budgetary process has led to a continuing strengthening of public finances. The business environment has started to improve, owing to good progress in implementing far-reaching structural reforms.

43. **While budgetary performance was broadly on target through March 2003, military- and sovereignty-related expenditure continued to increase,** largely owing to costs related to the inter-Congolese dialogue and the security vacuum created by the withdrawal of all foreign forces. **The staff notes with concern that the anticipated shift in the composition of expenditure toward pro-poor spending has still not materialized,** because of a shortfall in foreign-financed investment and social outlays, and the increase in security- and sovereignty-related expenditure.

44. **The staff commends the authorities for the progress achieved in strengthening the tax and customs administrations,** in particular the effective implementation of the Large Taxpayers' Unit. It also welcomes the implementation of the new expenditure classification system in the budget for 2003.

45. **Fiscal policy for 2003 should aim at continuing fiscal consolidation while improving the transparency and tracking of public expenditure, as well as reorienting the composition of the budget toward pro-poor spending**. In this context, the staff encourages the authorities to strictly implement their monthly treasury cash-flow plan. The staff agrees with the authorities that the supplementary budget for 2003 should be seen as an intermediate instrument paving the way for a fully reunified and pro-poor budget for 2004, a subject that will be discussed at the time of the third review.

46. **To achieve the 2003 fiscal revenue target, the authorities should continue to implement in a timely fashion their planned tax policy and administrative reforms** aimed at simplifying the tax system, improving the effectiveness of tax and customs administrations, and alleviating administrative burdens on taxpayers. Also critically important are measures to ensure that the revenue collected in the reunified provinces is transferred to the general treasury account.

47. **The staff urges the authorities to step up efforts to improve the control and tracking of public expenditure, including the rationalization of the expenditure chain, to strengthen the tracking of poverty-related expenditure**. To achieve the 2003 expenditure target, the authorities will need to contain current expenditure, particularly for defense and the institutions. In addition, the BCC should refrain from financing any expenditure not previously authorized by the Minister of Finance.

48. **Monetary policy in 2003 will continue to aim at achieving the overriding objective of price stability within the framework of a floating exchange rate system.** The staff urges the BCC to implement strictly its cash-flow plan. It welcomes the BCC's

commitment to step up the implementation of its detailed action plan to correct institutional and operational lapses detected by the external audit, in particular in accounting procedures, the management of international reserves, internal audit procedures, and the control and supervision of the banking system.

49. **The staff also urges the BCC to step up the restructuring of the banking system.** A sound banking system is a prerequisite for the revival of financial intermediation and effective monetary policy.

50. **The staff welcomes the authorities' determination to deepen structural and sectoral reforms, with a view to further improving the business climate.** It also welcomes the authorities' efforts to issue decrees to implement the large body of recently enacted legislation, particularly in the areas of governance, forestry, the labor market, and energy.

51. **The staff urges the authorities to persevere in their bold steps to improve governance and intensify the fight against corruption, money laundering, and the financing of terrorism.** In this regard, the staff looks forward to the adoption by parliament of the draft law on corruption, money laundering, and transnational organized crime.

52. **In light of the challenge posed by the country's reunification, the staff finds the main objectives of the medium-term macroeconomic framework realistic and consistent with the approach outlined in the interim PRSP,** which aims at creating an enabling environment for economic growth and reducing widespread poverty. **The staff encourages the authorities to continue their efforts to complete a full, high-quality PRSP, while concurrently taking steps to extend the interim PRSP to all provinces.**

53. **Successful reunification will require coordinated efforts to tackle simultaneously political, economic, and security issues.** The creation of a unified army and police force will be key to strengthening security in all provinces. Foreign assistance will need to be well sequenced, properly coordinated, and provided in an appropriate mix; the timely implementation of the regional demobilization and reintegration program will also be critically important.

54. **A number of risks remain for program implementation.** Initially isolated outbursts of violence could spread into a wider conflict and threaten the achievement of the program's objectives. Delays in programmed external assistance could intensify "adjustment fatigue" and lead to social unrest. The authorities' room for maneuver to temporarily offset external financing shortfalls is very limited with risks for payment arrears. For the all-inclusive transitional government, effective coordination of its actions will be essential so as to ensure consistency with the economic program. In this context, the timely disbursement and appropriate coordination of assistance by the country's external partners are crucial.

55. The staff notes that the nomination of the all-inclusive transitional government should consolidate the peace process and stabilize the security situation. This new environment should help stabilize security- and sovereignty-related government expenditure, which was the major source of breaches of some of the performance criteria. The staff is also

encouraged by the comprehensiveness and strength of policy measures included in the 2003 program, in particular the corrective measures to address the delays in the implementation of the new expenditure procedures. Risks remain, as noted above, which could compromise the achievement of the program's objectives. Nevertheless, **the staff recommends completion of the second review under the PRGF arrangement, and supports the authorities' request for waivers for the nonobservance of three quantitative performance criteria, one continuous performance criterion, and one structural performance criterion**.

56. The staff welcomes the intention of the authorities to make public the staff report, the letter of intent, the MEFP, the PRSP preparation status report, the joint staff assessment, and the enhanced HIPC Initiative document.

Box 1. Status of Structural Conditionality

Structural and sectoral reform under the PRGF-supported program

In the context of the PRGF-supported program, the government is implementing a wide-ranging set of structural and sectoral reforms aimed at creating an environment conducive to private sector activity, economic recovery, and poverty reduction. The reforms encompass good governance and the fight against corruption, institutional capacity building, the strengthening of the business environment, public enterprises, the financial sector, mining and forestry, and the rehabilitation of key infrastructure, the social sectors and agriculture.

Status of structural conditionality

The implementation of structural measures subject to conditionality (performance criteria and benchmarks) has been broadly satisfactory, with, in a few instances, relatively small delays. The financial audit of the BCC has been completed, and its recommendations have been incorporated in an action plan that was drawn up, with IMF assistance, in December 2002 to institutionally and operationally strengthen the BCC. This plan is being implemented. The list of banks to be liquidated, privatized, or restructured has been drawn up, and the process to liquidate the Nouvelle Banque de Kinshasa (NBK) and the Banque de Crédit Agricole (BCA) will be completed by end-2003. The aforementioned measures have been implemented according to the originally agreed timetable. The Banque Congolaise du Commerce Extérieur (BCCE) was placed in liquidation in its current form in March 2003, implying a small delay compared with the original timetable. The Code of Ethics and Good Conduct was published with a delay of a little over one month in order to obtain a broad consensus. The preparation of an overall strategy and an action plan for combating corruption was completed as scheduled by end-February 2003. The financial audit of the public petroleum corporation (COHYDRO) was completed in March 2003 with a delay of about three months.

The establishment of new expenditure procedures, aimed at reinstating and rationalizing the full expenditure chain, including commitment, liquidation, payment order, and payment, to be implemented by end-March 2003, has been delayed by about one quarter.

The structural conditionality performance criteria and benchmarks for the period June-December 2003 are contained in Table 5 of the MEFP.

Status of World Bank lending benchmarks or triggers

The mining sector is supported by a specific tranche of SDR 20 million under the Economic Recovery Credit (ERC) that will finance the voluntary departure program of about 9,000 workers of the state mining company GECAMINES. The mining tranche was released in June following (i) the creation by presidential decree of a commission for the validation of mining titles and an autonomous mining registry; (ii) creation by presidential decree of a permanent committee in charge of restructuring GECAMINES and managing its voluntary departure program; and (iii) the preparation of the voluntary separation plan for GECAMINES workers. The forestry sector is supported by a specific tranche of SDR 12 million that was released in February 2003 following submission to parliament of a draft forestry code in July 2002 and its subsequent promulgation on August 29, 2002.

Box 2. Public Expenditure Tracking and Monitoring

In the past, the proliferation of parallel channels deprived the Ministry of Finance of its capacity to record and control expenditure: only a small share of expenditure was executed through normal procedures. Most expenditure was paid either from diverted revenue sources without any control, through direct payment orders to the central bank without the prior knowledge of the treasury, or through fast-track procedures.

Against this background, **the measures taken in the past two years focused at first on restoring to the Ministry of Finance a minimum capacity to monitor and control public expenditure by reinstating the central role in public expenditure management of the budget and of the treasury account at the central bank.** These measures included (i) the timely adoption of annual budget laws; (ii) the progressive centralization of revenue and expenditure in the treasury account at the central bank; (iii) a decrease in expenditure paid by the central bank without prior authorization by the Minister of Finance, a practice that should be eliminated according to the presidential decree of April 2002; (iv) the implementation and effective monitoring of a monthly treasury cash-flow plan; and (v) the production by the treasury of basic execution reports reconciled with the central bank on a regular basis.

In the meantime, **medium-term reforms are being undertaken to increase transparency in the expenditure process and improve the tracking of expenditure.** Implemented with Fund technical assistance and in accordance with the Assessment and Action Plan undertaken by the World Bank in the context of its public expenditure review, these reforms, expected to be implemented in the course of 2003, include the following:

- The implementation of a new budget nomenclature, including economic, administrative, and functional classifications. The 2003 budget, adopted by the parliament according to the old simplified classification system, has now been reclassified according to the new nomenclature. Despite some necessary adjustments (in particular, regarding the functional classification system), this classification system should now be used to record executed expenditure and improve the knowledge about the composition of expenditure.

- The establishment of new execution procedures reinstating and rationalizing the full expenditure chain at the central level, including commitment, verification, payment order, and payment. The instructions for the new procedures have been approved in June 2003, as well as the reorganization of the relevant directorates within the Ministry of Budget and Finance. Once the new computerized information system has been finalized, the new procedures shall come into force in August 2003.

- The installation before end-July 2003 of a computerized link between the central bank and the treasury, to improve the quality and timeliness of data reconciliation between the two institutions.

- The definition of procedures for a regular flow of information among the Ministries of Budget, Finance, and Planning, the central bank, and the Central Coordination Office (BCECO), in order to improve the monitoring of foreign-financed expenditure.

The above-mentioned measures are expected to improve significantly the quality of budget execution reporting. Starting in August 2003, new execution reports will be produced on a monthly basis and record expenditure at the various stages of the execution process and according to the various classifications, including for poverty-related expenditure, for which a specific code has been introduced.

Further progress will, however, be needed to improve the transparency of the budgetary process. The next steps of the reforms, already identified by the authorities, are (i) the start of the external auditing process with the audit by the General Accounting Office of the 2001 and 2002 budget execution statements before end-July 2003 and end-September 2003, respectively; (ii) the audit of the salary payment process before end-2003, to be followed by the reorganization of the process in 2004; (iii) the reform of the procurement process, following a complete review of the existing system with World Bank assistance before the end of 2003; and (iv) the reform of the government's accounting rules and procedures, including the establishment of a double-entry chart of accounts, expected in 2005. Once the reunification becomes effective, the government may also envisage a complete review of the execution process at the provincial level.

Box 3. Tariff and Tax Policy Reforms

The tariff and indirect taxation reforms

Together with the 2003 budget, parliament adopted in March 2003 a set of laws on tariff and indirect taxation.

The new tariff law is intended to be easier to administer, to reduce the scope for smuggling and fraud, to correct the bias of the current tariff in favor of commercial activities, and to prepare the DRC to meet its commitments under regional trade agreements.[1] The law (i) establishes a simple three-rate tariff structure (5 percent for agricultural and pharmaceutical inputs, investment goods, and raw materials; 10 percent for intermediate and essential goods; and 20 percent for other final consumption goods) instead of the current five-rate structure; (ii) eliminates the surtax that was applicable to a list of specific products; and (iii) precludes preferential treatment.

The reform of indirect taxation was designed to compensate for the revenue losses expected from the tariff reform while simplifying the tax system and preparing for the introduction of a VAT (value-added tax) in the future. It includes the following:

- the reform of the turnover tax (*Impôt sur le Chiffre d'Affaires*) by applying the 3 percent rate only to investment goods and agricultural inputs and the 13 percent rate to all other products, and authorizing enterprises to deduct the turnover tax paid on their inputs;

- the extension of the 13 percent turnover tax to all the products subject to excises; and

- the simplification of the petroleum product price structure by increasing the excises and eliminating quasi fiscal levies.

The overall revenue impact (on an annual basis) of the reform is prudently estimated at 0.5 percent of GDP. While some aspects of the reform (in particular the new customs tariff) have already come into force, implementation measures are still expected regarding others, in particular the new petroleum price structure eliminating quasi fiscal levies and the conditions for the deductibility of the turnover tax.

Next steps

The next steps in the simplification and rationalization of the tax system should include the following:

- Measures to simplify the taxes and duties (including quasi fiscal levies) applicable to private and public enterprises, following a review of these taxes undertaken with World Bank assistance. As a first step, the rationalization of the taxes levied by the DGRAD (Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de Participation) should be effective in July 2003; and

- The replacement of the turnover tax with a VAT, possibly in 2005, pending the satisfactory implementation of the 2003 reform and further improvement in administrative capacity.

[1] The DRC is a member of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

Box 4. Fiscal Aspects of the Reunification

For 2003, the government envisages taking into account in the supplementary budget law the immediate cost of the new institutions for the last six months of the year, as well as the payment of wages to the estimated 102,000 civil servants in the rebel-held areas for the last three months, after undertaking a preliminary census. No wage payment from the central government to former members of rebel groups is envisaged at the moment, since their integration in the national army will take time. On the revenue side, cautious estimates have been made for the last months of the year.

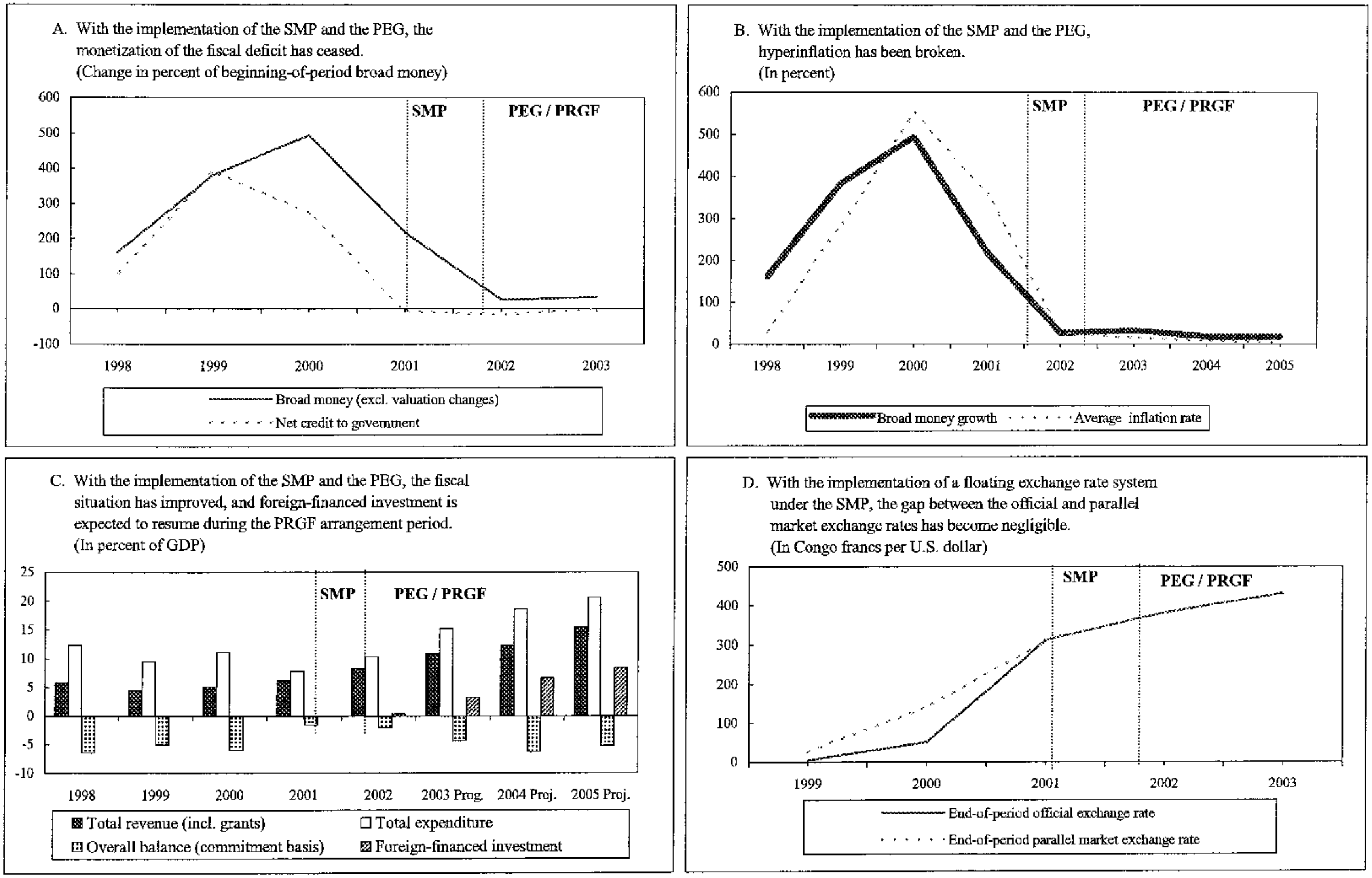
The 2003 supplementary budget should be seen as an intermediate instrument paving the way for a full reunification and pro-poor budget in 2004. To prepare the 2004 budget law, the government is committed to undertaking before the end of 2003 surveys to estimate revenues, the number of civil servants, actual expenditures, and needs in the occupied territories, as well as the administrative capacity, including revenue collection and expenditure management. Key issues will be the transfer to the central government of the revenue currently collected by the rebel groups and the integration of their members in the national army. The table below shows the very preliminary fiscal impact of the reunification.

	2003		2004	
	Suppl. Budget		Prel. Est.	
	In billions of Congo francs	In percent of GDP	In billions of Congo francs	In percent of GDP
Revenue	2,736	0.12	9,300	0.35
Expenditure	4,056	0.18	18,082	0.69
Wages—new institutions	1,098	0.05	2,314	0.09
Wages—civil servants in reunified provinces	976	0.04	4,257	0.16
Wages— integration in the army 1/	0	0.00	2,000	0.08
Other current expenditure 2/	1,982	0.09	8,511	0.32
Domestically financed investment	0	0.00	1,000	0.04
Balance	-1,320	-0.06	-8,782	-0.33

1/ Wages to former members of rebel groups to be integrated in the national army.

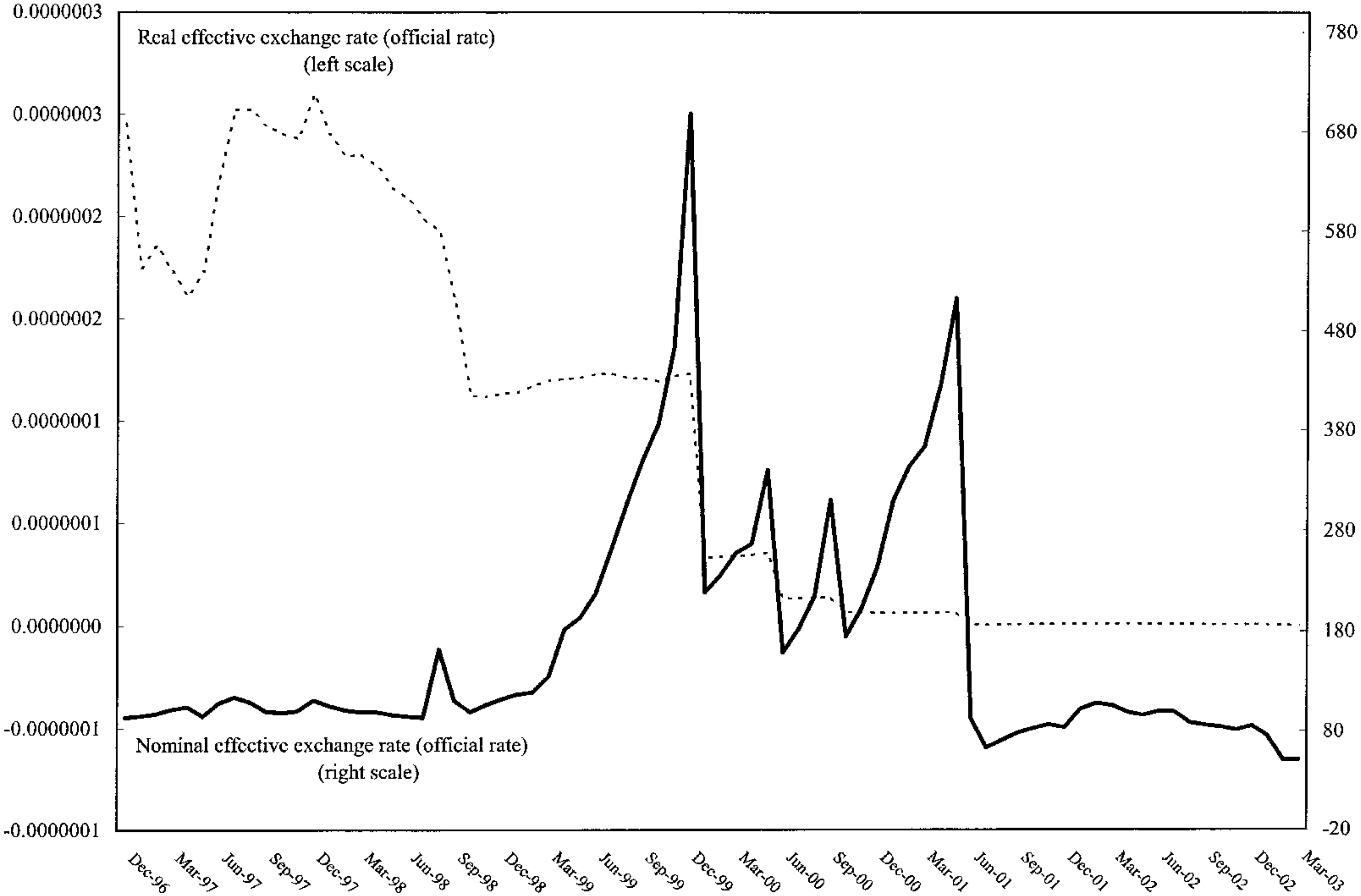
2/ Includes transfers to reunified provinces in 2004.

Figure 1. Democratic Republic of the Congo: Selected Fiscal and Monetary Indicators, 1998–2005 1/



Sources: Congolese authorities; and staff estimates and projections.
1/ The staff-monitored program (SMP) (June 2001–March 2002). The Government Economic Program (PEG) is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) (April 2002–July 2005).

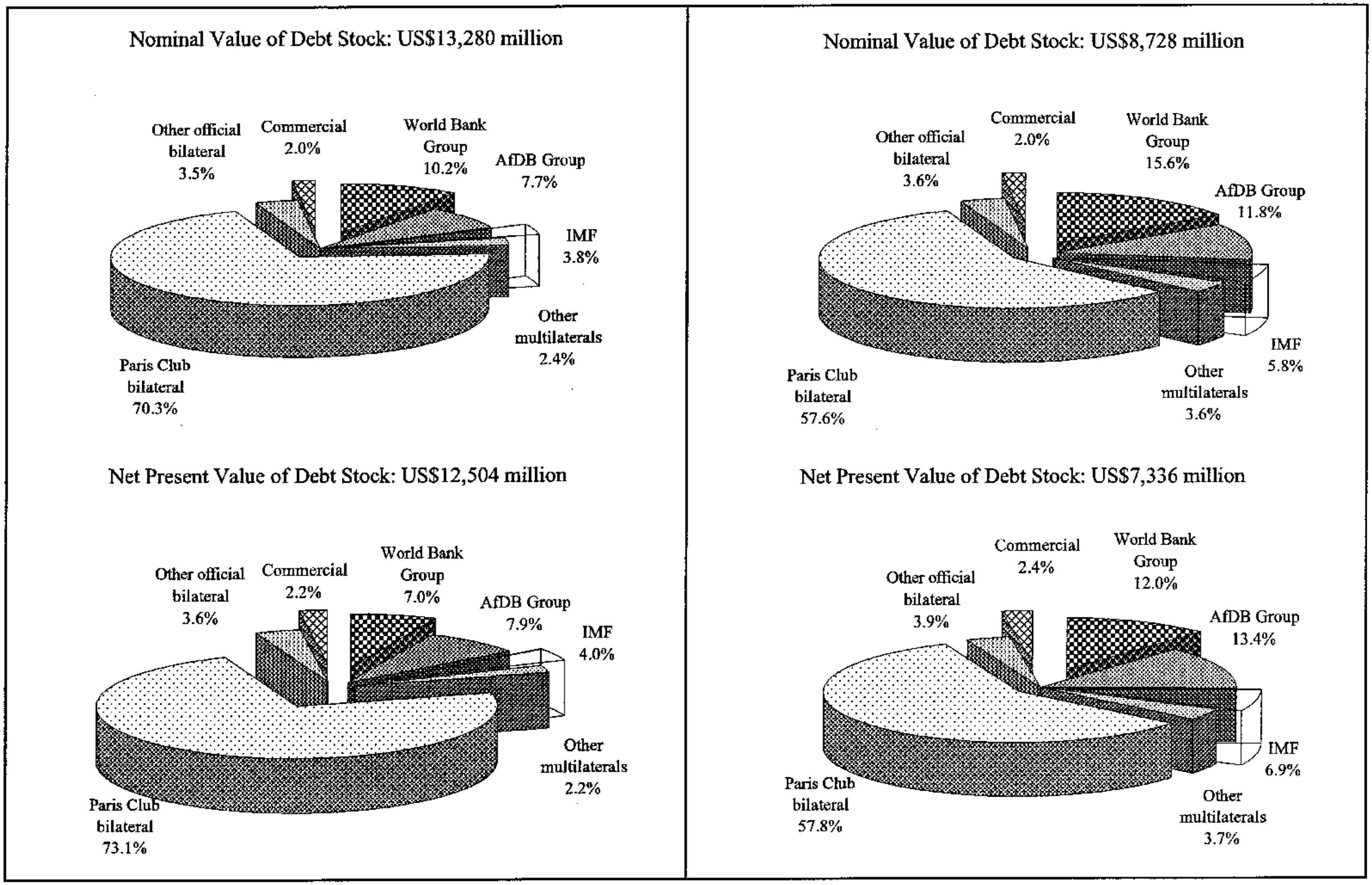
Figure 2. Democratic Republic of the Congo: Exchange Rate Indices, December 1996–March 2003
(Index, 1990=100; U.S. dollars per Congo franc)



Source: IMF, Information Notice System (INS).

Figure 3. Democratic Republic of the Congo: Composition of the Stock of External Debt at End-December 2001

Before Full Use of Traditional Debt-Relief Mechanisms | After Full Use of Traditional Debt-Relief Mechanisms



Sources: Congolese authorities; and staff estimates.

Table 1. Democratic Republic of the Congo: Fund Position During the Period of the PRGF Arrangement, 2002–05

	2002		2003		2004		2005	
	Jan.–Jun.	Jul.–Dec.	Jan.–Jun.	Jul.–Dec.	Jan.–Jun.	Jul.–Dec.	Jan.–Jun.	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 6/12/02)	403.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	1.9	1.4	1.8	1.8	1.8	1.8	1.8
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	0.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
SDR charges	0.0	0.8	0.3	0.7	0.7	0.7	0.7	0.7
Total Fund credit outstanding (end of period)	420.0	420.0	446.7	473.3	500.0	526.6	553.3	580.0
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural Adjustment Facility (SAF) arrangements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	420.0	420.0	446.7	473.3	500.0	526.6	553.3	580.0
	(In percent of quota, unless otherwise specified)							
Total Fund credit outstanding (end of period)	78.8	78.8	83.8	88.8	93.8	98.8	103.8	108.8
PRGF disbursements	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
Charges and interest	0.0	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Debt service (in percent of exports of goods and services) 1/		0.1		0.2		0.1		0.1

Sources: International Monetary Fund, Finance Department; and staff projections.

1/ After normalization, new financing and debt relief (incl. HIPC). Ratio for the entire year.

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

Amount	Availability Date	Conditions Necessary for Disbursement 1/
SDR 420 million	June 12, 2002	Drawn on June 12, 2002, following Executive Board approval of the three-year Poverty Reduction and Growth Facility arrangement.
SDR 26.7 million	April 8, 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 23, 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: Selected Economic and Financial Indicators, 2000–05

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
					(Annual percentage changes)						
Output and prices											
Real GDP	-7	-2	3	3	3	5	5	6	6	7	7
GDP deflator	516	403	23	27	27	14	14	7	8	6	6
Consumer prices, annual average	550	357	25	25	25	13	14	6	7	5	5
Consumer prices, end of period	511	135	13	15	16	6	8	6	6	5	5
External sector											
Exports, f.o.b. (in U.S. dollar terms)	-8	-1	8	15	24	6	6	21	14	22	16
Imports, f.o.b. (in U.S. dollar terms)	49	19	36	33	31	29	22	23	23	11	20
Export volume	-4	-5	8	14	15	10	7	16	14	11	9
Import volume	51	24	37	31	30	26	12	22	23	9	18
Terms of trade	-3	9	3	0	6	-6	-9	3	0	9	6
Nominal effective exchange rate 1/	-83	-84	...	-71	-71	...	...	...	...	...	...
Real effective exchange rate 1/	-18	-6	...	-58	-58	...	...	...	...	...	...
					(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)						
Money and credit											
Broad money	493	217	35	22	26	17	20	...	...	...	...
Net foreign assets	-710	-695	36	2	10	9	16	...	...	...	...
Net domestic credit	343	31	2	-17	-16	8	8	...	...	...	...
Net credit to the government	272	-7	-6	-18	-17	0	0	...	...	...	...
Credit to the private sector	61	37	7	0	1	8	8	...	...	...	...
Credit to the parastatals	10	0	1	0	0	0	0	...	...	...	...
Central bank refinance rate (level in percent) 2/	120	140	...	24	24	27	25	...	...	...	...
					(In percent of GDP)						
Central government finances											
Revenue (excluding grants)	5.1	6.2	7.3	7.9	7.9	8.3	8.3	9.5	9.0	10.8	10.1
Grants (excluding humanitarian aid)	0.0	0.0	1.2	0.3	0.4	3.7	2.6	4.6	3.4	4.8	5.3
Expenditure 3/	11.1	7.9	11.0	8.9	10.4	16.8	15.2	20.7	18.6	20.3	20.6
Domestic primary cash balance 4/	-3.9	0.6	0.9	1.4	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Overall balance (commitment basis)	-6.0	-1.6	-2.5	-0.6	-2.0	-4.8	-4.4	-6.6	-6.3	-4.8	-5.2
Overall consolidated cash balance 5/	-4.1	0.5	-0.4	-0.1	0.0	-2.0	-1.4	-4.0	-3.7	-2.4	-3.4
Investment and saving											
Gross national savings	-1.2	0.5	11.0	9.2	11.1	14.6	13.7	15.2	14.6	16.3	16.9
Government	-5.6	-1.5	2.8	1.3	1.3	4.8	3.1	5.8	4.4	7.3	7.0
Nongovernment	4.4	2.1	8.3	7.9	9.8	9.8	10.6	9.4	10.2	9.0	9.9
Gross domestic savings	4.4	3.2	6.8	3.7	4.9	5.2	5.8	7.6	7.6	10.0	8.9
Government	-3.6	-0.2	1.9	1.1	1.1	2.5	2.1	3.9	2.9	5.2	3.8
Nongovernment	8.1	3.5	4.9	2.7	3.8	2.7	3.7	3.7	4.7	4.8	5.1
Investment	3.5	5.2	9.9	9.1	9.0	15.7	13.5	19.9	18.1	20.3	21.0
Government 6/	0.5	0.1	2.9	1.1	1.0	6.2	4.0	9.4	7.6	9.3	10.0
Nongovernment 7/	3.0	5.1	7.0	8.0	8.0	9.5	9.5	10.5	10.5	11.0	11.0
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Exports of goods and services	963	961	1,101	1,109	1,189	1,178	1,265	1,407	1,437	1,698	1,659
Imports of goods and services	920	1,067	1,286	1,405	1,415	1,781	1,686	2,170	2,063	2,404	2,448
External current account, incl. grants, before debt relief (in percent of GDP)	-4.6	-4.7	-3.7	-3.2	-2.9	-5.0	-3.8	-8.6	-7.7	-7.8	-8.6
External current account, excl. grants, before debt relief (in percent of GDP)	-9.5	-10.2	-9.1	-9.7	-9.4	-14.2	-11.7	-17.2	-14.8	-15.5	-16.1
External current account, incl. grants, after debt relief (in percent of GDP) 8/	-4.6	-4.7	1.1	0.1	2.1	-1.1	0.1	-4.7	-3.5	-4.0	-4.1
Gross official reserves (end of period)	51	22	111	86	75	178	191	254	254	341	341
Gross official reserves In weeks of nonaid-related imports	3.8	1.4	6.2	4.2	3.6	7.7	8.0	9.1	9.1	10.6	10.5

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05 (concluded)

	2000	2001	2002		2003			2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
	(In millions of U.S. dollars, unless otherwise indicated)										
External public debt											
Total stock, including IMF 9/	12,609	13,280	8,890	9,890	10,434	10,159	8,728	10,415	9,082	10,430	9,474
Net present value (NPV) of debt 10/	11,888	12,504	...	...	7,163	...	7,456	...	7,838	...	8,131
Scheduled debt service											
(incl. interest on arrears) 8/	724	728	56	38	35	155	180	259	219	291	207
In percent of exports of goods and services	75	76	5	3	3	13	14	18	15	17	12
In percent of government revenue	331	218	50	8	8	22	30	29	30	27	20
Exchange rate											
Units of local currency per U.S. dollar (end of period) 11/	50	312	...	382	382	...	418	...	...	...	...
Nominal GDP (in billions of Congo francs)	297	1,464	1,976	1,911	1,915	2,281	2,298	2,579	2,627	2,935	2,989

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.
2/ For 2003, as of May 22.
3/ Includes interest due on external debt (includes debt service on rescheduling) and, from 2003 onward, expenditure financed by resources released under the enhanced HIPC Initiative.
4/ Revenue (excluding grants) minus expenditure (excluding interest on debt, foreign-financed expenditure, and HIPC-related expenditure).
5/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes the central bank operations.
6/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
7/ From 2003 onward, includes capital projects financed by nongovernmental organizations (NGOs).
8/ Negotiations of agreements with Paris Club creditors following the September 2002 Paris Club rescheduling continued into 2003, and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003, when these agreements are being signed and the amounts due determined. Similarly, amounts due to non-Paris Club and commercial creditors have not been finalized and are carried over to 2004. From 2003 onward, debt service reflects possible assistance under the enhanced HIPC Inititative.
9/ End-of-period debt stock, including arrears and before HIPC Initiative assistance.
10/ The net present value of external public debt is about 94 percent of the nominal value, reflecting the significant stock of arrears.
11/ For 2003, as of June 11.

Table 4A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05

(In millions of Congo francs, unless otherwise indicated)

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
Total revenue and grants	15,091	91,276	167,624	157,127	159,640	274,906	249,087	364,684	324,223	455,387	460,691
Total revenue	15,091	91,276	143,946	151,083	152,193	190,394	189,587	244,917	235,189	315,836	302,431
Customs and excise (OFIDA)	4,948	31,368	58,066	55,970	54,668	76,433	84,556	97,051	118,180	116,391	148,331
Direct and indirect taxes (DGC)	3,917	21,560	41,729	40,762	40,505	54,062	51,788	71,946	61,350	104,930	87,660
Petroleum (royalties and taxes)	1,091	4,475	22,576	29,093	31,507	38,150	29,582	41,250	23,505	45,195	23,704
Off-budget revenue	3,835	24,826	0	11,527	11,679	0	2,337	0	0	0	0
Other	1,300	9,046	21,574	13,730	13,834	21,749	21,324	34,670	32,155	49,320	42,736
Total grants	0	0	23,678	6,043	7,447	84,512	59,500	119,767	89,034	139,551	158,259
Of which: HIPC debt relief 1/	...	...	...	...	...	11,783	9,667	22,305	29,581	30,302	66,800
Total expenditure	32,988	115,147	217,954	169,438	198,593	383,663	349,339	535,151	489,465	596,812	616,998
Current expenditure	27,803	96,040	152,732	135,930	168,430	241,627	250,080	292,179	275,054	323,970	285,651
Wages	7,312	23,540	42,868	42,426	39,287	57,351	49,957	62,620	65,645	67,988	64,691
Interest due 2/ 3/	6,173	19,532	60,460	31,267	61,344	109,043	116,428	149,430	131,633	161,618	130,946
Transfers and subsidies	2,260	4,984	9,544	6,747	6,674	18,855	21,680	11,527	13,670	17,502	17,303
Other current expenditure	12,058	47,983	39,859	55,490	61,125	56,379	62,016	68,601	64,106	76,862	72,712
Of which: centralized payments 4/	1,663	13,692	8,206	15,557	15,439	17,700	16,716	23,866	19,718	27,119	22,826
Off-budget expenditure	3,835	17,404	0	11,527	11,679	0	2,337	0	0	0	0
Capital expenditure	1,062	1,694	42,061	9,985	10,385	130,218	86,755	220,108	184,830	242,264	264,547
Foreign financed	0	0	33,787	7,943	6,657	123,218	74,755	213,008	176,330	233,064	254,047
Domestic financed	1,062	1,694	8,274	2,041	3,728	7,000	12,000	7,100	8,500	9,200	10,500
Other operations	0	203	200	159	112	0	500	0	0	0	0
Guarantee and Contingency Fund	0	0	1,000	0	0	35	0	558	0	276	0
Net lending	287	-194	5,744	7,986	7,987	0	0	0	0	0	0
Unallocated poverty-related expenditure 5/	0	0	16,218	3,850	0	0	0	0	0	0	0
HIPC-related expenditure	...	...	...	...	...	11,783	9,667	22,305	29,581	30,302	66,800
Overall balance (commitment basis)	-17,897	-23,871	-50,331	-12,311	-38,954	-108,758	-100,252	-170,466	-165,242	-141,425	-156,308
Domestic primary balance (commitment basis) 6/	-11,723	-4,339	20,238	20,856	21,601	50,774	41,098	94,510	83,268	144,007	137,226
Change in arrears 7/	5,715	31,787	-1,970	5,329	4,712	-4,000	-2,094	-4,000	-3,500	-4,000	-4,000
Overall balance (cash basis, before interest rescheduling)	-12,181	7,916	-52,301	-6,982	-34,242	-112,758	-102,346	-174,466	-168,742	-145,425	-160,308
Domestic primary balance (cash basis) 6/	-11,723	8,461	18,268	26,185	26,313	46,774	39,004	90,510	79,768	140,007	133,226
Central bank operational result 8/	...	...	-3,713	-11,564	-12,280	-8,500	-10,000	-7,500	-10,000	-6,000	-10,000
Overall consolidated balance (cash basis, before interest rescheduling)	...	...	-56,014	-18,546	-46,522	-121,258	-112,346	-181,966	-178,742	-151,425	-170,308
Total financing	11,774	-5,376	56,014	19,840	49,865	121,258	112,346	181,966	178,742	151,425	170,308
Domestic financing	11,774	1,577	-7,450	-19,919	-19,026	0	-344	5,000	0	0	0
Banks	11,774	-1,488	-4,000	-12,310	-11,699	0	0	0	0	0	0
Nonbank (certificates of deposit)	0	3,065	-3,450	-7,609	-7,327	0	-344	5,000	0	0	0
Foreign financing	0	-6,953	63,463	39,759	68,891	121,257	112,690	176,967	178,742	151,425	170,308
Nondomestic nonresident banks	0	-6,953	6,953	7,097	7,096	0	0	0	0	0	0
Amortization due before debt relief 3/	-23,375	-87,351	-99,713	-70,645	-91,165	-116,938	-106,752	-121,126	-107,912	-138,380	-117,466
Change in arrears 9/	23,375	87,351	-3,243,226	-3,722,346	-3,599,475	0	0	0	0	0	0
New loans	0	0	20,001	26,564	24,663	86,376	81,268	157,049	171,611	145,290	199,038
Arrears consolidation 9/		0	1,975,613	2,267,469	2,032,531	0	0	0	0	0	0
Arrears cancellation 9/		0	1,267,613	1,454,877	1,566,943	0	0	0	0	0	0
Debt relief 10/	0	0	136,222	76,743	128,297	151,820	138,174	141,044	115,043	144,514	88,736
Financing gap after debt relief	0	0	0	0	0	0	0	0	0	0	0
Discrepancy 11/	-407	2,540	0	1,293	3,343	0	0	0	0	0	0

Table 4A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05 (concluded)

(In millions of Congo francs, unless otherwise indicated)

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
Memorandum items:											
GDP (in billions of Congo francs)	297	1,464	1,976	1,911	1,915	2,281	2,298	2,579	2,627	2,935	2,989
Revenue	5.1	6.2	7.3	7.9	7.9	8.3	8.3	9.5	9.0	10.8	10.1
Wages	2.5	1.6	2.2	2.2	2.1	2.5	2.2	2.4	2.5	2.3	2.2
Current primary expenditure (cash basis)	7.3	4.4	4.8	5.2	5.3	6.0	5.9	5.7	5.6	5.7	5.3
Investment spending 12/	0.5	0.1	2.9	1.1	1.0	6.2	4.0	9.4	7.6	9.3	10.0
Overall balance (commitment basis)	-6.0	-1.6	-2.5	-0.6	-2.0	-4.8	-4.4	-6.6	-6.3	-4.8	-5.2
Domestic primary cash balance 6/	-3.9	0.6	0.9	1.4	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Domestic primary cash balance, excl. unalloc. exp.	-3.9	0.6	1.7	1.6	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Overall consolidated cash balance 13/	-4.1	0.5	-0.4	-0.1	0.0	-2.0	-1.4	-4.0	-3.7	-2.4	-3.4

Sources: Congolese authorities; and staff estimates and projections.

1/ HIPC debt relief is equivalent to the marginal amount of debt relief provided under the HIPC Initiative after the treatment of arrears by multilateral creditors and the September 2002 Paris Club rescheduling.

2/ Scheduled interest before any treatment, plus interest on the September 2002 Paris Club rescheduling from 2002, and interest on the rescheduling under the enhanced HIPC Initiative from 2003. Excludes interest on arrears before 2002.

3/ Negotiations of agreements with Paris Club creditors following the September 2002 Paris Club rescheduling continued into 2003 and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003 when these agreements are being signed and the amounts due determined. Similarly, amounts due to non-Paris Club and commercial creditors have not been finalized and are carried over to 2004. From 2003 onward, debt service reflects possible assistance under the enhanced HIPC Inititative.

4/ In 2001 and 2002, includes a preliminary estimate of the accumulation of arrears on utilities (CGF 12 billion). Utility payments and arrears will be surveyed in 2003.

5/ Contingent expenditure that was to be mobilized in 2002 only if certain debt rescheduling assumptions were met.

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

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

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

9/ In 2002, arrears include interest and principal.

10/ Debt relief includes exceptional treatment under the September 2002 Paris Club rescheduling.

11/ Discrepancy between monetary and fiscal data.

12/ Including a portion of HIPC expenditure.

13/ Cash balance after rescheduling of interest due (including enhanced HIPC Initiative assistance). Before 2002, excludes central bank operations.

Table 4B. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
Total revenue and grants	5.1	6.2	8.5	8.2	8.3	12.1	10.8	14.1	12.3	15.5	15.4
Total revenue	5.1	6.2	7.3	7.9	7.9	8.3	8.3	9.5	9.0	10.8	10.1
Customs and excise (OFIDA)	1.7	2.1	2.9	2.9	2.9	3.4	3.7	3.8	4.5	4.0	5.0
Direct and indirect taxes (DGC)	1.3	1.5	2.1	2.1	2.1	2.4	2.3	2.8	2.3	3.6	2.9
Petroleum (royalties and taxes)	0.4	0.3	1.1	1.5	1.6	1.7	1.3	1.6	0.9	1.5	0.8
Off-budget revenue	1.3	1.7	0.0	0.6	0.6	0.0	0.1	0.0	0.0	0.0	0.0
Other	0.4	0.6	1.1	0.7	0.7	1.0	0.9	1.3	1.2	1.7	1.4
Total grants	0.0	0.0	1.2	0.3	0.4	3.7	2.6	4.6	3.4	4.8	5.3
Of which: HIPC debt relief 1/	...	...	...	...	...	0.5	0.4	0.9	1.1	1.0	2.2
Total expenditure	11.1	7.9	11.0	8.9	10.4	16.8	15.2	20.7	18.6	20.3	20.6
Current expenditure	9.4	6.6	7.7	7.1	8.8	10.6	10.9	11.3	10.5	11.0	9.6
Wages	2.5	1.6	2.2	2.2	2.1	2.5	2.2	2.4	2.5	2.3	2.2
Interest due 2/ 3/	2.1	1.3	3.1	1.6	3.2	4.8	5.1	5.8	5.0	5.5	4.4
Transfers and subsidies	0.8	0.3	0.5	0.4	0.3	0.8	0.9	0.4	0.5	0.6	0.6
Other current expenditure	4.1	3.3	2.0	2.9	3.2	2.5	2.7	2.7	2.4	2.6	2.4
Of which: centralized payments 4/	0.6	0.9	0.4	0.8	0.8	0.8	0.7	0.9	0.8	0.9	0.8
Off-budget expenditure	1.3	1.2	0.0	0.6	0.6	0.0	0.1	0.0	0.0	0.0	0.0
Capital expenditure	0.4	0.1	2.1	0.5	0.5	5.7	3.8	8.5	7.0	8.3	8.9
Foreign financed	0.0	0.0	1.7	0.4	0.3	5.4	3.3	8.3	6.7	7.9	8.5
Domestic financed	0.4	0.1	0.4	0.1	0.2	0.3	0.5	0.3	0.3	0.3	0.4
Other operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Guarantee and Contingency Fund	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.1	0.0	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated poverty-related expenditure 5/	0.0	0.0	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related expenditure	...	...	...	...	...	0.5	0.4	0.9	1.1	1.0	2.2
Overall balance (commitment basis)	-6.0	-1.6	-2.5	-0.6	-2.0	-4.8	-4.4	-6.6	-6.3	-4.8	-5.2
Domestic primary balance (commitment basis) 6/	-3.9	-0.3	1.0	1.1	1.1	2.2	1.8	3.7	3.2	4.9	4.6
Change in arrears 7/	1.9	2.2	-0.1	0.3	0.2	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Overall balance (cash basis, before interest rescheduling)	-4.1	0.5	-2.6	-0.4	-1.8	-4.9	-4.5	-6.8	-6.4	-5.0	-5.4
Domestic primary balance (cash basis) 6/	-3.9	0.6	0.9	1.4	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Central bank operational result 8/	...	...	-0.2	-0.6	-0.6	-0.4	-0.4	-0.3	-0.4	-0.2	-0.3
Overall consolidated balance (cash basis, before interest rescheduling)	...	...	-2.8	-1.0	-2.4	-5.3	-4.9	-7.1	-6.8	-5.2	-5.7
Total financing	4.0	-0.4	2.8	1.0	2.6	5.3	4.9	7.1	6.8	5.2	5.7
Domestic financing	4.0	0.1	-0.4	-1.0	-1.0	0.0	0.0	0.2	0.0	0.0	0.0
Banks	4.0	-0.1	-0.2	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank (certificates of deposit)	0.0	0.2	-0.2	-0.4	-0.4	0.0	0.0	0.2	0.0	0.0	0.0
Foreign financing	0.0	-0.5	3.2	2.1	3.6	5.3	4.9	6.9	6.8	5.2	5.7
Nondomestic nonresident banks	0.0	-0.5	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due before debt relief 3/	-7.9	-6.0	-5.0	-3.7	-4.8	-5.1	-4.6	-4.7	-4.1	-4.7	-3.9
Variation of arrears 9/	7.9	6.0	-164.1	-194.8	-188.0	0.0	0.0	0.0	0.0	0.0	0.0
New loans	0.0	0.0	1.0	1.4	1.3	3.8	3.5	6.1	6.5	5.0	6.7
Arrears consolidation 9/	0.0	0.0	100.0	118.6	106.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears cancellation 9/	0.0	0.0	64.1	76.1	81.8	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief 10/	0.0	0.0	6.9	4.0	6.7	6.7	6.0	5.5	4.4	4.9	3.0
Financing gap after debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy 11/	-0.1	0.2	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Table 4B. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05 (concluded)

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
Memorandum items:											
GDP (in billions of Congo francs)	297	1,464	1,976	1,911	1,915	2,281	2,298	2,579	2,627	2,935	2,989
Current primary expenditure (cash basis)	7.3	4.4	4.8	5.2	5.3	6.0	5.9	5.7	5.6	5.7	5.3
Domestic primary cash balance, excl. unalloc. exp.	-3.9	0.6	1.7	1.6	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Overall consolidated cash balance 12/	-4.1	0.5	-0.4	-0.1	0.0	-2.0	-1.4	-4.0	-3.7	-2.4	-3.4

Sources: Congolese authorities; and staff estimates and projections.

1/ HIPC debt relief is equivalent to the marginal amount of debt relief provided under the HIPC Initiative after the treatment of arrears by multilateral creditors and the September 2002 Paris Club rescheduling.

2/ Scheduled interest before any treatment, plus interest on the September 2002 Paris Club rescheduling from 2002, and interest on the rescheduling under the enhanced HIPC Initiative from 2003. Excludes interest on arrears before 2002.

3/ Negotiations of agreements with Paris Club creditors following the September 2002 Paris Club rescheduling continued into 2003 and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003 when these agreements are being signed and the amounts due determined. Similarly, amounts due to non-Paris Club and commercial creditors have not been finalized and are carried over to 2004. From 2003 onward, debt service reflects possible assistance under the enhanced HIPC Inititative.

4/ In 2001 and 2002, includes a preliminary estimate of the accumulation of arrears on utilities (CGF 12 billion). Utility payments and arrears will be surveyed in 2003.

5/ Contingent expenditure that was to be mobilized in 2002 only if certain debt rescheduling assumptions were met.

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

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

8/ Central bank operational net losses amounted to CGF 15.7 billions in 2001 (1 percent of GDP).

9/ In 2002, arrears include interest and principal.

10/ Debt relief includes exceptional treatment under the September 2002 Paris Club rescheduling.

11/ Discrepancy between monetary and fiscal data.

12/ Cash balance after rescheduling of interest due (including enhanced HIPC Initiative assistance). Before 2002, excludes central bank operations.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2000–03

	2000 1/	2001 2/	2002 2/			March 2003 2/		2003 2/	
	Act.	Act.	EBS/02/76	EBS/03/12	Act.	EBS/03/12	Act.	EBS/03/12	Prog.
				(In millions of Congo francs)					
Net foreign assets	-28,522	-181,368	-151,155	-179,996	-174,111	-177,421	-172,293	-172,229	-160,435
Net domestic credit	16,678	23,426	25,637	11,365	12,398	12,487	7,967	18,388	19,247
Net credit to government	13,730	12,242	7,198	-69	542	-703	-4,660	-69	542
Credit to the private sector	2,539	10,789	15,323	11,128	11,177	12,848	12,077	18,007	18,005
Credit to the parastatals	409	395	3,116	306	679	342	550	450	700
Broad money (M2)	22,004	69,686	90,721	84,696	87,626	88,295	92,775	99,094	105,545
Narrow money (M1)	18,557	42,627	52,974	61,456	57,893	64,236	61,716	72,578	70,300
Currency in circulation	15,963	31,873	36,355	50,078	49,757	52,078	52,510	58,078	59,057
Demand deposits	2,594	10,754	16,619	11,378	8,135	12,159	9,206	14,500	11,243
Quasi money	3,447	27,059	37,747	23,240	29,733	24,059	31,059	26,516	35,244
Time deposits in domestic currency	0	25	35	63	162	65	232	70	342
Foreign currency deposits	3,446	27,034	37,712	23,177	29,571	23,994	30,826	26,446	34,902
Import deposits	1,554	6,347	9,655	3,916	3,893	4,014	4,506	4,308	6,500
Other items, net (incl. valuation change)	-35,402	-233,974	-225,894	-257,243	-253,233	-257,243	-261,609	-257,243	-253,233
Of which: valuation change	-27,928	0	-169,959	194,352	60,855	194,352	92,288	194,352	60,855
				(Annual percentage change)					
Net foreign assets	-1,211	-536	14	1	4	1	1	4	8
Net domestic credit	321	40	4	-51	-47	10	-36	62	55
Net credit to government	278	-11	-36	-101	-96	922	960	0	0
Credit to the private sector	795	325	41	3	4	15	8	62	61
Credit to the parastatals	715	-3	26	-23	72	12	-19	47	3
Broad money (M2)	493	217	35	22	26	4	6	17	20
Narrow money (M1)	436	130	32	44	36	5	7	18	21
Currency in circulation	442	100	20	57	56	4	6	16	19
Demand deposits	401	314	70	6	-24	7	13	27	38
Quasi money	1,291	685	40	-14	10	4	4	14	19
Time deposits in domestic currency	-80	6,867	40	153	547	3	44	11	112
Foreign currency deposits	1,301	684	40	-14	9	4	4	14	18
Import deposits	658	308	22	-38	-39	3	16	10	67
Other items, net	-1,564	-561	0	-10	-8	0	-3	0	0
				(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	-710	-695	36	2	10	3	2	9	16
Net domestic credit	343	31	2	-17	-16	1	-5	8	8
Net credit to government	272	-7	-6	-18	-17	-1	-6	0	0
Credit to the private sector	61	37	7	0	1	2	1	8	8
Credit to the parastatals	10	0	1	0	0	0	0	0	0
Broad money (M2)	493	217	35	22	26	4	6	17	20
Narrow money (M1)	407	109	19	27	22	3	4	13	14
Currency in circulation	351	72	9	26	26	2	3	9	11
Demand deposits	56	37	10	1	-4	1	1	4	4
Quasi money	86	107	16	-5	4	1	2	4	6
Time deposits in domestic currency	0	0	0	0	0	0	0	0	0
Foreign currency deposits	86	107	16	-6	4	1	1	4	6
Import deposits	36	22	3	-3	-4	0	1	0	3
Other items, net	-897	-902	0	-33	-28	0	-10	0	0
Memorandum items:									
Velocity (GDP/ broad money)	14	21	22	23	22	...	...	23	22
Net foreign assets (in millions of U.S. dollars)	-570	-582	-482	-574	-555	-566	-549	-549	-512
Of which: central bank	-606	-623	-573	-605	-609	-596	-610	-580	-572

Sources: Congolese authorities; and staff estimates and projections.

Note: The end-2001, end-2002, and end-March 2003 monetary surveys have been audited by an international firm.

1/ At end-2000 exchange rate (1US$ = CGF 50).
2/ At end-2001 exchange rate (1US$ = CGF 313.6).

Table 6. Democratic Republic of Congo: Balance of Payments Summary, 2001–05

	2001	2002			2003		2004		2005	
	Est.	EBS/02/76	EBS/03/12	Prelim. Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
	(In millions of U.S. dollars)									
Current account	-250	-222	-181	-160	-285	-206	-537	-460	-535	-563
Merchandise trade	74	59	-58	27	-310	-145	-408	-288	-308	-387
Exports, f.o.b.	880	1,013	1,011	1,088	1,075	1,150	1,297	1,312	1,585	1,528
Imports, f.o.b.	-807	-955	-1,069	-1,061	-1,384	-1,296	-1,705	-1,600	-1,893	-1,915
Of which: aid-related imports 1/	-194	-245	-243	-237	-433	-328	-543	-460	-559	-572
Services	-179	-244	-239	-252	-293	-276	-355	-338	-397	-401
Receipts	81	87	98	102	104	115	110	125	113	131
Of which: MONUC 2/	8	17	15	15	20	20	19	19	13	13
Expenditure	-260	-331	-336	-354	-397	-390	-466	-463	-510	-532
Of which: aid-related imports 1/	-88	-104	-109	-109	-145	-125	-167	-158	-172	-179
Income	-412	-315	-203	-298	-277	-287	-410	-354	-471	-380
Receipts	20	20	21	21	23	23	23	24	21	24
Of which: MONUC 2/	3	4	5	5	6	6	5	5	4	4
Expenditure	-432	-335	-224	-319	-300	-309	-433	-378	-492	-404
Of which: interest payments 3/	-410	-311	-198	-286	-274	-278	-363	-302	-378	-291
Of which: IMF charges	-16	-3	-1	-1	-3	-3	-3	-3	-4	-4
interest on arrears	-319	-144	-142	-144	0	0	0	0	0	0
Current unrequited transfers	268	278	318	363	594	502	637	520	640	606
Of which: official aid	295	321	361	361	529	430	530	424	524	491
Capital and financial account	-315	73	143	148	-102	-101	172	197	208	340
Official capital	-308	99	196	136	-72	-61	97	145	31	179
Gross disbursements 4/	10	402	404	398	222	193	388	390	353	437
Of which: net new financing	10	70	83	72	222	193	388	390	353	437
Amortization 5/	-318	-302	-207	-263	-293	-253	-292	-245	-322	-258
Private capital (net)	-7	-26	-54	12	-30	-41	75	52	177	161
Of which: foreign direct investment	82	112	118	117	123	136	193	209	258	281
Balance before errors and omissions	-565	-148	-39	-12	-387	-307	-365	-264	-327	-223
Errors and omissions	-144	0	0	-149	0	0	0	0	0	0
Overall balance	-709	-148	-39	-161	-387	-307	-365	-264	-327	-223
Financing	709	-9,656	-10,430	-10,169	-25	-44	-30	-64	-82	-118
Net change in non-Fund arrears 6/	698	-9,579	-10,422	-10,142	0	0	0	0	0	0
Net banking sector reserves (increase, -)	11	-77	-8	-26	-25	-44	-30	-64	-82	-118
Of which: net Fund credit 7/	16	19	19	21	67	69	68	69	68	69
Financing gap before exceptional assistance	0	-9,804	-10,469	-10,330	-412	-351	-396	-328	-409	-341
Exceptional assistance	0	9,804	10,469	10,330	412	351	396	328	409	341
Items related to arrears clearance	0	9,391	10,244	9,960	0	0	0	0	0	0
Consolidation/cancellation of end-2001 arrears (excl. IMF) 6/	0	9,579	10,422	10.142	0	0	0	0	0	0
Of which: African Development Bank arrears clearance grant	0	128	128	18	0	0	0	0	0	0
Consolidation of interest on arrears accumulated in 2002	0	144	142	144	0	0	0	0	0	0
Repayment of World Bank bridge loan 4/	0	-331	-321	-326	0	0	0	0	0	0
Assistance on debt service	0	413	225	370	412	351	396	328	409	341
Relief from reschedulings/Naples flow 8/	0	319	225	273	238	160	191	91	181	55
Relief on current maturities	0	201	123	108	238	160	191	91	181	55
Relief on non-Fund arrears on current maturities accumul. in 2002	0	117	102	166	0	0	0	0	0	0
Capitalization of moratorium interest 9/	0	95	0	96	142	168	149	170	155	139
Possible HIPC-related resources 10/	0	0	0	0	31	23	56	67	73	147
Memorandum items:	(In percent of GDP, unless otherwise indicated)									
Debt service, after debt relief (percentage of goods and services exports) 11/	75.7	5.1	3.5	2.9	13.2	14.2	18.4	15.2	17.1	12.5
Current account balance, incl. grants, before debt relief	-4.7	-3.7	-3.2	-2.9	-5.0	-3.8	-8.6	-7.7	-7.8	-8.6
Current account balance, excl. grants, before debt relief	-10.2	-9.1	-9.7	-9.4	-14.2	-11.7	-17.2	-14.8	-15.5	-16.1
Debt relief on interest, HIPC debt relief, penalty interest consolidation (millions of U.S. dollars) 11/	...	287	189	276	222	213	245	254	264	296
Current account balance, incl. grants, after debt relief 11/	-4.7	1.1	0.1	2.1	-1.1	0.1	-4.7	-3.5	-4.0	-4.1
Current account balance, excl. grants, after debt relief 11/	-10.2	-4.3	-6.3	-4.5	-10.4	-7.8	-13.2	-10.6	-11.6	-11.6
Gross official reserves (millions of U.S. dollars)	22	111	86	75	178	191	254	254	341	341
In weeks of non-aid-related imports	1.4	6.2	4.2	3.6	7.7	8.0	9.1	9.1	10.6	10.5
Possible HIPC assistance 12/	...	...	...	...	337	383	289	402	268	377

Sources: Congolese authorities; staff estimates and projections; and end-2001 debt sustainability analysis (DSA).

1/ 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 imports by the UN peacekeeping forces, MONUC, are not included because they do not pass through normal customs channels.

2/ Expenditures of 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.

3/ Includes interest on current maturities plus projected interest on arrears up to end-May 2002. Thereafter includes interest on current maturities plus moratorium interest on rescheduled debt. Negotiation of agreements with Paris Club creditors following the September 2002 Naples rescheduling continued into 2003, and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003, when these agreements are signed and the amounts due determined. Similarly, amounts due to non-Paris Club and commercial creditors have not been finalized and are carried over to 2004.

4/ Includes a US$326 million (at end-2001 exchange rates) disbursement by IDA to repay the bridge loan incurred for the clearance of arrears in July 2002.

5/ Includes amortization on current maturities up to 2001, exclusive of the IMF. Thereafter, also includes principal on rescheduled debt. Negotiation of agreements with Paris Club creditors following the September 2002 Naples rescheduling continued into 2003 and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003 when these agreements are signed and the amounts due determined. Similarly, amounts due to nonParis Club and commercial creditors have not been finalized and are carried over to 2004.

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

7/ Includes the accumulation of arrears to the IMF prior to 2002. In 2002, net Fund credit is net of the reduction in arrears and the successor PRGF arrangement.

8/ Includes debt relief from multilateral creditors provided from 2002 onward following the clearance of arrears, which includes debt relief on the accumulation of arrears on current maturities in 2002. Also includes debt relief under the 2002 Paris Club agreement, which provides a Naples flow rescheduling on pre-cutoff date debt, deferral of arrears on post-cutoff-date maturities at end-June 2002, deferral of post-cutoff-date maturities due in the second half of 2002, and capitalization of all moratorium interest during the IMF-supported program. Comparable treatment by non-Paris Club official bilateral creditors and commercial creditors is assumed. From 2003, also includes additional debt relief anticipated under the enhanced HIPC Initiative.

9/ Capitalization of moratorium interest under the 2002 Paris Club agreement provided by Paris Club and other official bilateral and commercial creditors.

10/ Additional debt relief resources anticipated from 2003 onward under the enhanced HIPC Initiative.

11/ Includes debt relief on interest from multilateral creditors, debt relief on interest from official bilateral and commercial creditors under the September 2002 Paris Club agreement, enhanced HIPC Initiative relief on interest and principal payments falling due in the interim period, and the consolidation of penalty interest on arrears accumulated in 2002.

12/ For Paris Club and other bilateral and commercial creditors, HIPC assistance is equivalent to the difference between the projected debt service after full use of traditional debt relief and debt service after the application of enhanced HIPC Initiative relief (namely, Cologne flow operation in the interim the period, and Cologne stock-of-debt operation at the completion point). For multilateral creditors, HIPC assistance is equivalent to the difference between the debt service following arrears clearance operations and debt service after the application of enhanced HIPC Initiative relief.

Table 7. Democratic Republic of the Congo: Nominal and Net Present Value of, and Arrears on External Public Debt by Creditor Group, End-December 2001

	Nominal Debt Stock		Net Present Value of Debt		Arrears 1/	
	Millions of U.S. dollars	Percent of total	Millions of U.S. dollars	Percent of total	Millions of U.S. dollars	Percent of total
Total	13,279.5	100.0	12,504.4	100.0	10,645.6	100.0
Multilateral	3,206.5	24.1	2,638.7	21.1	1,800.1	16.9
World Bank Group	1,359.7	10.2	880.5	7.0	317.6	3.0
IBRD	128.0	1.0	128.0	1.0	128.0	1.2
IDA	1,231.7	9.3	752.5	6.0	189.6	1.8
African Development Bank Group	1,027.5	7.7	982.9	7.9	778.5	7.3
African Development Bank	842.3	6.3	856.2	6.8	737.9	6.9
African Development Fund	185.2	1.4	126.7	1.0	40.6	0.4
IMF	503.4	3.8	503.4	4.0	503.4	4.7
European Investment Bank (EIB)	21.0	0.2	21.0	0.2	21.0	0.2
European Union (EU)	168.3	1.3	135.8	1.1	79.8	0.8
EU, administered by IDA	11.4	0.1	7.4	0.1	2.3	0.0
International Fund for Agricultural Development (IFAD)	25.3	0.2	17.9	0.1	7.6	0.1
Arab Bank for Economic Development in Africa (BADEA)	21.5	0.2	21.5	0.2	21.5	0.2
Organization of Petroleum Exporting Countries (OPEC) Fund	0.7	0.0	0.7	0.0	0.7	0.0
International Finance Corporation (IFC)	26.0	0.2	26.0	0.2	26.0	0.2
Development Bank of the Great Lakes States (BDEGL)	6.3	0.0	6.3	0.1	6.3	0.1
Bank of Central African States (BEAC) 2/	35.3	0.3	35.3	0.3	35.3	0.3
Bilateral and commercial	10,073.0	75.9	9,865.7	78.9	8,845.6	83.1
Paris Club 3/	9,338.3	70.3	9,138.9	73.1	8,229.4	77.3
Pre-cutoff date	1,178.5	8.9	1,087.9	8.7	7,546.8	70.9
Post-cutoff date 2/	8,159.7	61.4	8,051.0	64.4	682.5	6.4
Other official bilateral 2/	463.0	3.5	455.5	3.6	365.6	3.4
Commercial	271.7	2.0	271.3	2.2	250.6	2.4

Sources: Congolese authorities; staff estimates and projections; and end-2001 debt sustainability analysis (DSA).

1/ Includes estimated penalty interest on arrears.
2/ Stocks include short-term debt that has been in arrears for more than a year.
3/ The Paris Club cutoff date is June 30, 1983.

Table 8. Democratic Republic of the Congo: Debt Service on External Debt, 2001–05 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2001 Est.	2002 Prelim. Est.	2003 Prog.	2004 Proj.	2005 Proj.
Before normalization of relations 2/					
Debt service due	727.8	638.1	592.6	577.0	534.5
Interest	410.2	377.7	402.0	418.0	398.3
IMF	15.6	10.9	10.8	10.8	10.8
World Bank	13.0	12.8	12.8	12.7	12.7
African Development Bank Group	40.4	41.9	42.9	43.2	43.5
Other multilaterals	4.9	3.1	4.3	4.3	4.3
Bilaterals	333.2	309.0	331.3	347.0	327.1
Short term	3.1	0.0	0.0	0.0	0.0
Principal	317.7	260.4	190.6	159.1	136.1
IMF	0.0	0.0	0.0	0.0	0.0
World Bank	23.6	20.3	22.5	23.7	25.5
African Development Bank Group	31.8	20.8	22.9	20.2	16.6
Other multilaterals	5.4	0.0	5.6	4.5	4.6
Bilaterals	256.9	219.3	139.5	110.7	89.4
Short term	0.0	0.0	0.0	0.0	0.0
After normalization and new financing, but before debt relief 3/					
Debt service due	...	404.5	531.1	547.1	548.6
Interest	...	141.8	277.6	302.0	290.8
IMF	...	1.4	3.0	3.3	3.7
World Bank	...	9.3	11.5	13.4	15.8
African Development Bank Group	...	8.4	7.6	6.5	5.3
Other multilaterals	...	0.0	2.6	4.3	4.7
Bilaterals	...	122.7	252.9	274.5	261.3
Short term	...	0.0	0.0	0.0	0.0
Principal	...	262.7	253.5	245.1	257.8
IMF	...	0.0	0.0	0.0	0.0
World Bank	...	20.3	22.5	23.7	25.5
African Development Bank Group	...	20.8	22.9	24.0	26.7
Other multilaterals	...	0.0	6.2	19.4	23.9
Bilaterals	...	221.6	201.8	178.0	181.8
Short term	...	0.0	0.0	0.0	0.0
After normalization, new financing and debt relief (incl. HIPC) 4/					
Debt service due	...	34.8	180.0	218.6	207.2
Interest	...	10.5	79.6	86.6	69.3
IMF	...	1.4	2.3	2.0	2.4
World Bank	...	8.6	8.1	6.7	9.3
African Development Bank Group	...	0.6	0.9	0.8	0.9
Other multilaterals	...	0.0	2.4	2.2	3.0
Bilaterals	...	0.0	65.8	74.9	53.7
Short term	...	0.0	0.0	0.0	0.0
Principal	...	24.3	100.4	132.0	138.0
IMF	...	0.0	0.0	0.0	0.0
World Bank	...	14.3	12.4	2.4	2.6
African Development Bank Group	...	1.8	2.9	1.5	2.8
Other multilaterals	...	0.0	5.6	14.6	14.0
Bilaterals	...	8.2	79.4	113.5	118.6
Short term	...	0.0	0.0	0.0	0.0
Memorandum items:					
Debt service due, before normalization of relations 2/					
In percent of goods and nonfactor services exports	75.7	53.6	46.9	40.2	32.2
In percent of government revenue (incl. grants)	217.7	138.7	100.2	78.4	52.9
Debt service due, after normalization and new financing, before debt relief 3/					
In percent of goods and nonfactor services exports	...	34.0	42.0	38.1	33.1
In percent of government revenue (incl. grants)	...	2.8	89.8	74.3	54.3
Debt service due, after normalization, new financing, and debt relief 4/					
In percent of goods and nonfactor services exports	...	2.9	14.2	15.2	12.5
In percent of government revenue (incl. grants)	...	7.6	30.4	29.7	20.5

Sources: Congolese authorities; staff estimates and projections; and end-2001 debt sustainability analysis (DSA).

1/ Reflects debt service on current maturities and on reschedulings following the delivery, from 2003 onward, of assistance related to the enhanced HIPC Initiative. Negotiations of agreements with Paris Club creditors following the September 2002 Naples rescheduling continued into 2003, and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003, when these agreements are being signed and the amounts due determined. Similarly, amounts due to non-Paris Club and commercial creditors have not been finalized and are carried over to 2004. Based on end 2001 DSA data.

2/ Equal to debt service on current maturities, plus penalty interest on arrears.

3/ Equal to debt service on current maturities, reschedulings, and new financing.

4/ Equal to debt service on current maturities, reschedulings, and new financing, less estimated debt relief anticipated from 2003 under the enhanced HIPC Initiative.

Table 9. Democratic Republic of the Congo: Financing Requirements, 2002–05

(In millions of U.S. dollars)

	2002 Prelim. Est.	2003 Prog.	2004 Proj.	2005 Proj.
Financing gap before normalization 1/	-968	-1,043	-1,211	-1,338
Humanitarian assistance and World Bank post-conflict recovery grants	196	172	146	132
UN humanitarian assistance	90	82	83	82
Bilateral humanitarian assistance	104	88	60	48
World Bank post-conflict multidonor trust fund grant	2	2	2	2
Financing gap after humanitarian assistance and project financing	-772	-870	-1,065	-1,206
Clearance of arrears	144	0	0	0
Clearance of end-2001 arrears 2/	0	0	0	0
Reduction in arrears outstanding at end-2001	-10,646	0	0	0
IMF 3/	-503	0	0	0
Other creditors	-10,142	0	0	0
World Bank 3/	-318	0	0	0
African Development Bank (AfDB) Group	-779	0	0	0
Other creditors	-9,046	0	0	0
Consolidation and cancellation of arrears outstanding at end-2001	10,646	0	0	0
IMF 3/	503	0	0	0
Other creditors	10,142	0	0	0
World Bank 3/	318	0	0	0
African Development Bank Group	779	0	0	0
Other creditors	9,046	0	0	0
Cancellation of penalty interest on arrears in 2002 4/	144	0	0	0
Financing gap after arrears clearance	-628	-870	-1,065	-1,206
Assistance on debt service	370	351	328	341
Debt relief from reschedulings/Naples flow 5/	273	160	91	55
Relief on current maturities 4/	108	160	91	55
Relief on non-Fund arrears on current maturities accumulated in 2002	166	0	0	0
Capitalization of moratorium interest 6/	96	168	170	139
HIPC-related resources 7/	0	23	67	147
Financing gap after assistance on debt service	-258	-519	-737	-864
Project grant and loan assistance 8/	165	317	544	715
World Bank: Emergency Economic and Social Support grants	19	26	5	0
World Bank: EMRRP grants	0	22	22	0
World Bank: EMRRP credits	0	36	152	213
World Bank: other project credits	0	20	56	56
World Bank: IDA Trust Fund grants	0	0	0	0
Multilateral demobilization and reintegration program (MDRP)	0	0	40	50
UN: project grants	39	35	36	35
AfDB: PMAI (EMRRP) project grants	0	1	3	0
AfDB: PAPURC (non-EMRRP) project grants	1	2	1	0
AfDB: EMRRP credits	0	3	13	17
Other multilaterals: EMRRP grants	0	0	3	5
Other multilaterals: other project grants	0	0	0	0
European Union (EU): EMRRP grants	9	43	64	63
EU: other project grants	53	48	10	3
Bilateral donors: EMRRP grants	0	22	38	135
Bilateral donors: EMRRP credits	0	1	41	66
Bilateral donors: other project grants	44	59	60	73
Bilateral donors: other project loans	0	0	0	0
Financing gap after project financing	-93	-203	-193	-149
Budget and balance of payments loan assistance	93	203	193	149
IMF: PRGF	21	69	69	69
World Bank: ERC, ESRP, and other budget-support credits	72	134	67	80
AfDB	0	0	58	0
Other multilaterals: budget support	0	0	0	0
Financing gap after new loan (nonproject) financing	0	0	0	0
Memorandum items:				
Projected stock of arrears at arrears clearance 9/	10,880			
IMF	508			
World Bank	326			
African Development Bank Group	828			
Other multilaterals	232			
Bilateral	8,985			
Short term	0			
Of which: arrears outstanding as of end-2001	10,646			
IMF	503			
World Bank	318			
Other creditors	9,825			

Sources: Congolese authorities; staff estimates and projections; and end-2001 debt sustainability analysis (DSA).

1/ Financing gap, excluding grants and new disbursements, and including penalty interest on arrears for the period January-May 2002.
2/ The reduction in arrears for 2002 on a calendar-year basis is equal to the sum of arrears as of end-2001.
3/ The IMF and World Bank cleared arrears through a bridge loan equal to the amount of arrears outstanding at the time of clearance in 2002. The total arrears cleared include accumulation of arrears on current maturities and penalty interest on arrears in the first half of 2002.
4/ The projected accumulation of arrears on current maturities and penalty interest on arrears in 2002 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, and reflects the impact of the exceptional treatment provided under the September 2002 Paris Club rescheduling.
6/ Capitalization of moratorium interest under the September 2002 Paris Club rescheduling, assuming equal treatment by other bilateral and commercial creditors.
7/ Includes additional debt relief anticipated from 2003 related to the enhanced HIPC Initiative.
8/ By implementing agency. Includes currently unidentified bilateral co-financing for the EMRRP.
9/Arrears at end-2001, plus penalty interest on arrears and accumulation of arrears on current maturities in 2002.

Table 10. Democratic Republic of the Congo and Sub-Saharan Africa: Selected Poverty and Living Standards Indicators

(In percent, unless otherwise indicated)

	DRC Latest Single Year	Sub-Saharan Africa (1994–2000)
Population, midyear (millions, 2001)	54	659
Population growth rate (2001)	2.7	2.6
GDP per capita in U.S. dollars (2001)	99	470
Infant mortality (per thousand, 1998)	128	91
Child mortality (per thousand, 1998)	207	162
Maternal mortality rate (per 100,000 live births)	1,289	...
HIV/AIDS prevelance (adults, 2001)	4.9	8.0
HIV/AIDS prevelance for women in conflict areas	8.0	...
Literacy rate (2001)		
Male	83.0	69.0
Female	54.0	53.0
Gross school enrollment rates (1998)		
Male	49.7	85.0
Female	44.0	71.0
Impact of conflict		
Child soldiers (thousands)	10.0–15.0	
Displaced persons (millions)	2.0–3.0	
Deaths from deprivation (millions)	3.3	

Sources: Congolese authorities; World Bank; and United Nations Children's Fund (UNICEF).

Translated from French

Kinshasa, July 3, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Köhler:

1. On June 12, 2002, the IMF's Executive Board approved a three-year arrangement for the Democratic Republic of the Congo (DRC) under the Poverty Reduction and Growth Facility (PRGF). This arrangement was designed to support the Government Economic Program (PEG) for the period April 1, 2002 - July 31, 2005. In accordance with this arrangement, the government of the DRC has conducted discussions with an IMF mission on the second program review covering the period October 1, 2002 to March 31, 2003. These discussions examined program implementation during this period, as well as the outlook for, and the economic and financial measures to be implemented during, the remainder of 2003, taking into account the reunification of the DRC. The government of the DRC remains determined to implement the policies and measures described in the interim poverty reduction strategy paper (I-PRSP) as well as in the memorandum on economic and financial policies (MEFP), which is attached to this letter and supplements its letters of April 13, 2002 and February 4, 2003.

2. We are pleased to note the broadly satisfactory implementation of the PEG during its first twelve months, in spite of a difficult international situation characterized in particular by a substantial rise in the prices of petroleum products. However, we are aware that further measures continue to be needed to better manage public expenditure and its composition. The government is determined to strengthen its current efforts aimed at achieving macroeconomic stability. The Central Bank of the Congo (BCC) will continue to pursue an independent monetary policy, as required by its charter, and which will remain focused on price stability. Furthermore, the government remains committed to implementing its on-going and far-reaching structural and sectoral reform program to create an outward-oriented environment conducive to sustainable economic growth and poverty reduction throughout our national territory.

3. The year 2003 has been a year of restoration of peace and reunification for our country, and this, in turn, poses new challenges for the government. The government will execute an amended budget for 2003, which will entail submission of a supplementary budget law to the first session of Parliament in July 2003. On the basis of a review of the situation in the reunified provinces, which is to be conducted as expeditiously as possible, the government will prepare a reunification and pro-poor 2004 budget in the coming months, which will cover the entire DRC. We are determined to prepare free and transparent elections after a two-year transition period, while vigorously pursuing our efforts toward economic and financial rehabilitation and adjustment with the support of the international community.

4. The review of the performance criteria as at end-March 2003 indicates that three quantitative performance criteria, one continuous performance criterion, and one structural performance criterion were not observed. The floor on the BCC's net foreign assets was missed by US$7 million. The ceilings on the net domestic assets of the BCC and on net bank credit to the government, adjusted for external foreign aid, were overshot by 0.6 percent of GDP and 0.2 percent of GDP, respectively. Finally, the continuous performance criterion prohibiting budgetary expenditure financed by the BCC without the prior authorization of the Ministry of Finance (effective as of March 24, 2003), was not observed at end-March 2003, although these outlays had been made in agreement with the Minister of Finance but without the required documentation. The structural performance criterion concerning the adoption of new procedures for public expenditure, reestablishing and rationalizing the expenditure chain, is being put in place with some delay. Taking account of the corrective measures described in the attached memorandum, the government requests waivers from the IMF Executive Board with respect to the nonobservance of these three quantitative performance criteria, the continuous performance criterion, and the structural performance criterion referred to above.

5. We hope that the government's firm determination and actions to ensure the rigorous implementation of our wide-ranging PGRF-supported program will help the DRC to benefit swiftly from further consolidation of its external debt under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. We also hope that the external financing for priority investment programs and projects in the social and infrastructure sectors, designed in collaboration with World Bank staff, will materialize. Indeed, efforts to restore growth and reduce poverty are dependent not only on government actions but also on timely financing for the government's investment programs and projects.

6. The government will submit all information requested by the Fund on the progress in implementing its financial and economic policies, and the attainment of its program targets, as described in the attached technical memorandum of understanding (TMU). As in the past, the government authorizes the publication of this letter, the MEFP attached to this letter, and the associated IMF staff report. In addition, the DRC will undertake with the IMF the third and fourth six-month reviews of its economic program supported by the PRGF, which are expected to be completed by January 15, 2004, and July 15, 2004, respectively.

7. The government of the DRC considers that the policies and measures set out in the attached memorandum are adequate to achieve its program objectives. The government is prepared to take any further measures that may be necessary toward this end. Moreover, the government pledges to consult the IMF, whether on its own initiative or upon your request, on the adoption of any measures that may prove necessary.

Sincerely yours,

/s/

His Excellency
The President of the Democratic Republic of the Congo
Joseph Kabila

Translated from French

Democratic Republic of the Congo
Memorandum on Economic and Financial Policies for 2003

Kinshasa, July 3, 2003

I. Introduction

1. The Democratic Republic of the Congo (DRC) is going through a critical period in its history, both politically and economically. On the political and institutional side, the new Transitional Constitution was enacted on April 4, 2003. His Excellency Major General Joseph Kabila was sworn in as President of the Republic on April 7, 2003 for a transitional period of two years, after which free and transparent elections are to be held. The four Vice-Presidents, Mr. Jean-Pierre Bemba (Mouvement de Libération du Congo), Mr. Azarias Ruberwa (Rassemblement Congolais pour la Démocratie-Goma), Mr. Yerodia Abdoulaye Ndombasi (Mouvance Présidentielle), and Mr. Zahidi Ngoma (unarmed political opposition), will be sworn in on July 14, 2003. The new Government of National Unity will take office on July 11, 2003 and the Council of Ministers will meet for the first time on July 15, 2003. On July16, 2003, the new government will formally and publicly state its intention to continue to implement the Government Economic Program (PEG) and its Interim Poverty Reduction Strategy Paper. It will also present this program to the new National Assembly and the Senate before end-July 2003. A new army of National Unity will be established. The country has now been reunified and peace has been restored, although tensions remain in some regions, particularly in the eastern part of the country. We call on the international community to continue to help us fill as soon as possible the security vacuum in some parts of our vast national territory. We welcome the decision of the United Nations (UN) to deploy an international force in Ituri to restore peace. Moreover, the third phase of operations of the United Nations Organization Mission (MONUC) in the DRC continues. We hope that the Multi-Country Demobilization and Reintegration Program (MDRP) for soldiers will be put into place as quickly as possible, with the assistance of the World Bank and the United Nations. We plan to take stock of the situation in all provinces as soon as possible, with the help of our international partners and especially the World Bank, so that we can better identify their needs and consolidate the reunification of the country without jeopardizing our macroeconomic stability. On this basis, and bearing in mind the objectives set out in our interim Poverty Reduction Strategy Paper (I-PRSP), we will be better able to prepare the government's pro-poor budget for 2004, which will cover the entire country for the first time since the restoration of peace. In the meantime, we will execute an amended 2003 budget, particularly to take account of expenditures relating to the installation of the Government of National Unity and the country's new institutions, as well as the revenue expected from the reunified provinces. Accordingly, a draft Supplementary Budget Law will be adopted by the government by end-June 2003 and submitted to the first session of Parliament in July 2003.

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II. PEG IMPLEMENTATION DURING THE PERIOD OCTOBER 2002–MARCH 2003

2. We are pleased to note that implementation of the government economic program (PEG) was broadly satisfactory during the period October 2002–March 2003, despite the need to better manage public expenditure and its composition, and some delays in implementing structural and sectoral reforms since the start of 2003. Taking into account the less favorable international situation and the impact of reunification, we believe that the overall objectives for end-2003 can still be met. We are aware, however, that one of the major challenges facing the new Government of National Unity will be to maintain interministerial coordination. To this end, we plan in particular to strengthen the two interministerial committees responsible for monitoring the implementation of the PEG and the poverty reduction strategy, respectively, and to take into account the new composition of the government. With the help of the international community, we will continue to strengthen the administrative capacity of the central government and, gradually, the provincial and local governments as well.

3. Our estimates confirm the resumption of economic growth in 2002, which amounted to about 3 percent, as programmed (Table 1). Preliminary estimates for 2003 confirm this trend. According to the new National Investment Promotion Agency (ANAPI), which was created to simplify administrative procedures, more than forty investment applications from the domestic and foreign private sector covering the period 2003–07 and amounting to some US$1.3 billion have been approved. End-of-period inflation was 16 percent at end-December 2002, compared with the originally programmed rate of about 13 percent for 2002, down sharply from 135 percent at end-2001. At end-May 2003, end-of-period inflation stood at 4.6 percent, owing to the rise in the prices of petroleum products by 9 percent on February 15 and 10 percent on March 17. The rate adjusted for these two price increases was around 2.5 percent, in line with the inflation rate of 6 percent projected for the end of the year. The exchange rate depreciated by 23 percent in 2002, but has remained stable at around CGF 415 per US$1 since the beginning of 2003.

Fiscal policy

4. Through end-2002, fiscal performance was better than originally programmed and largely in line with the estimates made with Fund staff during the first program review. Revenue (excluding grants) was higher than expected thanks to oil revenue, while total expenditure was lower. However, current expenditure, particularly on goods and services, was higher than anticipated despite the measures adopted by year's end to freeze operating expenditure with the exception of certain minimum allocations (*dotations minimales)*, while capital expenditure, particularly externally financed capital expenditure, was far lower than programmed, as project-related disbursements were much smaller than anticipated. As a result, the planned shift in the composition of expenditure in favor of social and infrastructure expenditure was not achieved. Expenditures of the *Institutions politiques* (including the Presidency) and on security and defense continued to rise, including during the last quarter, and amounted to 48 percent of primary expenditure for the year (3.3 percent of GDP). In addition, arrears estimated at 0.6 percent of GDP were accumulated on utility

outlays. The domestic primary balance (cash basis) nonetheless showed a surplus representing 1.4 percent of annual GDP, compared with the 0.9 percent initially programmed, and the overall unconsolidated balance a surplus of 0.6 percent instead of the projected deficit of 0.3 percent of GDP (Table 2A). Despite the BCC's higher-than-anticipated cash deficit, the consolidated overall balance (cash basis) was balanced, compared with the programmed deficit of 0.4 percent. Taking account of net foreign disbursements, unadjusted net bank credit to the government was much lower than programmed.

5. The government's 2003 budget was adopted by Parliament on March 2, 2003, and follows the new functional, administrative and economic classification system. In addition, the budget provides for the elimination of 153 *budgets annexes.* The monthly cash-flow plan (cash basis) continues to be implemented. However, the BCC, in agreement with the Minister of Finance, but without the required documentation, has financed extrabudgetary expenditure in violation of the presidential decree of April 12, 2002. Consequently, the applicable continuous performance criterion—in effect since March 24, 2003—was missed by roughly US$1.2 million. During the first two months of the year, expenditure was executed by renewing the monthly appropriations for 2002. The budget execution instructions that are about to be published will initiate implementation of the new expenditure chain, from the commitment to the payment phase.

6. Although revenues were on track during the first three months of 2003, we realize that measures need to be taken to limit exemptions and to eliminate the offsetting of revenue. Total expenditure was 0.5 percent of GDP lower than projected, owing in particular to externally financed project expenditure and external debt service, which were lower than projected. Domestic primary expenditure, however, was 0.4 percent of GDP higher than programmed. Despite a larger than programmed increase in military and police salaries and the delay in eliminating "ghost workers" from the government payroll, wage expenditure was lower than expected, mainly as a result of the postponement of the planned increase in civil service wages. There were no wage arrears at end-March 2003. The census of civil servants, which was to have been conducted with assistance from Belgium and the UNDP, was delayed. Military and security expenditure, as well as expenditure by the *Institutions politiques* (including the Presidency), continued to rise, owing to the Intercongolese Dialogue and the security vacuum in some parts of the country. The domestic primary balance (cash basis) shows a surplus of 0.1 percent of GDP as opposed to the 0.5 percent programmed, the overall unconsolidated balance (on a cash basis) a surplus of 0.1 percent of GDP instead of a 0.1 percent deficit, and the consolidated balance a deficit of 0.1 percent of GDP instead of 0.2 percent. All certificates of deposit were paid off, as provided for in the program. Net bank credit to the government, before adjustment to account for net external disbursements, was much lower than expected.

7. Temporary cash-flow difficulties led the government to have recourse to interest-bearing advances from oil-producing companies in the amount of US$9.5 million in January and February 2003. However, these advances were fully repaid by end-March 2003, and the expenditure financed with these advances—which were included in the government cash-flow plan—were duly executed with the prior approval of the Minister of Finance.

8. There was a slight delay in the implementation of the planned tax measures and reforms owing to administrative constraints. Cash-flow management benefited from the regular updating of the expenditure commitment plan that defines ministerial appropriations, and the elimination in February 2003 of the mechanism for offsetting revenues from the quasi-taxation of petroleum against fuel expenditure by the armed forces and the Presidency. However, the balances of the *budgets pour ordre* (special budgets) have not yet been transferred to the general treasury account, and tax payments owed by GECAMINES are still being made through offsetting, as well as part of the taxes owed by the diamond company (MIBA).

9. The reforms to modernize the tax and customs administrations have continued. In particular, in March 2003 the Large Enterprises Directorate was established within the General Directorate of Taxes and is now operational. The enterprises covered by this directorate have been identified, and new audit procedures defined by decree in March 2003 will become operational upon publication of the implementing regulation, scheduled for end-June 2003. A new tax code is being drafted. The program to reform and modernize the Customs and Excise Office (OFIDA) was approved in March 2003, and the one-stop window in the port of Matadi will start its operations at end-June 2003. Also, by end-June, OFIDA's operations will be fully computerized. In addition, the 2003 budget was adopted together with a set of laws reforming customs tariffs and indirect taxation. The new tariff law establishes a simplified tariff comprising three rates (5, 10, and 20 percent), while eliminating the surtax and preferential treatment options, and the sales tax (ICA) has been streamlined and extended to products subject to excises with a view to introduce the VAT. Petroleum taxation has been simplified by eliminating quasi-fiscal levies, increasing excise taxes and subjecting them to the turnover tax. Various implementing regulations are currently being finalized. Finally, the General Directorate of Administrative and State Revenues (DGRAD) has prepared a new harmonized revenue classification scheme providing for the elimination of some of the taxes it administers.

10. On the expenditure side, and as provided for in the program, the government has continued to emphasize: (a) the strengthening of fiscal management; (b) enhancing the transparency of budget procedures; and (c) increasing the capacity to track execution of public expenditure, with particular emphasis on poverty-reducing expenditure.

11. To this end, efforts undertaken in the area of public expenditure management have continued, although at a slower pace than anticipated. Thus, while the 2003 budget has been presented using the new classification system, the new expenditure execution and recording system has not yet been implemented, although it has already been approved. However, it will become operational in mid-June 2003, at the same time as the reorganization of the key directorates responsible for the expenditure chain. A training plan will be prepared shortly and a computerized expenditure execution system will be finalized by end-July 2003. The computer link between the central bank and the treasury, which is intended to expedite and increase the security of data sharing between these two institutions, should be installed by end-July 2003. Finally, execution of the 2001 and 2002 budgets will be audited by the General Accounting Office (Cour des Comptes).

12. Work to reform the public procurement system was begun with the help of the World Bank in February 2003 with a view to conducting a full audit of the public contracting system by end-December 2003, which will include institutional and legal issues.

Monetary policy

13. To take account of the acceleration of inflation in the final quarter of 2002, the BCC increased its refinancing rate. The rate went from 12 percent to 26 percent in December 2002 and then to 25 percent in May 2003, thus keeping the rate positive in real terms. To regulate liquidity, the BCC launched a new financial instrument in mid-December 2002, the *billet de trésorerie,* with maturities of between 1 and 4 weeks. As of March 31, 2003, the rate on this paper was 26 percent. Since May 2003, the rate has been in the 20-25 percent range, depending on maturity.

14. Based on the monetary survey at end-December 2002, which incorporates the recommendations of the external audit of the BCC accounts, broad money increased by 26 percent, compared with the programmed 35 percent. Net domestic credit declined by 16 percent in relation to the beginning-of-period money stock, mainly owing to the fact that net credit to the government fell by 17 percent relative to the beginning-of-period money stock, compared with 6 percent in the program. Net credit to the private sector and to public enterprises only grew slightly, compared with a programmed increase of 8 percent. After several years of steady decline, net foreign assets of the banking system increased, although less than expected.

15. During the first quarter of 2003, based on the BCC accounts that incorporate the recommendations of the external audit, money supply increased by 6 percent, as compared with the programmed 4 percent. Net credit to the government declined by 6 percent of the beginning-of-period money stock, compared with 1 percent in the program. Credit to the private sector expanded 1 percent instead of the projected 2 percent, while credit to public enterprises was slightly higher. Net foreign assets of the banking system continued to increase, but more slowly than anticipated, amounting to 2 percent instead of 3 percent of the beginning-of-period money stock. However, taking account of the larger-than-anticipated amount of net nonproject external assistance, the performance criteria for end-March 2003 regarding net domestic assets of the BCC and net credit to the government were exceeded by 0.6 percent and 0.2 percent of GDP, respectively. Compliance with the floor on net foreign assets of the BCC fell short by US$7 million.

16. Mindful of the financial sector's key role in economic development, during the first quarter of 2003, the government continued to implement various measures aimed at overhauling and strengthening the legal, institutional, regulatory, and operational framework of the financial system. On March 28, 2003, the Board of Directors of the BCC was appointed by presidential decree, and the same decree reappointed the Governor and Deputy Governor for terms of five and four years, respectively. A steering committee was created in February 2003 to coordinate and assess the implementation of financial sector reforms. The BCC has adopted several important measures of its action plan (Table 3), which takes

account of the recommendations of the internal and external auditors, IMF technical assistance missions, and the IMF safeguards assessment mission. As a result, with the support of the Accounts Review Committee, significant progress has been made in cleaning up the accounts of the BCC and drafting a roadmap toward the adoption of international accounting standards. The Bank Restructuring Committee (COREBAC) has been integrated into the Banking Supervision Directorate, which, in turn, has been reorganized. The BCC also issued anti-money laundering instructions. These instructions, which are under discussion with financial institutions, will benefit from IMF technical assistance and should be finalized when the anti-money laundering legal framework is put in place by end-2003. Furthermore, audits of the commercial banks have begun and should be completed by end-August 2003, and the government decided in March 2003 to liquidate the Banque Congolaise du Commerce Extérieur (BCCE) in its present form and structure.

Balance of payments and external debt

17. In light of developments through end-December 2002 and an update of external assistance, the current account balance for 2002 (including grants and before debt relief) is expected to show a deficit of 2.9 percent of GDP, less than the 3.7 percent programmed. The overall balance of payments is expected to show a deficit of US$161 million (3 percent of GDP). Total external debt was estimated at US$13.3 billion at end-December 2001. External debt service after Paris Club rescheduling is estimated at 2.9 percent of exports of goods and services in 2002 and 14.2 percent in 2003. A comprehensive debt sustainability analysis has been prepared based on the reconciliation of the external debt statistics with Paris Club creditors. On this basis, the external-debt service estimates of the first program review with IMF staff were revised upward. Consequently, for 2003 external debt service prior to the enhanced HIPC Initiative has increased by approximately US$13 million relative to the program. The government has concluded bilateral agreements with all its Paris Club creditors except Japan, and arrears clearance procedures with all of its multilateral creditors, except the European Investment Bank (EIB) and the Banque de Développement des États des Grands Lacs (BDEGL). The government has contacted its non-Paris Club bilateral creditors to reach similar agreements. As for its commercial bank creditors, the government has contacted the Bank of Tokyo, which assists the London Club in obtaining the required statistical data on outstanding debt. In addition, the DRC hopes to obtain external debt-service relief as quickly as possible under the enhanced HIPC Initiative.

Structural and sectoral reforms

18. As provided for in the program, the government has continued to implement wide-ranging structural reforms with a view to creating an environment conducive to private sector activity and economic recovery. With assistance from the IMF, and especially the World Bank, the reforms encompass: good governance and the fight against corruption, institutional capacity building, the business environment, public enterprises, the financial sector, natural resources (mining and forestry), the rehabilitation of key infrastructure (transportation, water and electricity, the sanitation system, urban and rural development, and the environment), the

social sectors (education, health, social protection, and community development), and agriculture.

19. **Governance and combating corruption.** The government has continued to emphasize the promotion of good governance and anticorruption efforts. A strategy and action plan for combating corruption were adopted by the Interministerial Committee for the Implementation of the Poverty Reduction Strategy and approved by the Council of Ministers in February 2003. The strategy has a four-pronged approach: (a) creation of a legal, regulatory, and institutional framework for combating corruption; (b) reform of public institutions, including the civil service; (c) design and implementation of effective penalties for corruption; and (d) strengthening of effective partnerships between the public sector, civil society, and the international community. In the legal area, the Code of Good Conduct for Civil Servants was enacted in November 2002 and a campaign to explain the code was launched in Mbuji Mayi in March 2003. The decree on the organization and operations of the Observatoire du Code Ethique et Professionnel (OCEP) was published in April 2003, and OCEP will become operational in September 2003. Finally, the anticorruption commission was created in August 2002.

20. The strategy adopted by the government for **institutional reform** focuses on three priority areas: the civil service, the legal system, and fiscal management. The government is introducing the following priority measures for the **reform of the civil service**: (a) elimination of previously identified "ghost workers" from the government payroll; (b) with assistance from Belgium, the UNDP, and the World Bank, the preparation of a methodology for a census of the civil service; and (c) with World Bank support, preparation of a methodology for the departure of employees eligible for retirement. In addition, an external audit to prepare for the reorganization of payroll management will begin shortly with assistance from France.

21. **Private sector development and public enterprise reform.** The government's objective is to improve the environment for both public and private enterprises, in order to strengthen the foundations for sustainable economic growth.

22. For the **private sector**, a status report on the taxation of enterprises was submitted to the government in January 2003 in preparation for the streamlining of the tax system. In addition, the National Investment Promotion Agency (ANAPI) was established in December 2002 and, with World Bank assistance, will shortly launch a study of the administrative barriers to private sector development. The "Cadre Permanent de Concertation Economique"—a forum for dialogue between the private sector and the government—has been established. The audit of cross-arrears between the government and public enterprises should be completed by end-September 2003, implying a brief delay. Based on the results of this audit, a timetable for the clearance of these arrears will be established by end-2003. In the area of business law, the government intends to join the Organization for the Harmonization of Business Law in Africa (OHADA) shortly.

23. The diagnostic study concerning accounting practices and the functioning and operations of **public enterprises** was submitted to the government in April 2003. In addition, environmental audits of the Société Nationale des Chemins de Fer du Congo (SNCC), Citytrain, Régie des Voies Aériennes (RVA), Lignes Aériennes Congolaises (LAC), Office Congolais des Postes et Télécommunications (OCPT), and Société Nationale de l'Electricité (SNEL) have been conducted. However, the drafting of restructuring plans for these enterprises has been delayed because the Steering Committee on the Reform of Public Enterprises (COPIREP), established in October 2002, is not yet operational. The appointment of its chairman, general secretary, and two deputy-general secretaries, initially set for January 2003, will now take place before end-June 2003. Studies have also been conducted to determine payments arrears, and the compensation needed for the possible separation of some staff of OCPT in the context of its reorganization, as well as of the employees of the NBK, BCCE, and BCA in the context of the liquidation of these institutions.

24. **Banking sector.** As part of the overall reform of the banking sector, the government, with World Bank assistance, is taking the following steps: (a) the updating, by July 2003, of the previously completed audits of four banks, namely, Banque Commerciale du Congo (BCDC), Union des Banques Congolaises (UBC), Banque Internationale de Crédit (BIC), and Stanbic Bank; (b) the completion, by August 2003, of audits of the five commercial banks that have not yet been audited, namely, Banque de Commerce et de Développement (BCD), Citibank, Banque Internationale pour l'Afrique au Congo (BIAC), Banque Congolaise, and First Banking Corporation; (c) the closing of credit institutions considered bankrupt and beyond recovery, such as Nouvelle Banque de Kinshasa (NBK) and Banque de Crédit Agricole (BCA), which will be closed by December 2003. The Banque Congolaise du Commerce Extérieur (BCCE), which has also been declared bankrupt and excluded from the clearinghouse, was placed in liquidation in its current form in March 2003; and (d) the drawing-up by end-December 2003 of appropriate recovery plans for those banks considered viable on the basis of the above-mentioned audits.

25. **Forestry sector**. The reforms under way aim at clarifying the rules on access to and the management of forestry resources, as well as the rules governing participation in the profits generated by forestry resources. To this end, as provided for in the program, in April 2003 the government initiated a sectoral economic review, the recommendations of which (expected in October 2003) will be taken into account in the 2004 budget law and in the implementing regulations for the new forestry code. These recommendations will aim at simplifying the tax structure for the forestry sector, making collection procedures more reliable, and introducing market mechanisms and incentives to encourage high-value added industrialization, equitable sharing of forestry revenues, and sustainable development. The recommendations will also seek to define the mechanisms for transferring the 40 percent share of the area tax *(taxe de superficie)* to local communities.

26. However, we are aware that the introduction of the planned measures to protect the national forests against the practices used in the past has been delayed. Consequently, although the new forestry code was published in August 2002, publication by ministerial order of the 117 concessions that have been declared valid did not occur until May 24, 2003,

and the publication by interministerial order of the collection methods and accompanying policies for the area tax, which has been increased from US$0.0014 to US$0.25 per hectare, was postponed to end-June 2003.

27. **Mining sector**. We are pleased to report that the reform of the legal framework for the mining sector was completed in April 2003 with the publication by decree of the new mining regulations, the mining registry, and the mineral title validation commission. The new mining registry became operational in June 2003.

28. The government has approved the voluntary separation program at **GECAMINES**, and two memorandums of understanding establishing the terms and conditions of the program were signed by the Ministry of Finance, the central bank, and the commercial bank responsible for making the payments. The Central Coordination Office (BCECO) will be responsible for supervising the program on behalf of the Ministry of Finance. The decree creating the standing committee for the restructuring of GECAMINES was signed in March 2003 and its members were appointed in early June 2003. Also, the diagnostic portion of the strategic audit was approved by the government in May 2003. Finally, the strategy for restructuring GECAMINES is being prepared and should be adopted by the government before end-December 2003.

29. **Poverty reduction strategy.** Since October 2002, the standing committee responsible for monitoring the implementation of our poverty reduction strategy has been preparing a national survey on poverty, including a pilot program at end-2002. Also, a timetable to prepare a full PRSP by the third quarter of 2005 was defined and adopted by the government in June 2003, following discussions with all domestic stakeholders and external partners.

30. This timetable includes specifically: (a) capacity building for the various entities[1] and definition of the roles of the various domestic stakeholders involved in the process of preparing the PRSP;[2] (b) the preparation and implementation of participatory consultations at all levels (national, provincial, local, and community); (c) the contribution of thematic groups and technical ministries; (d) the implementation of the poverty survey; (e) the preparation of the PRSP based on the abovementioned contributions; and (f) ownership of the process by all participants in the process of preparing the final PRSP.

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[1] Interministerial committee, standing committee, technical committee, multidisciplinary thematic groups, focal points, and provincial and local poverty reduction committees.

[2] Civil society, NGOs, ministries concerned, the private sector, Parliament, community associations, youth associations, vulnerable segments of the population, religious groups, and local governments.

III. POLICIES AND MEASURES FOR THE REST OF 2003

31. The medium-term macroeconomic framework was revised to reflect the updated estimates of the impact of the new international environment (including oil prices), the reunification of the country, and the external debt sustainability analysis with 2001 as the reference year. This analysis took account of the terms of the bilateral agreements concluded in the context of the September 2002 Paris Club agreement, the expected external assistance, and the delay in reaching the enhanced HIPC Initiative decision point. We have set the following objectives for 2003, which remain generally in line with the preliminary objectives set out during the first review of our program with Fund staff: (a) a real GDP growth rate of 5 percent; (b) an average annual inflation rate of 14 percent; and (c) an external current account deficit (including grants and before debt-service relief) of 3.8 percent of GDP, associated with an increase in anticipated investment financed by international aid, although not as strong as originally expected. To achieve these objectives, we will continue to strengthen our macroeconomic framework by pursuing a prudent fiscal policy and an independent monetary policy, the main objective of which will remain price stability in the context of a floating exchange rate system. We are determined to improve the economic environment and our economy's competitiveness by deepening the structural and sectoral reforms under way, with a view to achieving a sustainable growth rate and poverty reduction consistent with the objectives set out in our interim PRSP. The government undertakes to resolutely put in place good governance and transparency in the management of government affairs and to combat corruption and money laundering, as well as the financing of terrorism.

32. **Fiscal policy.** Consolidation will continue to be the focus of the government's fiscal policy, with strict adherence to our monthly cash-flow plan and a clear resolve to combat poverty. The 2003 budget, approved by Parliament in February 2003, contained only revenue and expenditure relating to the territories under the control of the government. To take account of the immediate effects of reunification on both revenue and expenditure, the government adopted in June 2003 a supplementary 2003 budget which, based on the new budget classification system, will be submitted to Parliament in its first session in July 2003. By end-2003, we plan to take stock of the situation in the reunified provinces, conduct a thorough census of civil service and military personnel, and prepare a reunification, reconstruction, and pro-poor budget for 2004. Until this reunification budget is approved, we plan to control expenditure strictly in the reunified territories through the end of the year. All stakeholders in the government will undertake the necessary efforts to ensure that revenue collected in the reunified provinces is transferred to the general treasury account as quickly as possible.

33. With the continued implementation of revenue mobilization measures and better control of expenditures, total revenue (excluding grants) should grow to 8.3 percent of GDP (a 25 percent increase over 2002), while total expenditure before debt-service rescheduling is expected to reach 15.2 percent of GDP (an increase of 76 percent). The domestic primary balance (cash basis) should show a surplus of 1.7 percent of GDP, and consolidated government operations, including the net balance of BCC operations, are expected to post a deficit (cash basis) of 1.4 percent of GDP (Table 2B).

34. The tax revenue target takes account of the implementation in May 2003 of the customs tariff and indirect taxation (turnover tax and excises) reforms. Its revenue impact is estimated at 0.2 percent of GDP in 2003, or 0.5 percent on an annual basis. In response to the report on the taxation of enterprises submitted to the government in January 2003, discussions will be held with public and private enterprises to simplify the tax system, including for the financial sector. In the meantime, no new measures affecting corporate income tax are planned for 2003. However, in the case of quasi-taxes (the report indicated their complexity and the red tape they can create for companies), a number of taxes administered by DGRAD for which there is no legal basis will be eliminated by end-July 2003 with the publication of a new harmonized classification of the taxes collected by DGRAD. The main agencies receiving various duties and taxes not collected by DGRAD (OCC, ONATRA, OGEFREM, Industrial Promotion Fund, etc.) are currently being audited.

35. To ensure effective implementation of the legislation on fiscal revenue reform in the FY 2003 Budget Law, the government will take the following steps by end-June: (a) elimination of the quasi-taxation of petroleum products; (b) adoption of the implementing regulations for the turnover tax to provide for the deductibility of taxes on raw materials and intermediate goods, and to clearly delineate the applicability of the turnover tax; (c) elimination of excises on sugar, cement, and matches; (d) elimination of unjustified exemptions and all offsetting, except with respect to the collection of excess taxes; and (e) elimination of all advance tax payments.

36. The efforts to increase the effectiveness of the tax collection agencies will continue and taxpayers' paperwork will be reduced with technical assistance of Fund staff. In this context, the one-stop window in Matadi, which will be computerized and apply streamlined procedures, will become fully operational by end-September 2003, and the OFIDA directorate for the Bas Congo province will be reorganized at the same time. In the context of the OFIDA reform and modernization program, efforts to simplify procedures and reorganize units will continue in the rest of the country, starting before year's end with the offices and provincial directorate for Kinshasa (Kin Est and Kin Aéro). The new customs code will be enacted in September 2003. The verification of exemptions will be stepped up and ad hoc exemptions as well as exemptions not included in the new tariff law, and all offsetting of revenues, will be eliminated by end-June 2003 to ensure greater transparency and promote consolidated fiscal management. Finally, a unit responsible for ex-post audits will be created and an audit plan will be adopted by end-2003. The program to modernize the General Directorate of Taxes will be finalized and approved by September 2003. In 2003, the implementation of this program (for which IMF technical assistance has been requested) will focus on strengthening the Large Enterprises Directorate, ensuring the generalized use of the taxpayer identification number pursuant to a decree to be published by end-June 2003, simplifying the taxation of small and medium-sized enterprises, and preparing for the creation in 2004 of a pilot tax center for medium-sized enterprises in Kinshasa. The implementation of these administrative reforms should make it possible to consider introducing a VAT around 2005. Furthermore, the government is committed to ensuring that all forms of taxes, duties and levies (national and regional) can only be created with the approval of the Minister of Finance. A decree to this effect will be published by end-

July 2003. Finally, as indicated in the program, the government undertakes to limit the number of taxpayer audits, particularly those concerning enterprises, and to increase the transparency of its tax audit procedures.

37. On the expenditure side, the BCC firmly commits itself to refrain from financing any expenditure not previously authorized by the Minister of Finance. A joint commission comprising the Office of the President, the Ministries of Finance and Budget, and the BCC will be created for this purpose, to ensure weekly monitoring. The wage bill (excluding the cost of retiring people) will be, on average, 19 percent higher than in 2002. We do not envisage any wage payments in the reunified provinces until the employees who are to receive them have been identified and a procedure is in place to ensure that wage payments are made to the intended recipients. The growth of the wage bill reflects a wage increase solely for the civil service (the military and the police having already received an increase at the start of the year) of 10 percent in July, the elimination from the government payroll of 26,000 previously identified "ghost workers" by end-July 2003, the retirement of 10,000 civil servants by year's end, for which financial assistance from the World Bank has been solicited, the establishment of new institutions, and the payment of wages in the reunified provinces to about 102,000 workers. The civil service reform will be undertaken, with priority given to: (a) the removal from the government payroll by end-July 2003 of previously identified "ghost workers"; (b) a complete audit of payroll procedures by end-December 2003, with assistance from France, with a view to reforming these procedures by end-June 2004; (c) approval of the methodology for managing the retirement program, with help from the World Bank, by end-August 2003, with a view to its adoption by the government by end-October 2003; (d) the effective start of retirements by end-December 2003 with the financial support from the World Bank; and (e) approval of the methodology for the civil service census, its adoption by the government by end-July 2003, and the selection of consultants to begin the census in early January 2004 and complete it by end-August 2004. The procedures for the treatment of cross-arrears of domestic debt and a timetable for their clearance, as well as an action plan to improve the control of utility outlays, will be prepared by end-2003, following completion of the audit of government domestic debt financed by the World Bank, scheduled for end-September 2003.

38. With the restoration of peace, the increase in disbursements of foreign aid to finance investment projects, and external debt-service relief under the enhanced HIPC Initiative, the execution of the amended 2003 budget should involve a significant shift in the composition of expenditure toward pro-poor spending in accordance with the public expenditure review undertaken with World Bank staff. Thus, the share of military and security spending and the share of sovereignty expenditure are not expected to exceed 1.6 percent and 1.1 percent of GDP, respectively, in 2003, while the share of pro-poor spending, as defined in the new classification system based on the priorities in our interim PRSP, which will be extended to the entire territory, is expected to reach 2 percent of GDP. These expenditures include spending financed with resources released under the HIPC Initiative, which are expected to amount to 0.4 percent of GDP. The main sectors covered are: agriculture, health, education, and social protection. The share of infrastructure expenditure not included in pro-poor spending should total 1.6 percent of GDP. The tracking of poverty-reducing expenditures

will be made easier by the special code included in the new budget classification to identify these expenditures separately upon execution. The advisory committee on tracking poverty-reducing expenditure will be established by end-July 2003. Finally, a special subaccount will be opened at the BCC by end-June 2003 to deposit resources released under the HIPC Initiative.

39. The government is firmly committed to pursuing reforms aimed at improving the control and tracking of public expenditure as well as the transparency of fiscal management. Accordingly, particular attention will be given to the implementation of the new expenditure chain, which is intended to restore control over commitments while ensuring greater transparency of execution. Effective implementation includes government approval of the new procedures manual and of the reorganization of the four directorates involved by end-June 2003, introduction of the commitment voucher *(bon d'engagement)* by end-June 2003, and putting in service the new computer system that will record all stages of the expenditure chain. This reform allows for a quick improvement of the quality of the tracking of expenditure execution at the different stages in the process and on the basis of the various classification systems in the new nomenclature (see table on budgetary tracking statements attached to the technical memorandum of understanding). Data sharing between the Budget, Finance, and Planning Ministries, the BCECO and the BCC will be formalized to ensure better tracking and proper integration of externally financed expenditure. The work on establishing a government accounting system, including the preparation of a chart of accounts based on double-entry bookkeeping, is about to begin with World Bank support and 2005 has been targeted for its implementation. A comprehensive audit of the public procurement system will be completed with assistance of the World Bank by end-December 2003. Special budgets will be eliminated in the 2004 budget and the funds involved will be transferred to the general treasury account. Finally, execution of the 2001 and 2002 budgets will be audited by the General Accounting Office (Cour des Comptes) by end-July 2003 and end-September 2003, respectively. The audits will be presented to Parliament before end-2003. The preparation of the 2004 budget will include the further rationalization of the management and number of *budgets annexes*.

Monetary policy

40. The BCC intends to pursue a monetary policy aimed at price stability in the context of a floating exchange rate system. Accordingly, broad money will increase by 20 percent in 2003, in line with the rate of nominal GDP growth. The BCC will make no new advances to the government (in observance of its charter), and net banking system credit to the government will not increase. Credit to the private sector is expected to grow by 8 percent of the beginning-of-period money stock. The net foreign assets of the BCC are expected to increase.

41. Despite the entry into force of the new Transitional Constitution of the DRC, the government reaffirms that the BCC will retain its independence as set out in its new charter. The government is committed to obtaining parliamentary approval for an amendment of Article 168 of this Transitional Constitution. The BCC will thus continue to enjoy full

independence regarding the formulation and conduct of monetary policy and the determination of interest rates, with its main objective being price stability. The BCC is committed to stepping up the implementation of its action plan (Table 3). Although some key measures in this plan have already been taken, full implementation of the plan should be completed as soon as possible, as it is crucial to the recovery of the BCC.

42. The BCC will continue to strengthen the operational framework of its monetary program, as recommended by the IMF's technical assistance missions. The recent introduction of *billets de trésorerie* has given the bank a monetary policy instrument to regulate liquidity. The BCC will ensure that its refinancing rate remains positive in real terms. It will also ensure that the repatriation of export proceeds occurs within 60 days of the shipment of merchandise, as provided for in the new exchange regulations. Finally, to ensure greater budgetary transparency, the BCC, together with the Ministry of Finance, will finalize the list of government accounts in the banking system (including the accounts of the special budgets). These accounts will be closed and the funds transferred to the general treasury account pursuant to the 2004 budget.

43. In addition, the monthly cash-flow plans for the government and BCC will be strictly applied in the context of the monetary program. To this end, the BCC will continue to improve its financial management, reduce its operating costs, and limit its cash deficit to CGF 10 billion in 2003 (0.4 percent of GDP). The BCC reaffirms its commitment to abide by the presidential decree of April 2002 and no longer finance expenditure that has not received prior authorization from the Minister of Finance (a continuous performance criterion). In October 2002, the BCC ceased purchasing domestic and foreign currency banknotes in the market at a premium against payment in bank money, and undertakes not to engage in such operations in the future (a continuous performance criterion). A study on the recapitalization of the BCC will be undertaken with World Bank assistance by end-2003.

44. Concerning its internal management, the BCC will accelerate the key measures of its action plan that fall under the remit of the new Board of Directors: (a) adoption of the by-laws on the creation of the Audit Committee, the adoption of international accounting standards and systematic audits conforming to international standards (by end-September 2003); and (b) adoption of instructions on foreign exchange management (by end-September 2003). In addition, the BCC will give priority to: (a) adoption of the procedures and accounting manuals of the Foreign Directorate (by end-September 2003); (b) introduction and use of the "Standards and Procedures Manual" for internal control, including the strengthening of the role and responsibility of first-level operations auditors at the directorates (by end-September 2003); and (c) definition of the objectives of the Audit Committee (by end-September 2003).

45. With the reunification of the DRC, the BCC will face a significant challenge in facilitating the return to normal and unified operation of the payment system without jeopardizing the newly restored macroeconomic stability. A pressing problem related to reunification is the issuance of banknotes of small denominations (CGF 10, 20, and 50) in the reunified territories to facilitate the resumption of transactions among the poorest segments

of the population. The BCC will incorporate these banknote issues and any issue costs not covered by potential external financing in its monetary program.

46. **External policies.** In February 2003 the government accepted the obligations of Article VIII, sections 2(a), 3, and 4. The government will continue its efforts to eliminate the few remaining restrictions contrary to the Article VIII obligations concerning the DRC's obligation under the bilateral payments agreement with the Economic Community of the Great Lakes Countries and the fixed exchange rate under the bilateral agreement with Zimbabwe. In the area of international trade, the government has maintained the temporary quantitative restrictions established to deal with the alleged dumping of certain textile products (printed fabrics). The modernization of OFIDA by gradually extending customs control to all provinces is expected to strengthen the fight against the plundering of the DRC's natural resources. We will continue to deepen the customs reforms in a consistent manner through our participation in the Common Market for Eastern and Southern Africa (COMESA). Moreover, to encourage foreign direct investment, we have completed our subscription to MIGA.

47. **External debt management.** As provided for in the program, no arrears on external debt service will be accumulated and the government will do its utmost to conclude rescheduling agreements with its non-Paris Club bilateral creditors and commercial creditors on terms comparable to those obtained in the context of the Paris Club. We have received assistance from Debt Relief International to identify OGEDEP's capacity building needs. In this context, the government will ask the international community for assistance, including in the form of technical assistance, to strengthen our external debt management, particularly through the use of appropriate software programs.

48. **Sectoral and structural reforms.** In the period through December 2003, the government will emphasize effective monitoring of the introduction of measures to combat corruption, particularly the clear assignment of responsibilities within the government. At the same time, the legal and regulatory framework for the anticorruption and ethics measures will be supplemented by: (a) the dissemination to the public of information about the Code of Good Conduct by end-2003; and (b) submission of the draft law on corruption, money laundering, and transnational organized crime to Parliament by end-October 2003 for approval by end-2003. The same holds for the citizen's *vade mecum* (compendium of citizen's rights and obligations). Concerning the judicial system, the European Union, at the request of the authorities, will undertake an audit with a view to preparing a report on the status of the legal system.

49. Concerning **private sector development**, in the period through end-October 2003 the focus will be on completing an action plan and timetable for the implementation of the reform of the direct and indirect taxation of enterprises, to be phased in starting in January 2004. The 10 main implementing regulations for the new Labor Code will be published by end-December 2003, after they have been examined by the Tripartite Commission (government, unions, and employers), and following consultation with the World Bank and ILO. The development of strategies for the **reform of public enterprises**,

including COHYDRO, will begin once the COPIREP team is in place. COHYDRO will continue to refrain from using public resources to import petroleum products until it has been restructured. Finally, a draft law on public enterprise reform, allowing, in particular, divestment by the state and/or the effective participation of private capital, will be prepared for adoption by the government in 2004.

50. **Financial sector.** As part of the process of strengthening the financial system, the BCC plans to take the following steps: (a) introduction of new instructions for prudential ratios by end-July 2003; (b) the development of plans for the restructuring of commercial banks based on audits by end-December 2003; and (c) after consultation with banks, adoption of a formal framework for on-site and off-site audits, by end-August 2003. As for the tax treatment of statutory loan loss provisions, partial deductibility will be instituted in the context of the 2004 budget.

51. **Natural resources.** The procedures for collection of the area tax *(taxe de superficie)* for 2003 will be published by end-June 2003. The government will publish a report on the actual collection of this tax by end-December 2003, and the concessions of delinquent taxpayers will be revoked. In the **mining sector,** the government will focus on finalizing the strategy for restructuring GECAMINES by July 2003 and adoption of the strategy by end-November 2003. The program of voluntary separations at GECAMINES will begin in July 2003 and is expected to be completed by end-December 2003. For the mining registry, the government will introduce financial management, audit, and performance monitoring and assessment mechanisms by end-November 2003. The objective of the latter is to have 85 percent of the existing disputes regarding the legal status of mining permits resolved by end-November 2003.

52. **Social sectors.** A sectoral review of the **health sector** will be launched with assistance of the World Bank, with a view to preparing a comprehensive assessment to serve as the starting point for development of the sectoral strategy by end-2004. Preparation of the **social protection** strategy will be the first stage in the preparation of a program by end-2004 that clearly sets out: (a) the government's actions in the area of social protection; (b) the actions of the partners in the area of social protection; and (c) the budget and sources of financing for these activities. For the **education sector**, an action plan for fulfillment of the criteria of the "Education for All" program should be completed by end-October 2003, and the sectoral strategy by end-2004.

53. For the **agricultural sector**, the first phase of the program to rehabilitate 1,200 km of rural roads should be completed between July 2003 and March 2004. At the same time, a market-price information system will be instituted by end-March 2004. Four subsector studies (palm oil, cotton, coffee, and cocoa), as well as a study on the regulatory and tax environment for agribusinesses, will be launched by end-December 2004. The results of these studies will be used to prepare the rural development section of the PRSP.

54. **Infrastructure sector.** To provide impetus to the long-term process of economic rehabilitation and reconstruction, invitations to bid have been issued for about 1,500 km of

roads and work on approximately 1,000 km has begun. In early 2004, a legal and regulatory framework and a regulatory authority will be established for the electricity sector.

55. A **Water Code** will be finalized in 2004 as well as a new **Energy Code.** Rehabilitation of the electrical power system in the south of the DRC with assistance from the World Bank should enable us to increase our country's exports to Southern Africa.

56. **Poverty Reduction Strategy.** By end-August 2003, a campaign will be carried out with World Bank assistance to provide information, education, and communication on: (a) the process of drafting the full PRSP; (b) the organization of participatory consultations at the national, provincial, local, and community levels; and (c) the final preparations for the poverty survey, to be launched in July 2003 and completed in July 2004. Reports on the sector and community consultations will be submitted to the technical ministries and local communities by end-October 2003. These reports will then be used by thematic groups and technical ministries to prepare their contributions to the full PRSP by end-June 2004. It is essential that the consultations and the work of the thematic groups be completed in a timely manner to allow for the return and consolidation of the various reports as well as the drafting of the PRSP itself by August 2004, with a view to its adoption by stakeholders and authorities in the third quarter of 2005.

Program Monitoring, Prior Actions, and Performance Criteria and Indicators

57. The two interministerial committees—the first responsible for monitoring the three-year program supported by the Bretton Woods institutions and chaired by the Minister of Finance, and the second responsible for drawing up the poverty reduction strategy and chaired by the Minister of Planning—will continue to monitor closely the implementation of the PEG and the poverty reduction strategy. In addition, as described above, data sharing between the BCC and the Ministry of Finance has been improved, and a computer link for data transmission will be established between the two institutions shortly to facilitate daily monitoring of the cash-flow plans of the government and the BCC.

58. To ensure the success of the program, the government will implement the following prior actions by end-June 2003:

(a) elimination of the quasi taxation of petroleum products in the new price structure;

(b) government approval of the procedures manual for the new public expenditure chain and of the reorganization of the four affected directorates in the Ministry of Finance and the Ministry of the Budget; and

(c) finalization of the list of names of "ghost workers," signed by the Ministers of the Civil Service and Finance.

59. Program implementation in 2003 will continue to be monitored by means of semiannual reviews, semiannual quantitative performance criteria (September 2003), and

quarterly benchmarks (June and December 2003). As shown in Table 4 and defined in the TMU, this involves: (a) a floor on the net foreign assets of the BCC; (b) a ceiling on the net domestic assets of the BCC; (c) a ceiling on net bank credit to the government; (d) a ceiling on BCC credit to nonfinancial public sector enterprises; (e) a ceiling on BCC credit to the nonfinancial private sector; (f) a ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BCC with maturities of more than one year (excluding IMF credit); (g) a ceiling on new nonconcessional external debt with an initial maturity of less than one year, with the exception of normal import credits contracted or guaranteed by the government; and (h) no accumulation of wage arrears. The program will include three continuous performance criteria: (a) the BCC will not finance any budgetary expenditure not previously authorized by the Ministry of Finance; (b) the BCC will not purchase domestic and foreign currency banknotes in the market at a premium against bank money payments; and (c) the government will not accumulate external arrears on debt service for which a rescheduling agreement has been concluded with its creditors or on any new borrowing. Finally, the BCC will continuously maintain a sufficient amount in its accounts with the IMF to ensure the regular payment of its obligations to the Fund.

60. The program also includes a structural performance criterion for end-September 2003, namely, the completion of the audits of five commercial banks (BCD, Citibank, BIAC, Banque Congolaise, and First Banking Corporation). The structural benchmarks for the remainder of the year are:

(a) preparation of a draft reunification and pro-poor 2004 budget (end-September);

(b) Effective implementation of the new expenditure procedures, reinstating and rationalizing the full expenditure chain, including commitment, liquidation, payment order, and payment (end-September);

(c) Elimination of identified "ghost workers" from the government payroll (end-September);

(d) Issuance of a circular clarifying that external debt contracted without the approval and signature of the Minister of Finance does not carry the state's guarantee (end-September);

(e) finalization of the plans for the reorganization of banks considered viable on the basis of external audits (end-December);

(f) preparation of a COHYDRO reorganization plan (end-December);

(g) adoption by Parliament of the Law on Corruption, Money Laundering, and Transnational Organized Crime (end-December 2003); and

(h) submission to Parliament of the General Accounting Office's audit of the execution of the 2001 and 2002 budgets (end-December 2003).

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
					(Annual percentage changes)						
Output and prices											
Real GDP	-7	-2	3	3	3	5	5	6	6	7	7
GDP deflator	516	403	23	27	27	14	14	7	8	6	6
Consumer prices, annual average	550	357	25	25	25	13	14	6	7	5	5
Consumer prices, end of period	511	135	13	15	16	6	8	6	6	5	5
External sector											
Exports, f.o.b. (in U.S. dollar terms)	-8	-1	8	15	24	6	6	21	14	22	16
Imports, f.o.b. (in U.S. dollar terms)	49	19	36	33	31	29	22	23	23	11	20
Export volume	-4	-5	8	14	15	10	7	16	14	11	9
Import volume	51	24	37	31	30	26	12	22	23	9	18
Terms of trade	-3	9	3	0	6	-6	-9	3	0	9	6
Nominal effective exchange rate 1/	-83	-84	...	-71	-71	...	...	...	...	...	...
Real effective exchange rate 1/	-18	-6	...	-58	-58	...	...	...	...	...	...
					(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)						
Money and credit											
Broad money	493	217	35	22	26	17	20	...	...	...	...
Net foreign assets	-710	-695	36	2	10	9	16	...	...	...	...
Net domestic credit	343	31	2	-17	-16	8	8	...	...	...	...
Net credit to the government	272	-7	-6	-18	-17	0	0	...	...	...	...
Credit to the private sector	61	37	7	0	1	8	8	...	...	...	...
Credit to the parastatals	10	0	1	0	0	0	0	...	...	...	...
Central bank refinance rate (level in percent) 2/	120	140	...	24	24	27	25	...	...	...	...
					(In percent of GDP)						
Central government finances											
Revenue (excluding grants)	5.1	6.2	7.3	7.9	7.9	8.3	8.3	9.5	9.0	10.8	10.1
Grants (excluding humanitarian aid)	0.0	0.0	1.2	0.3	0.4	3.7	2.6	4.6	3.4	4.8	5.3
Expenditure 3/	11.1	7.9	11.0	8.9	10.4	16.8	15.2	20.7	18.6	20.3	20.6
Domestic primary cash balance 4/	-3.9	0.6	0.9	1.4	1.4	2.1	1.7	3.5	3.0	4.8	4.5
Overall balance (commitment basis)	-6.0	-1.6	-2.5	-0.6	-2.0	-4.8	-4.4	-6.6	-6.3	-4.8	-5.2
Overall consolidated cash balance 5/	-4.1	0.5	-0.4	-0.1	0.0	-2.0	-1.4	-4.0	-3.7	-2.4	-3.4
Investment and saving											
Gross national savings	-1.2	0.5	11.0	9.2	11.1	14.6	13.7	15.2	14.6	16.3	16.9
Government	-5.6	-1.5	2.8	1.3	1.3	4.8	3.1	5.8	4.4	7.3	7.0
Nongovernment	4.4	2.1	8.3	7.9	9.8	9.8	10.6	9.4	10.2	9.0	9.9
Gross domestic savings	4.4	3.2	6.8	3.7	4.9	5.2	5.8	7.6	7.6	10.0	8.9
Government	-3.6	-0.2	1.9	1.1	1.1	2.5	2.1	3.9	2.9	5.2	3.8
Nongovernment	8.1	3.5	4.9	2.7	3.8	2.7	3.7	3.7	4.7	4.8	5.1
Investment	3.5	5.2	9.9	9.1	9.0	15.7	13.5	19.9	18.1	20.3	21.0
Government 6/	0.5	0.1	2.9	1.1	1.0	6.2	4.0	9.4	7.6	9.3	10.0
Nongovernment 7/	3.0	5.1	7.0	8.0	8.0	9.5	9.5	10.5	10.5	11.0	11.0
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Exports of goods and services	963	961	1,101	1,109	1,189	1,178	1,265	1,407	1,437	1,698	1,659
Imports of goods and services	920	1,067	1,286	1,405	1,415	1,781	1,686	2,170	2,063	2,404	2,448
External current account, incl. grants, before debt relief (in percent of GDP)	-4.6	-4.7	-3.7	-3.2	-2.9	-5.0	-3.8	-8.6	-7.7	-7.8	-8.6
External current account, excl. grants, before debt relief (in percent of GDP)	-9.5	-10.2	-9.1	-9.7	-9.4	-14.2	-11.7	-17.2	-14.8	-15.5	-16.1
External current account, incl. grants, after debt relief (in percent of GDP) 8/	-4.6	-4.7	1.1	0.1	2.1	-1.1	0.1	-4.7	-3.5	-4.0	-4.1
Gross official reserves (end of period)	51	22	111	86	75	178	191	254	254	341	341
Gross official reserves (In weeks of nonaid-related imports)	3.8	1.4	6.2	4.2	3.6	7.7	8.0	9.1	9.1	10.6	10.5

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05 (concluded)

	2000	2001	2002			2003		2004		2005	
	Est.	Est.	EBS/02/76	EBS/03/12	Est.	EBS/03/12	Prog.	EBS/03/12	Proj.	EBS/03/12	Proj.
					(In millions of U.S. dollars, unless otherwise indicated)						
External public debt											
Total stock, including IMF 9/	12,609	13,280	8,890	9,890	10,434	10,159	8,728	10,415	9,082	10,430	9,474
Net present value of debt (NPV) 10/	11,888	12,504	…	…	7,163	…	7,456	…	7,838	…	8,131
Scheduled debt service											
(incl. interest on arrears) 8/	724	728	56	38	35	155	180	259	219	291	207
In percent of exports of goods											
and services	75	76	5	3	3	13	14	18	15	17	12
In percent of government revenue	331	218	50	8	8	22	30	29	30	27	20
Exchange rate											
Units of local currency per U.S. dollar (end of period) 11/	50	312	...	382	382	…	418	…	…	…	…
Nominal GDP (in billions of Congolese francs)	297	1,464	1,976	1,911	1,915	2,281	2,298	2,579	2,627	2,935	2,989

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.
2/ For 2003, as of May 22.
3/ Includes interest due on external debt (includes debt service on rescheduling) and, from 2003 onward, expenditure financed by resources released under the enhanced HIPC initiative.
4/ Revenue (excluding grants) minus expenditure (excluding interest on debt, foreign-financed expenditure, and HIPC-related expenditure).
5/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes the Central Bank operations.
6/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
7/ From 2003 onward, includes capital projects financed by NGOs.
8/ Negotiations of agreements with Paris Club creditors following the September 2002 Paris Club rescheduling continued into 2003 and, as a result, amounts associated with these agreements and due in 2002 were not finalized. Consequently, amounts are carried over to 2003 when these agreements are being signed and the amounts due determined. Similarly, amounts due to nonParis Club and commercial creditors have not been finalized and are carried over to 2004. From 2003, debt service reflects possible assistance under the enhanced HIPC Inititative.
9/ End-of-period debt stock, including arrears and before HIPC Initiative assistance.
10/ The net present value of external public debt is about 94 percent of the nominal value, reflecting the significant stock of arrears.
11/ For 2003, as of June 11.

Table 2A. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2002

(In millions of Congo francs)

	Jan. Sep.			Oct.-Dec.			Total 2002					
	(Prog.) ESB/02/76	(Prel.) ESB/03/12	(Est.)	(Prog.) ESB/02/76	(Proj.) ESB/03/12	(Est.)	(Prog) ESB/02/76	(In percent of GDP)	(Proj.) ESB/03/12	(In percent of GDP)	(Est.)	(In percent of GDP)
Total revenue and grants	115,350	116,397	118,185	52,274	40,729	41,454	167,624	8.5	157,127	8.2	159,640	8.3
Total revenue	101,820	112,427	112,389	42,126	38,656	39,804	143,946	7.3	151,083	7.9	152,193	7.9
Customs and excise (OFIDA)	41,501	39,170	39,171	16,565	16,800	15,497	58,066	2.9	55,970	2.9	54,668	2.9
Direct and indirect taxes (DGC)	29,281	29,162	29,169	12,448	11,600	11,336	41,729	2.1	40,762	2.1	40,505	2.1
DGRAD	8,606	9,353	9,312	3,710	2,650	2,659	12,316	0.6	12,003	0.6	11,971	0.6
GECAMINES	489	0	0	685	0	0	1,174	0.1	0	0.0	0	0.0
MIBA	2,178	873	873	2,089	0	225	4,267	0.2	873	0.0	1,098	0.1
Petroleum	17,578	24,439	24,439	4,998	4,654	7,068	22,576	1.1	29,093	1.5	31,507	1.6
Production	10,344	19,749	19,750	2,890	3,154	6,325	13,234	0.7	22,903	1.2	26,075	1.4
Distribution	7,234	4,691	4,689	2,108	1,500	743	9,342	0.5	6,191	0.3	5,432	0.3
Other	2,186	722	719	1,632	132	46	3,818	0.2	854	0.0	765	0.0
Off-budget revenue 1/	0	8,707	8,706	0	2,820	2,973	0	0.0	11,527	0.6	11,679	0.6
Total grants	13,530	3,970	5,796	10,148	2,073	1,650	23,678	1.2	6,043	0.3	7,447	0.4
Total expenditure 2/	120,349	115,096	115,287	56,035	44,599	44,283	176,384	8.9	159,695	8.4	159,570	8.3
Current expenditure	74,367	76,570	77,175	31,111	30,275	31,569	105,478	5.3	106,845	5.6	108,744	5.7
Wages	31,194	27,579	27,579	11,675	13,727	10,588	42,868	2.2	41,306	2.2	38,167	2.0
Interest payments	9,080	11,965	11,994	4,126	3,337	2,784	13,206	0.7	15,302	0.8	14,778	0.8
External debt (after rescheduling)	3,972	713	741	2,979	2,010	1,424	6,950	0.4	2,723	0.1	2,165	0.1
Domestic debt	5,109	11,252	11,253	1,147	1,326	1,360	6,256	0.3	12,579	0.7	12,613	0.7
Other current expenditure	27,698	32,086	32,661	12,161	11,404	16,464	39,859	2.0	43,490	2.3	49,125	2.6
Institutions	5,941	11,653	11,669	2,638	3,495	5,426	8,579	0.4	15,147	0.8	17,095	0.9
Ministries	9,612	14,327	14,867	5,239	5,125	6,918	14,851	0.8	19,452	1.0	21,785	1.1
Centralized payments (utilities)	5,913	2,507	2,524	2,293	1,050	915	8,206	0.4	3,557	0.2	3,439	0.2
Provinces	2,596	3,344	3,346	1,870	1,614	2,172	4,466	0.2	4,958	0.3	5,518	0.3
Other	3,636	255	255	121	121	1,033	3,757	0.2	376	0.0	1,288	0.1
Transfers and subsidies	6,396	4,940	4,941	3,148	1,807	1,733	9,544	0.5	6,747	0.4	6,674	0.3
MIBA and GECAMINES	0	150	150	0	0	0	0	0.0	150	0.0	150	0.0
Transfers to public agencies and budgets annexes	2,127	438	438	1,195	0	17	3,323	0.2	438	0.0	455	0.0
Retrocessions to revenue collecting agencies	4,268	4,352	4,353	1,953	1,807	1,716	6,221	0.3	6,159	0.3	6,069	0.3
Off-budget expenditure 1/	0	8,707	8,706	0	2,820	2,973	0	0.0	11,527	0.6	11,679	0.6
Capital expenditure	23,968	5,220	5,291	18,093	4,765	5,094	42,061	2.1	9,985	0.5	10,385	0.5
Foreign financed investment	19,307	3,970	3,943	14,480	3,973	2,714	33,787	1.7	7,943	0.4	6,657	0.3
Congolese financed investment	4,101	1,113	1,211	3,173	746	2,364	7,274	0.4	1,859	0.1	3,575	0.2
Emergency program	561	137	137	439	45	16	1,000	0.1	182	0.0	153	0.0
Net lending 3/	6,644	7,986	7,987	-900	0	0	5,744	0.3	7,986	0.4	7,987	0.4
Other operations	136	82	83	64	64	4	200	0.0	146	0.0	87	0.0
Contingency - unallocated social expenditure 4/	9,396	70	0	6,822	3,780	0	16,218	0.8	3,850	0.2	0	0.0
Reserve	760	0	0	240	0	0	1,000	0.1	0	0.0	0	0.0

Table 2A. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2002

(In millions of Congo francs)

	Jan. Sep.			Oct.-Dec.			Total 2002					
	(Prog.)	(Prel.)	(Est.)	(Prog.)	(Proj.)	(Est.)	(Prog)	(In percent of GDP)	(Proj.)	(In percent of GDP)	(Est.)	(In percent of GDP)
	ESB/02/76	ESB/03/12		ESB/02/76	ESB/03/12		ESB/02/76		ESB/03/12			
Repayment of domestic arrears 5/	1,970	2,854	2,854	0	0	922	1,970	0.1	2,854	0.1	3,776	0.2
Wage arrears 5/	1,970	1,920	1,920	0	0	0	1,970	0.1	1,920	0.1	1,920	0.1
Non wage arrears	0	933	934	0	0	922	0	0.0	933	0.0	1,856	0.1
BCC treasury deficit	3,107	9,288	8,873	606	2,276	3,407	3,713	0.2	11,564	0.6	12,280	0.6
IDI Diamond expenditure	0	4,318	4,318	0	620	314	0	0.0	4,938	0.3	4,632	0.2
Consolidated primary surplus (cash basis)	4,081	13,267	14,892	365	-533	-45	4,446	0.2	12,734	0.7	14,848	0.8
Unconsolidated balance (cash basis)	-1,892	10,589	11,771	-3,155	-1,594	578	-5,047	-0.3	8,996	0.5	12,350	0.6
Consolidated balance (cash basis)	-4,999	1,301	2,898	-3,761	-3,870	-2,829	-8,760	-0.4	-2,568	-0.1	70	0.0
Cumulated balance (cash basis)	-4,999	1,301	2,898	-8,760	-2,568	70	-8,760	-0.4	-2,568	-0.1	70	0.0
Total financing	4,999	-1,301	-2,898	3,761	3,870	2,829	8,760	0.4	2,568	0.1	-70	0.0
Non bank (certificates of deposit net)	-2,096	-5,909	-5,516	-1,354	-1,700	-1,811	-3,450	-0.2	-7,609	-0.4	-7,327	-0.4
BCC and other banking system 6/	-5,147	-19,949	-19,949	1,147	7,639	8,250	-4,000	-0.2	-12,310	-0.6	-11,699	-0.6
Foreign financing	12,243	26,893	26,891	3,967	-2,069	-4,948	16,210	0.8	24,824	1.3	21,943	1.1
Non domestic non resident bank 3/	6,953	7,097	7,096	0	0	0	6,953	0.4	7,097	0.4	7,096	0.4
Amortization (net payment) 7/	-6,140	-4,867	-4,868	-4,605	-3,969	-4,948	-10,745	-0.5	-8,836	-0.5	-9,816	-0.5
Additional financing	11,429	24,664	24,663	8,572	1,900	0	20,001	1.0	26,564	1.4	24,663	1.3
Of which: project loans	5,776	0	0	4,332	1,900	0	10,109	0.5	1,900	0.1	0	0.0
Of which: budget loans	5,653	24,664	24,663	4,240	0	0	9,893	0.5	24,664	1.3	24,663	1.3
Discrepancy	0	-2,336	-4,325	0	0	1,337	0	0.0	-2,336	-0.1	-2,987	-0.2

Source: Data provided by the Congolese authorities; and staff estimates and projections.

1/ Off-budget revenue and expenditure include offsetting operations between the government and the petroleum distribution sector, and offsetting operations with Gecamines.

2/ Including domestic arrears and BCC operations. A surplus of the BCC appears as a minus.

3/ Net lending are advances to Cohydro financed mainly by drawing on the government account at the Rand Merchant Bank (non resident Bank) where petroleum production revenue was deposited in 2001.

4/ Contingent expenditure that will be mobilized only if the debt rescheduling assumptions materialize (CGF 13.8 billion) and Cohydro reimburses the government (CGF 2.4 billion from May).

5/ Including reimbursment of wage arrears accumulated from October 2001 to Freburay 2002.

6/ Net banking system credit to the government plus treasury balance of the Central Bank.

7/ Including US$ 8.2 million payment in settlement of the Red Mountain case in June.

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2003

(In millions of Congo francs)

	Jan.-Mar.				Apr.-June		Jul.-Sep.		Oct.-Dec.		Total 2003			
	EBS/03/12	(In percent of GDP)	(Prel.)	(In percent of GDP)	EBS/03/12	(Prog.)	EBS/03/12	(Prog.)	EBS/03/12	(Prog.)	EBS/03/12	(In percent of GDP)	(Prog.)	(In percent of GDP)
Total revenue and grants	55,563	2.4	46,720	2.0	60,371	45,087	82,406	74,192	76,566	83,088	274,906	12.1	249,087	10.8
Total revenue	41,590	1.8	40,954	1.8	44,209	39,754	52,272	51,964	52,323	56,915	190,394	8.3	189,587	8.3
Customs and excise (OFIDA)	14,795	0.6	14,097	0.6	17,922	14,809	21,456	25,585	22,261	30,065	76,433	3.4	84,556	3.7
Direct and indirect taxes (DGC)	11,942	0.5	11,785	0.5	10,515	10,142	15,608	14,778	15,997	15,083	54,062	2.4	51,788	2.3
DGRAD (including revenue from public enterprises)	4,038	0.2	4,631	0.2	4,859	4,405	4,198	4,088	2,958	4,200	16,052	0.7	17,324	0.8
GECAMINES	327	0.0	0	0.0	327	0	327	250	327	250	1,308	0.1	500	0.0
MIBA	1,097	0.0	670	0.0	1,097	777	1,097	777	1,097	777	4,389	0.2	3,000	0.1
Petroleum	9,391	0.4	7,823	0.3	9,489	9,077	9,586	6,291	9,684	6,390	38,150	1.7	29,582	1.3
Production	4,923	0.2	6,382	0.3	4,974	6,204	5,026	6,291	5,077	6,390	20,000	0.9	25,267	1.1
Distribution	4,468	0.2	1,441	0.1	4,514	2,874	4,561	0	4,607	0	18,150	0.8	4,315	0.2
Other	0	0.0	76	0.0	0	124	0	150	0	150	0	0.0	500	0.0
Off-budget revenue	0	0.0	1,872	0.1	0	420	0	45	0	0	0	0.0	2,337	0.1
Total grants	13,973	0.6	5,766	0.3	16,162	5,334	30,135	22,228	24,243	26,173	84,512	3.7	59,500	2.6
Of which: project grants	8,081	0.4	5,766	0.3	16,162	5,334	24,243	16,781	24,243	21,953	72,729	3.2	49,833	2.2
Of which: HIPC debt relief	5,892	0.3	0	0.0	0	0	5,892	5,447	0	4,220	11,783	0.5	9,667	0.4
Total expenditure 1/	60,295	2.6	48,608	2.1	70,832	49,084	100,103	96,055	89,400	87,749	320,631	14.1	281,496	12.3
Current expenditure	42,447	1.9	33,352	1.5	35,589	34,881	49,901	65,044	38,158	35,150	166,095	7.3	168,427	7.3
Wages	12,774	0.6	12,169	0.5	14,428	11,469	14,751	11,786	15,398	14,532	57,351	2.5	49,957	2.2
Military and police	4,395	0.2	5,139	0.2	4,482	4,530	4,527	4,530	4,617	4,530	18,021	0.8	18,730	0.8
Civilians	8,379	0.4	7,030	0.3	9,945	6,939	10,224	7,256	10,781	10,002	39,330	1.7	31,227	1.4
Interest payments	14,388	0.6	1,038	0.0	1,662	7,419	15,050	24,675	2,411	3,359	33,511	1.5	36,490	1.6
External debt (interest payment after debt relief)	14,144	0.6	861	0.0	1,419	7,211	14,806	24,467	2,167	3,151	32,536	1.4	35,690	1.6
Domestic debt (interest payment)	244	0.0	177	0.0	244	208	244	208	244	208	975	0.0	800	0.0
Other current expenditure	13,485	0.6	18,501	0.8	13,954	13,483	14,329	14,158	14,610	14,158	56,379	2.5	60,300	2.6
Institutions	2,375	0.1	5,826	0.3	2,375	3,425	2,375	3,875	2,375	3,875	9,500	0.4	17,000	0.7
Ministries	5,141	0.2	9,943	0.4	5,358	4,202	5,532	4,427	5,662	4,427	21,693	1.0	23,000	1.0
Centralized payments (utilities)	4,195	0.2	1,467	0.1	4,372	4,511	4,514	4,511	4,620	4,511	17,700	0.8	15,000	0.7
Provinces	1,537	0.1	1,265	0.1	1,602	1,345	1,654	1,345	1,693	1,345	6,485	0.3	5,300	0.2
Other	237	0.0	0	0.0	247	0	255	0	261	0	1,000	0.0	0	0.0
Transfers and subsidies	1,799	0.1	1,644	0.1	5,545	2,510	5,771	14,425	5,740	3,101	18,855	0.8	21,680	0.9
MIBA and GECAMINES	0	0.0	0	0.0	3,325	0	3,325	11,620	3,325	0	9,975	0.4	11,620	0.5
Transfers to public agencies and budgets annexes	250	0.0	0	0.0	250	503	250	503	250	503	1,000	0.0	1,510	0.1
Retrocessions to revenue collecting agencies	1,549	0.1	1,644	0.1	1,970	2,007	2,196	2,302	2,165	2,597	7,880	0.3	8,550	0.4
Off-budget expenditure	0	0.0	1,872	0.1	0	420	0	45	0	0	0	0.0	2,337	0.1
Capital expenditure	14,741	0.6	6,564	0.3	29,182	11,286	43,123	28,069	43,173	40,836	130,218	5.7	86,755	3.8
Foreign financed investment	13,691	0.6	4,514	0.2	27,382	8,086	41,073	24,969	41,073	37,185	123,218	5.4	74,755	3.3
Congolese financed investment	1,050	0.0	2,050	0.1	1,800	3,200	2,050	3,100	2,100	3,651	7,000	0.3	12,000	0.5
Net lending	0	0.0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0
Other operations	0	0.0	33	0.0	0	156	0	156	0	156	0	0.0	500	0.0
HIPC-related expenditure	0	0.0	0	0.0	2,946	0	3,928	400	4,910	9,267	11,783	0.5	9,667	0.4
Reserve	15	0.0	0	0.0	1	0	16	0	2	0	35	0.0	0	0.0

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2003

(In millions of Congo francs)

	Jan.-Mar.				Apr.-June		Jul.-Sep.		Oct.-Dec.		Total 2003			
	EBS/03/12	(In percent of GDP)	(Prel.)	(In percent of GDP)	EBS/03/12	(Prog.)	EBS/03/12	(Prog.)	EBS/03/12	(Prog.)	EBS/03/12	(In percent of GDP)	(Prog.)	(In percent of GDP)
Repayment of arrears	1,000	0.0	2,120	0.1	1,000	563	1,000	563	1,000	563	4,000	0.2	3,810	0.2
External arrears	0	0.0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0
Domestic arrears	1,000	0.0	2,120	0.1	1,000	563	1,000	563	1,000	563	4,000	0.2	3,810	0.2
BCC treasury deficit	2,092	0.1	4,667	0.2	2,114	1,778	2,136	1,778	2,158	1,778	8,500	0.4	10,000	0.4
Unconsolidated domestic primary balance (cash basis)	11,466	0.5	2,566	0.1	7,481	7,953	14,354	7,731	13,473	20,755	46,774	2.1	39,004	1.7
Consolidated primary surplus (cash basis)	9,655	0.4	-850	0.0	-8,799	3,423	-2,647	2,812	-10,424	-1,303	-12,215	-0.5	4,082	0.2
Unconsolidated balance (cash basis)	-2,640	-0.1	2,779	0.1	-8,347	-2,219	-15,561	-20,085	-10,677	-2,884	-37,226	-1.6	-22,408	-1.0
Consolidated balance (cash basis)	-4,733	-0.2	-1,888	-0.1	-10,461	-3,996	-17,697	-21,863	-12,834	-4,661	-45,725	-2.0	-32,408	-1.4
Cumulated balance (cash basis)	-4,733	-0.2	-1,888	-0.1	-15,194	-5,884	-32,891	-27,747	-45,725	-32,408	-45,725	-2.0	-32,408	-1.4
Total financing	4,733	0.2	1,888	0.1	10,461	3,996	17,697	21,863	12,834	4,661	45,725	2.0	32,408	1.4
Non bank (certificates of deposit net)	0	0.0	-3,225	-0.1	0	960	0	960	0	960	0	0.0	-344	0.0
BCC and other banking system 2/	-634	0.0	-6,584	-0.3	2,229	2,680	-702	26,443	-894	-22,540	0	0.0	0	0.0
Foreign financing	5,367	0.2	11,697	0.5	8,232	356	18,399	-5,541	13,728	26,241	45,725	2.0	32,753	1.4
Non domestic non resident bank	0	0.0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0
Amortization (net payment)	-15,962	-0.7	-2,549	-0.1	-2,988	-9,053	-18,598	-25,500	-3,102	-11,414	-40,651	-1.8	-48,516	-2.1
Additional financing	21,329	0.9	14,246	0.6	11,220	9,409	36,998	19,959	16,830	37,654	86,376	3.8	81,268	3.5
Of which: project loans	5,610	0.2	3,253	0.1	11,220	2,753	16,830	8,188	16,830	10,728	50,489	2.2	24,922	1.1
Of which: budget loans	15,719	0.7	10,993	0.5	0	6,656	20,168	11,771	0	26,926	35,887	1.6	56,346	2.5
Discrepancy	0	0.0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0

Source: Data provided by the Congolese authorities; and staff estimates and projections.

1/ Including domestic arrears and BCC operations. A surplus of the BCC appears as a minus.

2/ Net banking system credit to the government plus treasury balance of the central bank.

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

Measures	Implementation Timetable	Status
Banking supervision		
Clarify the responsibilities of the Central Bank of the Congo (BCC) staff involved in bank supervision and restructuring.	January 2003	Completed.
Proceed with an in-depth review of the nature and composition of prudential ratios, taking account of the situation of institutions, international standards, and consistent with regional initiatives (Southern African Development Community – SADC, and Common Market for Eastern and Southern Africa – COMESA).	Preparation of draft in 2003 for implementation after the balance sheets of the institutions subject to review are cleaned up	Draft being discussed with banks. New prudential ratios will be published by end-July 2003 at the latest.
Define a specific framework for periodic statements to provide the information required for supervision, in consultation with the Congolese Banking Association.	March 2003	In progress. The framework will be finalized by end-August 2003 at the latest.
Proceed with an inventory of cooperatives and other financial institutions that are currently not covered by banking supervision.	June 2003	Partial inventory made of microfinance institutions in Kinshasa and Bas-Congo. Financing being sought to continue the inventory in other provinces.
Formalize the process of programming on-site audits (statement of objectives and order of priority based on risk).	Field audit program for 2003	In progress. Finalization scheduled for end-July 2003 at the latest.
Formalize the operational organization of desk audits and implement a standard framework for reporting on an ongoing basis. Strengthen on-site controls and conduct general purpose missions.	End-2003	In progress. Finalization scheduled for end-July 2003 at the latest.
The combating of money laundering and the financing of terrorism		
Sensitize the Congolese Banking Association so that it can define rules for vigilance and good conduct applicable to its members.	During 2003	Joint BCC-IMF seminar held in April 2003. Establishment within the BCC of an anti-money laundering unit and a national committee on combating terrorism (CNLCT) and transnational organized crime. Publication of a BCC directive on standards applicable to the CNLCT on March 4, 2003.
Accounting and internal audit		
Establish methods of accounting and accounts reconciliation concerning IMF accounts.	January 2003	In progress. The procedures manual will be finalized by end-June 2003 at the latest.
Produce financial statements for the year ended December 31, 2002 in accordance with the International Accounting Standards (IAS) template.	March 2003	In progress.
Complete the audit of fiscal year (FY) 2002 and publish the audited accounts.	May and June 2003	Completed. Publication by end-July 2003.

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

Measures	Implementation Timetable	Status
Strengthen the role of the Accounting Directorate in the accounting units of directorates.	July 2003	In progress
Appoint the BCC Board of Directors and statutory auditors.	January 2003	The Board was appointed in May 2003 and its first meeting was held on May 24. The selection of the statutory auditors is under way.
Adoption, by the Board, of internal regulations to (i) establish an audit committee; (ii) adopt the IAS; and (iii) institutionalize audits in accordance with IAS subsequent to FY 2002.	March 2003	The internal regulations will be adopted by end-July 2003 at the latest.
Publication of a legal instrument indicating the reliance of the statutory auditors on the audit report prepared by an internationally recognized independent firm, in addition to their core duties.	March 2003	Scheduled for end-July 2003 at the latest.
Adopt by presidential decree the BCC-cashier to the government convention.	January 2003	The new convention was signed on March 20, 2003 by the Minister of Finance and Budget and the Governor of the BCC.
A financial statement from the BCC reflecting all adjustments resulting from the FY 2000 and FY 2001 audits, including the cleaning up of suspense accounts.	March 2003	Completed. Publication scheduled for end-July 2003.
Systematically follow up and resolve any issues identified in the audit reports, including discrepancies with the treasury accounts or other account differences; eliminate any unsupported or uncollectible account; and dispose of all suspense accounts, including those under "other items" in the Integrated Monetary Survey.	December 2002	Completed
Adjust and correct program data (stocks and flows) as of December 2001 and September 2002 for errors detected during the FY 2001 external audit and by the IAD.	December 2002	Completed
Involve the IAD in the review of program data by having it participate in the semiannual audits by an external audit firm and by reviewing the quarterly performance indicators under the program. The IAD should produce reports on these audits.	December 2002–January 2003	Completed
Monitor the accounts' cleanup and review balance-sheet provisions and adjustments in coordination with the committee created for that purpose. Produce a final report on these adjustments.	July 2003	First version of the final report completed. Final version scheduled for end-July 2003 at the latest.
Complete an internal audit of foreign exchange reserves management.	March 2003	Completed

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

Measures	Implementation Timetable	Status
Have an external audit firm audit the BCC's net foreign assets and net domestic assets, net bank credit to government, BCC credit to nonfinancial public sector enterprises, and BCC credit to the nonfinancial private sector.	Within the required time frame for program review, including December 2002	Completed
Draft manuals of control for domestic and foreign currency payments, explicitly establishing the division of labor among the units involved, describing payment authorization procedures, and envisaging regular bank reconciliations with correspondents.	September 2003	In progress
Open a separate account at the Bank for International Settlements (BIS) for IMF disbursements; any use will be subject to specific ex ante controls.	December 2002	Completed
Adopt procedures for monthly reconciliation of assets and liabilities denominated in foreign currency with the statements prepared by banking correspondents.	February 2003	Scheduled for end-July at the latest.
Reduce the number of domestic and foreign banking correspondents.	January 2003	Completed. The number of foreign banking correspondents was reduced from more than 60 to fewer than 20 operating accounts (about ten remain to be closed).
Ensure adoption by the Board of guidelines for foreign exchange reserves management.	April 2003	Preparatory work in progress. The guidelines will be adopted by September 30, 2003 at the latest.
Define the duties of the Audit Committee.	April 2003	Scheduled for end-September 2003 at the latest.
Monetary and exchange operations		
Establish monetary programming for flows of Congo franc banknotes and foreign currency.	January 2003	In progress
Drawing up of a Treasury Directorate reorganization plan.	April 2003	In progress
Liquefy banks' free reserves and refund the balance of certificates of deposit.	January 2003	Completed
Create a new facility to back deposits at the commercial banks.	January 2003	Introduction of Treasury bills (*Billets de Trésor*) in December 2002.
Senior management approval of the plan to restructure the Foreign Services Directorate (DSE) by dividing it into two subdirectorates: SDO (the operations subdirectorate) and SDA (the support services subdirectorate).	February 2003	Completed. The two subdirectorates have been operational since March 2003.
Prepare the preliminary drafts of the procedures manuals for the two DSE subdirectorates.	End-February 2003	Scheduled for end-July 2003 at the latest.
Senior management adoption of the DSE procedures manuals.	March 2003	Scheduled for end-July 2003 at the latest.
Senior management approval of DSE accounting reform.	March 2003	Scheduled for end-July 2003 at the

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

Measures	Implementation Timetable	Status
		latest.
Install computer and telecommunications equipment in the DSE operations office; acquire ACCESS software; and recruit an ACCESS IT specialist.	March 2003	Scheduled for end-July 2003 at the latest. Invitation to bid for computer hardware purchase has been issued.
Start up technical assistance for upgrading the DSE back office.	April 2003	Completed. An IMF technical assistance mission took place in April 2003.
Finalize upgrades to reserves and exchange management operations by the DSE front office.	May 2003	In progress. Finalization scheduled for end-July 2003.

Table 4. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2002–03 1/

(In millions of Congo francs, unless otherwise indicated)

	Stock		(Cumulative change from end-September 2002)						Cumulative Changes 2/		
	End-September 2002	End-December 2002	End-December 2002 Indicative targets			End-March 2003 performance criteria			End-June 2003 indicative targets	End-September 2003 performance criteria	End-December 2003 indicative targets
			Prog.	Prog. (adjusted)	Actual	Prog.	Prog. (adjusted)	Actual			
Floor on the net foreign assets of the BCC (In millions of U.S. dollars) 3/ 4/	-595	-609	-26	-26	-20	-41	-14	-21	31	-72	0
Ceiling on the net domestic assets of the BCC 3/ 4/	245,158	250,692	7,503	7,503	7,497	6,911	-1,538	11,219	-4,393	30,586	10,625
Ceiling on the net bank credit to the government 4/	-7,680	542	7,639	7,639	8,222	7,005	-1,444	3,020	-3,904	22,539	0
Ceiling on BCC credit to nonfinancial public sector enterprises	0	0	0	0	0	0	0	0	0	0	0
Ceiling on BCC credit to nonfinancial private sector	1,146	1,146	0	0	0	0	0	0	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 5/	0	0	0	0	0	0	0	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 6/	0	0	0	0	0	0	0	0	0	0	0
Ceiling on wage arrears	0	0	0	0	0	0	0	0	0	0	0
No accumulation of external debt arrears 7/ 8/ (In millions of U.S. dollars)	9,530	0	0	0	0	0	0	0	0	0	0
The BCC will make no payment of expenditure of the government that has not been authorized in advance by the Minister of Finance 9/	0	0	0	0	0	0	0	525	0	0	0
The BCC will make no purchase of CGF notes or foreign currency in the market at a discount rate against payment in deposit money 9/	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:											
Base money	49,878	52,376	4,442	4,442	2,498	6,377	6,377	5,758	5,277	7,915	10,553

Source: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the PRGF in June 2005, the observance of the first five performance criteria will be audited by an international firm.

1/ Quantitative performance criteria and benchmarks, as well as the procedures for their monitoring are defined in the attached technical memorandum of understanding.

2/ Cumulative changes are calculated from end-December 2002 onward.

3/ The stock of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (SDR1 = US$1.26537; US$1 = CGF 313.6; and 1 Euro = 357.62).

4/ Fifty percent of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling, that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (including cross-arrears to be certified in cooperation with World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will be adjusted downward (upward) accordingly. The criteria on net foreign assets and net domestic assets will be adjusted upward (downward) or downward (upward), respectively, by the same amount. However, the criterion regarding net foreign assets will be adjusted downward, without letting the stock of net foreign assets fall below the level achieved at end-December 2002. This adjustment does not apply to HIPC resources, which will be deposited in a special account at the BCC.

5/ 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).

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, 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).

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

8/ This is a continuous performance criterion.

9/ These are continuous performance criteria as of March 24, 2003 (the completion date of the first review of the PRGF arrangement).

Table 5. Democratic Republic of the Congo:
Prior Actions, Structural Performance Criteria, and Benchmarks, 2003

Measures	Timetable
A. Prior actions	
Elimination of the quasi taxation of oil in the new price structure.	By end-June
Approval of the procedures manual for the new public expenditure chain and of the reorganization of the four affected directorates in the Ministry of Finance and the Ministry of the Budget.	By end-June
Finalization of the list of names of ghost workers, signed by the Ministers of the Civil Service and Finance.	By end-June
B. Structural performance criteria	
Completion of the audits of five commercial banks: BCD, Citibank, BIAC, Banque Congolaise, and First Banking Corporation.	End-September
C. Structural benchmarks	
Preparation of a draft reunification and pro-poor 2004 budget.	End-September
Effective implementation of the new expenditure procedures, reinstating and rationalizing the full expenditure chain, including commitment, liquidation, payment order, and payment.	End-September
Elimination of identified "ghost workers" from the government payroll.	End-September
Issuance of a circular clarifying that external debt contracted without the approval and signature of the Minister of Finance does not carry the state's guarantee.	End-September
Finalization of the plans for the reorganization of banks considered viable on the basis of external audits.	End-December
Preparation of a COHYDRO reorganization plan.	End-December
Adoption by Parliament of the Law on Corruption, Money Laundering, and Transnational Organized Crime.	End-December
Submission to Parliament of the General Accounting Office's audit of the execution of the 2001 and 2002 budgets.	End-December

DEMOCRATIC REPUBLIC OF THE CONGO

Technical Memorandum of Understanding

Kinshasa, July 3, 2003

1. This memorandum covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative performance criteria and benchmarks, as well as the structural performance criteria and benchmarks presented in the memorandum on economic and financial policies (MEFP) of the Government of the Democratic Republic of the Congo (DRC), which is attached to the letter of July 3, 2003 to the Managing Director of the International Monetary Fund.

A. Monitoring Program Implementation

2. Implementation of the program covering the period April 1, 2002–July 31, 2005 will be monitored on the basis of the performance criteria and benchmarks described in paragraphs 49 and 50 and Tables 4 and 5 of the MEFP of July 3, 2003.

B. Definition of Quantitative Performance Criteria and Indicators

3. The quantitative performance criteria and benchmarks described in Table 4 of the MEFP are as follows:

(a) floor on net foreign assets of the central bank (BCC);

(b) ceiling on net domestic assets of the BCC;

(c) ceiling on net bank credit to the Government;

(d) ceiling on BCC credit to nonfinancial public sector enterprises;

(e) ceiling on BCC credit to the nonfinancial private sector;

(f) ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;

(g) ceiling on new nonconcessional external debt contracted or guaranteed by the Government or the BCC, with maturities of one year or less, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits) excluding petroleum imports;

(h) ceiling on wage arrears (including all forms of compensation) by the civil service (civilian and military) and the BCC;

The following criteria will be monitored on a continuous basis:

(a) the BCC will not finance government expenditure that has not been authorized in advance by the Minister of Finance;

(b) the BCC will make no purchase of Congo franc banknotes or foreign currency in the market at a premium against payment in bank money; and

(c) the Government will not accumulate external payments arrears on debt service for which a debt rescheduling agreement has been concluded with the government's creditors, or on any new borrowing.

Definitions

4. **Net foreign assets of the BCC** are defined as the difference between the BCC's gross foreign assets and all its external obligations, as shown in the "Integrated Monetary Survey" prepared by the BCC. The net foreign assets and all the foreign currency accounts of the BCC, as well as the Integrated Monetary Survey, will be valued at the end-2001 program exchange rates, which are as follows: SDR 1 = US$1.26537; US$l = CGF313.6; and 1 Euro=CGF357.62.

5. The net domestic assets of the BCC are equal to the sum of the following line items, as they appear in the BCC balance sheet:

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks (net of "Billets de Trésorerie" obtained by deposit money banks);
- claims on other banking and nonbank institutions; and
- "other items, net," defined as other assets minus other liabilities (including capital and valuation accounts, and "Billets de Trésorerie" obtained by the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as defined in the "Integrated Monetary Survey" prepared by the BCC (excluding deposits linked to project-related assistance), plus the BCC's net cash deficit.

7. Fifty percent of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including

external debt service rescheduling, that has not been used to finance poverty-reducing expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by the World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will be adjusted downward (upward) accordingly. The criteria on net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. However, the criterion regarding net foreign assets will be adjusted downward without letting the stock of net foreign assets fall below the level achieved at end-December 2002. This adjustment does not apply to HIPC resources, which will be deposited in a special account at the BCC. The procedure for using this account is described in the Fund staff report on the decision point under the HIPC Initiative.

8. **BCC credit to nonfinancial public sector enterprises** is equal to BCC claims on nonfinancial public enterprises, as defined in the "Integrated Monetary Survey" prepared by the BCC.

9. **BCC credit to nonfinancial private sector enterprises** (excluding loans to BCC personnel and advances on orders of goods and services) is equal to BCC claims on nonfinancial private enterprises, as defined in the "Integrated Monetary Survey" prepared by the BCC.

10. **Wage arrears** are defined as validated personnel expenses not paid for more than 30 days. Wages include all compensation paid to employees (civil service personnel, including the military, national police, members of Cabinet, and BCC staff), including bonuses and allowances. Under the program, these arrears will be assessed cumulatively and partly based on the balances of the accounts of the provincial delegated payment authorization officers (ODs) in the Treasury's general account at the BCC.

11. The government will not accumulate any payments arrears on external debt, except on debt being rescheduled with creditors.

12. The definition of external debt can be found in Decision 6230-(79/140), para. 9, amended on August 24, 2000 (Annex I).

13. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the disbursement date, as specified in the pertinent Annex. A loan is defined as concessional if, on the date of the initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate to its nominal value, is less than 65 percent (i.e., including a grant element of at least 35 percent).

14. **Base money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;

- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC; and
- deposits of other financial institutions, other than deposit money banks, with the BCC.

Note: "Base money" excludes all "Billets de Trésorerie" issued by the BCC.

15. The following concepts are used in the letter of intent and the MEFP:

(a) Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;

(b) Special budgets (*budgets pour ordre*): autonomous agencies and entities receiving earmarked revenues that, like their expenditure, are covered in the budget;

(c) Extrabudgetary accounts: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate. The consolidation of these accounts with those that are regularly monitored by the Treasury Management and Payment Authorization Directorate is necessary for a complete view of budget execution; and

(d) Poverty-reduction expenditure: "pro-poor" spending as defined in the new nomenclature on the basis of the priorities set forth in the PRSP-I.

C. Structural Performance Criteria and Benchmarks

16. The structural performance criteria and benchmarks are described in Table 5 of the MEFP.

D. Reporting

17. The authorities will forward to the IMF's African Department, as soon as possible and preferably by e-mail or fax, the data and information needed to monitor program implementation. These data and information must be duly reconciled so as to ensure their internal consistency. Following are the data or documents to be submitted:

1. **Exchange system**

(a) Volume of purchases and sales of foreign exchange on the interbank market, between commercial banks and their customers, and by exchange bureaus;

(b) Volume of purchases and sales (*interventions*) by the BCC on the interbank market;

(c) Average Congo franc/U.S. dollar reference exchange rate of the BCC (indicative rate);

(d) Average Congo franc/U.S. dollar exchange rate on the interbank market;

(e) Average Congo franc/U.S. dollar exchange rate offered by commercial banks to their customers; and,

(f) Average Congo franc/U.S. dollar exchange rate used by exchange bureaus.

Note: The above information is to be submitted with a time lag of one day.

2. **Banking system**

(a) Integrated monetary survey, with a breakdown into domestic currency and foreign currency;

(b) Monetary survey of the BCC, with a breakdown into domestic currency and foreign currency;

(c) BCC operating account;

(d) BCC investment budget;

(e) Implementation of the BCC's cash flow plan;

(f) Statement of wage arrears owed to BCC staff;

(g) Monetary survey of deposit money banks, with a breakdown into domestic currency and foreign currency;

(h) Net banking system credit to the government;

(i) Net banking system credit to public sector enterprises;

(j) Structure of nominal and real interest rates of deposit money banks;

(k) Reserves (voluntary and required) of deposit money banks;

(l) Structure of BCC interest rates;

(m) Structure of certificate of deposit (CD) rates; and

(n) Premium on Congo franc banknotes purchased in the market against bank money.

Note: The above monthly information is to be submitted not later than three weeks after the end of each month.

3. **Public sector**

(a) Implementation of Treasury cash flow plan;

(b) Expenditure execution by type and by ministry/institution;

(c) Validated wage bill by category of payee, region (Kinshasa/provinces), and activity status (active/retired);

(d) Wage bill debited from the Treasury General Account by category of payee, region, and activity status;

(e) Paid wage bill by category of payee, region, and activity status;

(f) Paid employees, by category of payee, region, and activity status;

(g) Civil service pay scale (if changed);

(h) Issues, redemptions, and stocks of billets de trésorerie (including maturity and interest charges), by category of creditor (commercial banks, public enterprises, and other);

(i) Public sector domestic debt, by category of creditor (commercial banks, private entities, etc): collect and report data related to domestic public debt as soon as they are available; and

(j) Payments arrears on utility outlays.

Note: The above information is to be submitted not later than three weeks after the end of each month.

Starting in September 2003, and following implementation of the new expenditure procedures, the budgetary tracking statements mentioned in Annex II will also be forwarded.

4. **Real sector**

Report as soon as possible indicators on recent economic developments and other related data, such as the consumer price index, once a week; merchandise exports (in value and volume), of crude oil, copper, cobalt and zinc, and industrial and artisanal diamonds; imports in value and volume, if possible by principal product and showing petroleum products separately; and output indicators of the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity. Monthly tax base (imports) prepared by the Customs and Exercise Office (OFIDA).

5. **External debt**

(a) Actual disbursements of external assistance, whether or not to finance projects, including those associated with new contracted loans (on a monthly basis, with a lag of three weeks);

(b) Monthly breakdown by interest and principal, and classification by creditor, of debt service payments made;

(c) Composition of monthly external debt-service obligations, by maturity (including after debt rescheduling by the Paris Club, other bilateral creditors, and multilateral creditors, commercial debt, and short-term debt), and the stock of external arrears, taking into account actual payments, with a breakdown by principal and interest, and classification by creditor (to be provided quarterly by the Public Debt Management Office (OGEDEP)); and

(d) Copies of the debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, as soon as such agreements have been concluded. Also, all individual loan information is required without delay, for the debt sustainability analysis in the context of the HIPC Initiative, and also for debt management purposes during the interim period.

Note: The above monthly information is to be provided three weeks after the end of each month.

6. **Miscellaneous**

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and pricing policy, as well as the official gazette, will also be reported to Fund staff.

/s/

Jean-Claude Masangu Mulongo
Governor
Central Bank of Congo

/s/

Modeste Mutombo Kyamakosa
Minister of Finance

Luongwe Kabule Mulungo
Minister of Finance and the
Budget, ad interim

Kinshasa, July 3, 2003

Definition of External Debt

4. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b) **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

Budget-Tracking Statements

Statement 1: Main budget-tracking statement. Monthly, starting in August 2003.
This statement describes expenditures according to the four phases of the expenditure chain (commitment, verification, payment order, payment) on the one hand, and by type of expenditure on the other, and cumulatively from the start of the fiscal year.
This statement should also have two intermediate columns for payment authorizations sent to the BCC and payment authorizations pending transmission to the BCC.
A specific column for automatic payments (*décaissements d'office*) will also be placed next to the column for payment orders.
The last column of the main budget tracking statement is the "Balances Outstanding" column, which is the difference between payment orders signed by the responsible payment authorizing officer and actual payments by the BCC (not the difference between payment authorizations sent to the BCC and actual payments by the BCC).

Statement 2: Main budget-tracking statement by administrative classification. Monthly, starting in August 2003.
Based on the main statement, this document will present expenditures by administrative classification (2002 revised nomenclature rather than classification by type). Additionally, the statement will keep expenditures initiated by, and earmarked for, the Office of Ministers (Cabinets) separate from those initiated by, and earmarked for, the administrations.

Statement 3: Main budget-tracking statement by geographical distribution. Monthly, starting in September 2003.
Based on the balances of the main statement, this document will present expenditures by type, distinguishing between expenditures in Kinshasa and those in the provinces.
Computer tools and training permitting, separate service codes will be assigned for Kinshasa and for each province; this will permit tracking of distribution of expenditures among the eleven provinces.

Statement 4: Main budget-tracking statement, "Poverty-Reducing Expenditures." Monthly, starting in October 2003.
Based on Statement 2, expenditures will be presented by type, with one line indicating the share of expenditures identified as poverty-reducing expenditures.

Statement 5: Main budget-tracking statement, "Major Government Functions." Monthly, starting in October 2003.
Based on Statement 2, this document will present expenditures by major government functions (as defined in the 2002 revised nomenclature).

Democratic Republic of the Congo: Relations with the Fund
(As of April 30, 2003)

I. Membership Status: Joined: September 28, 1963 Article XIV

II. General Resources Account:	**SDR Million**	**In Percent of Quota**
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00

III. SDR Department:	**SDR Million**	**In Percent of Allocation**
Net cumulative allocation	86.31	100.00
Holdings	5.72	6.63

IV. Outstanding Purchases and Loans:	**SDR Million**	**In Percent of Quota**
Poverty Reduction and Growth Facility (PRGF) arrangement	446.67	83.80

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
PRGF	June 12, 2002	June 11, 2005	580.00	446.67
Stand-By	June 9, 1989	June 8, 1990	116.40	75.00
SAF	May 15, 1987	May 14, 1990	203.70	145.50

VI. Projected Payments to Fund

(In SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	**2004**	**2005**	**2006**	**2007**
Principal	0.00	0.00	0.00	0.00	42.00
Charges/interest	3.26	3.65	3.65	3.65	3.64
Total	3.26	3.65	3.65	3.65	45.64

VII. Exchange Rate Arrangement:

The Democratic Republic of the Congo's currency is the Congo franc, which, since May 26, 2001, has been freely floating. On June 9, 2003, the rate was US$1=CGF 417.94. From July 1, 1998 through May 25, 2001, a multiple exchange rate system was in effect, implying an official rate, the most recent being US$1=CGF 50, and a rate determined in the parallel market.

Effective February 10, 2003 the DRC has accepted the obligations under Article VIII, Sections 2 (*a*), 3, and 4 of the Fund's Articles of Agreement. However, the DRC maintains measures that give rise to one restriction and one multiple currency practice (MCP) subject to Fund approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction involves an outstanding net debit position arising from the inoperative regional payments agreement (CEPGL). The multiple currency practice involves a fixed exchange rate set on a quarterly basis applying to transactions through the bilateral payments agreement (BPA) with Zimbabwe.

VIII. Last Article IV Consultation:

(a) Consultations with the Democratic Republic of the Congo are held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

(b) The last Article IV consultation was concluded by the Executive Board on March 24, 2003 (EBS/03/12, 2/5/03).

IX. Safeguards Assessment

Under the Fund's safeguards assessment policy, the BCC is subject to an assessment with respect to the PRGF arrangement, which was approved on June 12, 2002 and is scheduled to expire on June 11, 2005. A safeguards assessment of the BCC was completed on January 03, 2003. The assessment concluded that substantial risks of misreporting or misuse may exist due to vulnerabilities in the external audit mechanism, financial reporting framework, and system internal controls. Staff findings, proposed recommendations under program conditionality and other recommendations are reported in (EBS/03/12, 6/5/03). Implementation of the measures by the BCC continues to be monitored by staff.

X. Technical Assistance:

Subject	Department	Staff Member	Date
Monetary statistics	STA	Mr. Papadacci Ms. Tanase	Jun. 29–Jul. 12, 2000
Exchange rate system	MFD	Mr. Bussers	May 9–14, 2001 Jul. 1–7, 2001
Capacity-building assistance to the central bank	MFD	Mr. Laurens Mr. Sarr Mr. Akitoby Mr. Paul Mr. Bussers	Oct. 12–26, 2001
		Mr. Tavernier	Feb. 1–14, 2002 Aug. 8–Sep. 20, 2002
		Mr. Paul	Feb. 1–7, 2002
		Mr. Beaumé	Jul. 15–25, 2002

Monetary policy/ foreign exchange management, bank supervision and budget	MFD	Mr. Laurens Mr. Sarr Mr. Paul Mr. Beaumé Mr. Régnard Mr. Tavernier	Oct. 29–Nov. 12, 2002
Tax administration/ policy	FAD	Mr. Corfmat Mr. Fossat	May 11–21, 2001
Tax policy	FAD	Ms. Geourjon Mr. Laporte Mr. Schneider	Nov. 19–Dec. 3, 2002
Expenditure management	FAD	Mr. Schiller Mr. Fournel Mr. Barrier	Aug. 4–18, 2001
		Mr. Bouley Mr. Calcoen	Aug. 31–Sep. 10, 2002
Revenue administration	FAD	Mr. Benon Mr. Jolibert Mr. Montagnet-Rentier	Dec. 3–17, 2002
Real sector and government finance statistics	STA	Mr. Marie Mr. Gorter	June. 4–13, 2001
Government finance statistics	STA	Mr. Maiga	Mar. 19–Apr. 13, 2002 Sep.4–25, 2002

XI. Long-Term Resident Experts:

Expenditure management	Mr.Catalan	Since January 2002
Customs administration	Mr. Bremeersch	Since January 2002
Tax administration	Mr. Schlotterbeck	January 2002–March 2003
Monetary policy and programming	Mr. d'Ambrières	Since April 2002

XI. Resident Representative: Mr. Gons was Acting Resident Representative from July 20 to September 20, 2002. Mr. Kouwenaar assumed his duties as Senior Resident Representative on September 21, 2002.

Democratic Republic of the Congo
Relations with the World Bank Group[1]

Introduction

1. This annex first underscores the importance that the Government of the Democratic Republic of Congo (DRC) attaches to effective partnership with external creditors, donors and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in DRC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

Partnership in DRC's Development Strategy

2. DRC suffered from economic and financial mismanagement, conflict and war over the last four decades, which led to a complete rupture with, and isolation from, the international financial community as of 1993. Civil unrest from 1997 onwards has led to a humanitarian and economic catastrophe including three million deaths, widespread hunger, extensive physical damage, a collapse of the economy and key institutions, etc. It will take decades to recover from this legacy in both social and economic terms. However, progress over the last two years bodes well for the future.

3. Following his assumption of the Presidency upon his father's death in January 2001, President Joseph Kabila sought immediate assistance from international financial institutions, with a **view to restoring and normalizing relations with external creditors and development partners.** In July, IDA and the IMF responded to DRC's request for assistance: (i) IDA with a transitional strategy initially underpinned by a US$50 million grant for an Emergency Early Recovery Project; and (ii) the International Monetary Fund with a Staff-Monitored Program (SMP), with the understanding that continued progress towards peace and good performance under the Program could lead to substantial financial reengagement by multilateral and bilateral institutions.

4. This strategy has been assiduously executed by the authorities. The SMP, covering the period June 1, 2001 to March 31, 2002, was satisfactorily implemented. The Interim PRSP (I-PRSP) was endorsed by the IDA Board on June 11, 2002. Following clearance of arrears to the IMF, a three-year PRGF was approved by IMF Executive Directors on June 12, 2002, together with the HIPC preliminary document and the I-PRSP. IDA approved the Economic Recovery Credit on June 13, 2002, which became effective following arrears clearance on July 3, 2002. The Paris Club granted significant relief on bilateral debt at its September 2002 meeting.

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[1] This document was approved by the Africa Region Operations Committee on June 27, 2003 and communicated to Executive Directors in early July. It is an update of the version included in the IMF 2003 Article IV Consultation Report considered by the IMF Executive Board on March 24, 2003. Questions should be addressed to Brendan Horton or Eric Nelson at the World Bank.

The first review of the PRGF was completed on March 24, 2003 at the same time as the review of the 2002 Article IV consultation. A decision point under the enhanced HIPC Initiative is now expected on the completion of the second review of the PRGF, tentatively scheduled for late July 2003.

Bank Group Strategy and Operations (IDA, IFC and MIGA)[2]

5. **Overall strategy.** On July 31, 2001 Executive Directors of IDA endorsed a **Transitional Support Strategy** (TSS) to map out Bank financial and non-financial support to DRC for the following 12-24 months. Assuming continued progress towards peace and reconciliation in the DRC, the TSS envisaged an Early Emergency Recovery Project (EERP), an Economic Recovery Credit (ERC), an Emergency Multi-sector Rehabilitation and Reconstruction Project (EMRRP), all of which are already effective, and a project to support private investment and to implement mining reforms. Support is also being provided for demobilization and the provision of technical assistance. The TSS also foresees the undertaking of significant non-lending activities.

Financial Assistance

6. **IDA** provides financial assistance through Grants and Credits. On July 31 2001, Directors approved a US$50 million IDA Grant for DRC, the first of its kind, in support of the **Emergency Early Recovery Project (EERP)**. The EERP provides technical assistance to help implement the IMF's Staff Monitored Program, approved by the Fund's Board on July 13, 2001, and prepares further economic reforms (US$21 million), a pilot CDD initiative (US$3 million), works on the critical road between Kinshasa and Matadi (US$15 million), HIV/AIDS activities (US$8 million), and contingencies (US$3 million). Project implementation is rated satisfactory and the funds are now fully committed. Disbursements are expected to be completed by the end of CY 2003.

7. The Board approved the **Economic Recovery Credit** in the amount of SDR 360.4 million (US$450 million equivalent at the time of negotiations) on June 13, 2002. Its objectives are to assist the Democratic Republic of Congo in its economic and social recovery, in the context of the Government's 2001-2003 Interim Economic Reform Program. Disbursements are as follows: (i) the first tranche of US$410 million was released upon effectiveness (July 3, 2002) to assist the DRC with foreign exchange needs immediately following clearance of its arrears (US$338 million) to the World Bank Group ; (ii) a floating tranche of SDR 12 million (US$16.4 million) to support forestry sector policy reforms was disbursed in early April 2003, following the adoption of a new forestry code; and (iii) a floating tranche of SDR 20 million (US$28 million equivalent) was released in late June 2003 to support actions related to the restructuring of GECAMINES, the largest public sector copper mining company.

8. **The Emergency Multi-sector Rehabilitation and Reconstruction Project (EMRRP)** was approved by IDA in August 2002 in the amount of SDR 358.8 million (US$454 million equivalent, including a grant of US$44 million), and became effective in November 2002. It will

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[2] The Bank re-opened a Country Office in Kinshasa, and a Country Manager assumed his post in January 2002.

support the long-term process of reconstruction and economic rehabilitation by financing: (i) **rehabilitation and reconstruction of critical infrastructure** (transport, water supply, electricity, and urban infrastructure); (ii) **in agriculture**, rehabilitation of rural roads and access tracks, establishment of an agricultural information system for farmers, strengthening of producer organizations and key public service providers, and development of a policy framework to improve the investment climate for agriculture and forestry; (iii) **in social sectors**, an increase in the delivery of key social services (education, health, social protection); (iv) **development projects**; (v) **development of sector strategies** for the medium and long term, and strengthening of human and institutional capacities; and (vi) **management, monitoring and evaluation** of the implementation of the program and the IDA-supported project.

9. Progress is as follows. With regard to the **infrastructure** component (roads, electricity and water), an international company has been retained as project manager, but in the meantime, work has proceeded apace with the drawing of the planning of works, which are expected to start in substance in 2004. In the **agriculture** sector, implementation of the first year of the seed multiplication and distribution program is proceeding well. The rural road rehabilitation program will restore traffic on about 5,000 km of roads. Rehabilitation works will be selectively carried out on about 2,900 km of land. The 2003/04 rehabilitation program will cover 1,300 km. Formulation of the rehabilitation strategy which includes labor-intensive methods to be managed at the level of the provinces by "Local Implementation Agencies" is well underway. Preparation of bids for the works contracts is nearing end and works are expected to start by July 2003. In the **social sectors**, the first half of the 200 targeted schools is being rehabilitated; contracts were signed for US$37.4 million to support 44 health zones; the social protection manual of implementation has been designed; and, an education sector analysis, a health country status report, and a risk and vulnerability assessment are all underway. With regard to **development projects**, eight conventions have been signed.

10. IDA began providing support for **demobilization** in the context of a US$2 million Development Grant Facility grant under the Post-Conflict Fund. This is being executed by the ILO and is being used to prepare a pilot program for demobilization of child soldiers. Further support for demobilization is being prepared in the context of the Multi-country Demobilization and Reintegration Program (MDRP), which was discussed by IDA Executive Directors on April 25, 2002. A multi-donor trust fund supports the MDRP. This program **is supporting** demobilization and reintegration DDR activities in the countries of the Greater Great Lakes region (Angola, Burundi, Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Rwanda, Uganda, and Zimbabwe). It is expected that DRC will be the largest beneficiary. This is a five year program jointly financed by IDA in the amount of US$150 million, and other donors in the amount of US$350 million, of which about US$190 million has already been committed. The strategy underlying the project is that demobilization and reintegration of ex-combatants is necessary to establishing peace and restoring security, which are in turn preconditions for sustainable growth and poverty reduction. Once the transitional government has been established, MDRP partners can fully engage in assisting the DRC in setting up the programs and institutions necessary for a countrywide demobilization and reintegration program. Such a program would need to be closely linked to the reform of the security sector. In the meantime, partners have agreed on an interim strategy that includes

technical discussions on possible modalities of a future program, as well as several special projects that cater for vulnerable groups and rapidly emerging demobilization opportunities.

11. **Post Conflict and IDF Grants. Post Conflict grants** are also supporting the reintegration of street children in Kinshasa, rehabilitation of roads and social infrastructure in the war-torn city of Kisangani, and financing of a pilot national living conditions survey in preparation for the upcoming PRSP exercise. Other Post-conflict grants are also being considered for emergency rehabilitation in the East. In addition, IDA is also providing support through its Institutional Development Fund (IDF) grant facility. Such **IDF grants** have supported the drafting of a new mining code and the elaboration of a mining Cadastre, and the elaboration of a transport policy framework. A new IDF grant to strengthen accounting standards is currently being prepared.

12. **Emergency Trust Fund.** Since October 2000, this Trust Fund has financed the Emergency Stabilization and Recovery Project in order to help the country assist communities via projects in the health, education, food security, water, and infrastructure rehabilitation sectors. In addition, the Emergency Trust Fund supports capacity building efforts through the hiring of consultants, and the conducting of training and seminars to assist the Government in implementing its economic reform agenda and coordinating donor assistance. IDA is administering this Fund on behalf of other donors. After an initial balance of US$5 million from Canada and Belgium, the initial donors have increased their contribution to the Fund and recently, the Netherlands also added a new contribution, bringing the fund total to US$13 million. The FED committee of the European Union has recently pledged a contribution of 10 million Euros to the Capacity Building component.

13. Looking forward, support will be provided under the existing TSS through: (i) a private sector development and competitiveness project; (ii) a regional power project; (iii) an economic and social reunification project; and (iv) an HIV-AIDS project.

14. **Support to private sector development** will be provided through the proposed **Private Sector Development and Competitiveness Project** currently under preparation in the amount of US$120 million. Board presentation is scheduled for July 2003. The project's development objective is to increase the competitiveness of the economy, and thereby contribute to economic growth. The project will achieve these objectives by: (i) assisting with improving the investment climate; (ii) supporting reform of public enterprises in the mining, telecommunications, financial, transport, and energy sectors; (iii) stimulating economic diversification and development in the Katanga region through community-driven development approaches; (iv) facilitating the reintegration of retrenched workers in the local economy through support for training, business development services and finance.

15. **Regional Power Project**. The Southern African Power Market program, comprising three phases over a period of seven years, is expected to increase availability and reliability of low cost environmentally friendly electric energy in the Southern Africa Development Community (SADC), thereby increasing competitiveness and fostering economic growth. The program consists of a set of interventions that would strengthen the capability of the Coordination Center of the Southern African Power Pool (SAPP) to promote and manage

electricity trade in the region; remove transmission bottlenecks that inhibit trade; and connect member countries that do not at present enjoy the full benefits of the Pool due to the lack of physical connection to the regional grid.

16. The first phase (APL1), planned to last from 2003 through 2007, is expected to be presented to the Board in early October 2003 and includes: (a) technical assistance to the SAPP Coordination Center; (b) increasing the capacity of the transmission system in the DRC used to transfer electricity from the Inga hydropower station to the SAPP through Zambia; (c) increasing the capacity of the transmission corridor from Zambia/DRC border to Luano substation in Zambia; and (d) feasibility study of a transmission line from Zambia to Tanzania. The DRC component is the largest and is estimated to cost US$186 million with financing from IDA amounting to US$177 million. Apart from supplying electricity to neighboring countries, thus earning hard currency for the country, it will also provide infrastructure services to communities along the transmission line route.

17. **Economic and Social Reunification.** The Emergency Economic and Social Reunification Support Project is currently under preparation and is expected to be discussed at the Board on October 7, 2003. The Project will be financed through a combination of grants and credits for a total amount of about US$130-140 million, including about US$30-40 million in balance of payment support. The Project aims to extend implementation of the reforms passed by the Government over the last two years to the entire DRC territory and in particular to areas controlled by former rebel movements in the East and the North of the country - as well as to pilot emergency rehabilitation activities in these areas (large infrastructure, urban rehabilitation, community development).

18. **HIV/AIDs.** The goal of the Multi-sectoral HIV/AIDS program (MAP) is to mitigate the negative impact of the HIV/AIDS epidemic on the socio-economic development of the Democratic Republic of Congo (DRC). The PMLS will provide for interventions in three areas: prevention of transmission, support and care for persons living with the virus (PLV), and support to persons affected by AIDS (PAA) with the objectives of: (i) reducing the risk of sexual, intravenous and vertical transmission of HIV; (ii) improving the health status and quality of life of persons living with the virus (PLV); and (iii) mitigating the socio-economic impact of the epidemic on vulnerable population groups. The project will be multi-sectoral and will call into play a wide range of actors in all spheres of the country's socio-economic life (public, private, civil society). Its main strategy will be to support and amplify the initiatives of the public and private sectors, NGOs, and local communities. It is scheduled for Board presentation in the first quarter of FY04.

Non-lending activities

19. For several years prior to, and during the TSS, IDA assistance also emphasizes **non-lending activities and advisory services**, including through trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty reduction strategies. Ongoing advisory services and economic and sector work initiated in FY02 include a public expenditure review, strengthening of public expenditure management systems, support to the PRSP process, especially the

consultation and participatory diagnostic processes. For FY03, planned activities include an update of the poverty profile, a debt sustainability analysis for the HIPC program to be undertaken in collaboration with the IMF, and a second Public Expenditure Review focusing on the issues of fiscal deconcentration and decentralization. For FY04, an Institutional Governance Review will focus on service delivery mechanisms at the frontline. The review will be an entry point for setting the agenda on reforms of public sector management systems and inter-governmental relationships.

TSS Update

20. Finally, IDA expects to update the TSS at the beginning of FY 04, which will set forth the scope and configuration of future support. The TSS would focus on: (i) economic growth, through policy advice and investment projects; (ii) public sector reform governance and capacity building; and (iii) access to markets, information, and social services; and (iv) a broad range of social protection activities including the fight against HIV/AIDS.

IFC

21. IFC has supported the cellular telephone operator Celtel, the local subsidiary of MSI-CIH, with a US$7 million loan in 2002 and a further US$20 million in 2003. IFC expects to proceed with two early mining investments which would be among the first under the new Mining Code. The first of these, Kolwezi Tailings, with a total project cost of US$50 million, is the most advanced but not yet in formal appraisal. In the financial sector, IFC plans to assist banks operating in DRC with trade financing facilities, to help establish routine trade finance operations. IFC will work closely with the Bank in the context of the PSD/Competitiveness project to help implement specific sectoral initiatives and key investment projects which are identified in the course of the Bank's assistance. IFC has also spent considerable effort to resolve outstanding disputes in DRC, one of which, UTEXAFRICA, was settled in 2002. However, two others remain on the book: SOTEXKI, a textile business in Kisangani, in the North East, and the Grand Hotel de Kinshasa (former Inter Continental).

MIGA

22. MIGA is now in a position to issue guarantees for projects in the Democratic Republic of Congo as the country has now made full payment of its initial capital subscription. Several projects are under consideration, notably in the mining, power and telecommunications sectors.

Bank-Fund Collaboration in Specific Areas

23. In addition to its direct assistance to DRC, the Bank also supports policy reforms in close collaboration with the Fund in a number of areas: external debt, donor coordination, governance and public expenditure management, the financial sector, and the Poverty Reduction Strategy Paper.

24. **External Debt.** DRC's external debt increased significantly in the 1990's to reach an estimated US$12.9 billion at 2001, of which about US$10.1 billion was in arrears including

about US$1.9 billion to multilateral donors.[3] The Bank and the Fund have worked closely together, as well as with DRC authorities and other multilateral and bilateral donors, to find a solution to this debt burden which is clearly unsustainable. The strategy involves three stages: (i) clearance of arrears to all multilateral financial institutions, starting with the IMF, the World Bank Group and the African Development Bank Group; (ii) provision of relief on bilateral debt, including treatment of arrears by Paris Club members and other bilateral creditors; (iii) reaching the decision point under the enhanced HIPC Initiative to secure further debt reduction to multilateral and bilateral creditors. The clearance of arrears to the IMF, the World Bank Group and AfDB became effective in the summer of 2002 and a Paris Club meeting was held in September 2002. A preliminary Debt Sustainability Analysis was prepared in the first half of 2002, during preparation of the HIPC preliminary document, and is currently being updated as part of the ongoing preparation of the HIPC decision point document. Furthermore, the staff of the two Institutions expect to collaborate closely on: (i) the establishment of a multilateral donor trust fund to ensure timely debt service payments to a number of multilateral institutions (IDA, the AfDB Group, and IFAD) following arrears clearance; and (ii) establishment of arrangements to provide relief on outstanding bank and non-bank commercial debt. Since the end of 2002, arrears to the remaining multilateral institutions (with the sole exception of BDEGL) have either been cleared or will be cleared at the decision point.

25. **Donor Coordination**. The two institutions have been collaborating closely in the monitoring of public external aid flows to DRC on an annual basis, whether or not they flow through the budget. The Bank takes the lead in discussions with individual donors, and the IMF integrates the resulting projections into the macroeconomic framework. This process permits a comprehensive understanding of the structure of both humanitarian and economic assistance to DRC.

26. **Public Finance.** The IMF is taking the lead on the **reform and modernization of revenue and expenditure management systems,** with IDA financing complementary technical assistance needs particularly in the area of information systems for budget preparation and on the **expenditure** side. Close collaboration is also ensuring that information systems are compatible. To complement ongoing technical assistance in public finance management, IDA will finance assistance for public sector accounting reform, expected to be operational by January 2005, as well as technical assistance on procurement reform. At the same time, IDA is taking the lead in the preparation of **public expenditure reviews**. In FY02, the focus of the PER has been on the: (i) overall structure of expenditures, within the overall budget envelop of the 2003 Finance Law; (ii) specific issues in the health, education and transport sectors; and (iii) the evaluation of DRC's ability to monitor execution of poverty related expenditures. Collaboration is particularly close with respect to poverty tracking, on the guidance provided for the identification of the pro-poor expenditures for 2003 and preparation of the 2003 budget. On the **revenue** side, the IMF has taken the lead to date with respect to improving tax administration, with the Bank financing a certain amount of technical assistance in the area of training and the structure of corporate taxation. Looking forward, it is expected that collaboration will grow on the revenue side, during

[3] These figures are based on the HIPC preliminary document of May 2002, and are currently being updated as part of the preparation of the Decision Point document, using end-2002 data.

the preparation of the proposed reforms of customs and internal indirect taxes, as well as of corporate taxation given their significant impact on the **structure of incentives in general and effective protection** in particular, which are of vital importance for promoting an economically efficient and competitive private sector. This should also be the case during the reform of taxation in the mining and forestry sectors, where revenue sharing with local communities is likely to be of particular importance.

27. An IDA team is also collecting data on revenues and expenditures at the local level of government as an input into the preparation of the future deconcentration and decentralization of public finances and public service delivery.

28. **Public Enterprise Reform and Private Sector Development.** IDA is assisting the government in: (i) the preparation and execution of a major reform of the public enterprise sector (to be financed within the context of the Private Sector Development and Competitiveness Project), focusing on the diagnosis of the options in each case, within the context of overall sector reform strategies; and (ii) improving the legal, regulatory, judicial and fiscal environment for private sector development. There is close collaboration with the IMF as regards the many public finance aspects of these reforms (for example, cross arrears, corporate tax regimes, etc).

29. **Financial Sector**. The IMF is taking the lead on issues pertaining to monetary issues and the Central Bank, although IDA has provided some assistance with respect to information systems, and expects to provide more in the future. At the same time, IDA is taking the lead with respect to the restructuring of commercial banks. In practice, there is close collaboration on both issues.

30. **Governance and Anticorruption**. Both institutions have an interest in this area. IDA has provided assistance through the preparation of workshops and seminars on the formulation of an overall governance and anticorruption strategy, while the IMF has been taking the lead on issues of improving public finance management systems (see above). Both institutions have provided comments on the recently approved Code of Conduct for Public Servants. The Institutional Governance Review will provide inputs on governance issues, from the service delivery angle. Also, as indicated in paragraph 26, IDA will finance technical assistance for a comprehensive procurement reform, including the production of a new procurement code, the implementation of a system of procurement follow up, and assistance in reorganizing the public entities in charge of the procurement process.

31. **Preparation of the PRSP**. The Government prepared an Interim PRSP during the period September 2001-May 2002. Bank and IMF staff provided comments on the documents, and made suggestions as to how it might be improved. IDA has also provided assistance on the preparation of consultations and the National Poverty Survey in 2003, which will be one of the key building blocks of the full PRSP which the authorities wish to finalize in 2005. To this end, the government has prepared in June 2003 a Preparation Status Report pertaining to the full PRSP.

Democratic Republic of Congo: Financial Relations with the World Bank Group—
Statement of Loans and Credits

(As of May 31, 2003; in U.S. dollars)

	IBRD	IDA	IDA Grant	Total
Original Principal	330,000,000	2,226,294,621	94,000,000	2,650,294,621
Cancellations	28,484,478	259,852,030	0	288,336,508
Disbursed	301,515,521	1,643,562,481	41,706,786	1,986,784,788
Undisbursed	0	480,683,174	59,391,765	540,074,939
Repaid	247,045,474	168,149,038	0	415,194,512
Due	0	1,608,726,726	0	1,608,726,726
Exchange Adjustment	0	0	0	0
Borrower's Obligation	0	1,608,726,726	0	1,608,726,726
Sold third Party	54,470,047	0	0	54,470,047
Repaid third Party	54,470,047	0	0	54,470,047
Due third Party	0	0	0	0

Democratic Republic of the Congo: Statistical Issues

Despite a difficult environment, the authorities have continued to produce an array of statistics, most of which are contained in the Annual Report of the Central Bank of Congo (BCC), which also issues a monthly Statistical Bulletin. Moreover, a comprehensive set of external debt statistics is compiled by the Office de Gestion de la Dette Publique (OGEDEP). Statistical issues related to specific sectoral areas are described below.

Following a fact-finding mission to Kinshasa in June 2001 in real sector and government finance statistics, STA provided technical assistance on government finance statistics in March–April and September 2002, which was augmented by capacity-building support from the World Bank.

The authorities have indicated their intention to participate in the IMF's General Data Dissemination System (GDDS), and are finalizing the GDDS metadata. Participation in the GDDS will provide a framework for statistical development and capacity building in macroeconomic statistics and sociodemographic (population, health, education, and poverty) indicators.

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 *System of National Accounts 1968* (SNA 1968) 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.

Employment and unemployment

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

Prices

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 in Kinshasa. The IESR also calculates a monthly consumer price index for the Lumumbashi market. The household surveys on which these calculations are based date back to the late 1980s and need to be updated to take account of changes in household consumption patterns and demographic shifts.

Government accounts

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting records of the government cash operations it executes. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, 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 institution.

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, STA has been providing technical assistance in government finance statistics on a peripatetic basis. The proposed format is common to francophone countries in the region and by and large uses an analytical framework similar to that of the 1986 GFS methodology. As a result of such assistance, there have been significant improvements in the overall quality of government finance statistics.

Monetary accounts

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

Since the last money and banking statistics mission in June 2000, data reporting by the BCC for publication in *International Financial Statistics (IFS)* has resumed progressively; end-March 2003 monetary statistics are being published soon in the July 2003 *IFS* release A follow-up monetary and financial statistics mission previously planned during FY 2003 has been postponed to FY 2004. The mission will address the outstanding statistical issues and will provide assistance to the BCC in sustaining the regular and timely reporting of monetary data to STA for publication.

Balance of payments

The balance of payments statistics are 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 operations. The data are adjusted significantly to take account of information on the informal sector and those on foreign aid flows provided by the World Bank and the local United Nations Development Program (UNDP) office, which collects these data from the European Union, embassies, and nongovernmental organizations.

Given the various data sources, the balance of payments data are compiled partly on a cash basis and partly on a transactions basis. No data are reported to STA for publication.

External and domestic debt

External and domestic debt statistics are compiled by OGEDEP and are of reasonable quality in spite of limited computer facilities. However, data on public-enterprise foreign debt and, in particular, on cross arrears in the public sector, are still of very poor quality. 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 public enterprises. However, provided 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 public enterprise reform, the World Bank is collecting data pertaining to the 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 from 1996 and 2001, completed in collaboration with the United Nations Children Fund (UNICEF). A national household living standards survey will be undertaken with the help of IDA and other institutions. 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.

Democratic Republic of the Congo: Core Statistical Indicators
(As of June 10, 2003)

	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	6/9/03	3/31/03	3/31/03	3/31/03	3/31/03	6/7/03	5/31/03	2002	2002	3/31/03	2002	Dec. 2001
Date received	6/9/03	6/7/03	6/7/03	6/7/03	6/7/03	6/7/03	6/7/03	6/7/03	6/7/03	5/26/03	5/26/03	1/31/03
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, A=annually, or V= variable
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.

Statement by the IMF Staff Representative
July 23, 2003

1. A staff team visited Kinshasa during July 14–17, 2003 to meet with members of the new all-inclusive transitional government and institutions, and review the status of implementation of prior actions and other key measures included in the program, as well as recent economic developments. The President, in a public declaration on July 18, reiterated that the government's commitment vis-à-vis the international financial institutions will and must be respected. The members of the new government took office following "hand over" ceremonies on July 15, and the government is now operational. The four Vice-Presidents have been sworn in on July 16. The first meeting of the new Council of Ministers has been postponed until a procedural issue regarding the swearing-in of the new Ministers is resolved. The latest information from the authorities indicates that this would be the case in the next few days.

2. All three prior actions have been implemented, namely:

- elimination of the quasi-taxation of petroleum products in the new price structure;
- government approval of the procedures manual for the new expenditure chain and of the reorganization of the four affected directorates in the Ministry of Finance and the Ministry of the Budget; and
- the finalization of the list of names of "ghost workers", signed by the Ministers of the Civil Service and Finance.

3. In addition, on the fiscal side, the following measures are being implemented:

- the presidential decree ensuring the generalized use of the tax-payer identification number was signed and published on July 18;
- the customs one-stop window in the main port of Matadi became operational at end-June;
- the implementation decrees of the law on the new fiscal procedures have been issued;
- the implementation decrees of the new excise law and new turnover tax law have been issued;
- a ministerial circular eliminating all unjustified tax exemptions, including for petroleum products, and all offsetting of tax payments will be issued in the next few days;

- a new customs code is being finalized;
- the audit by the General Accounting Office of the execution of the 2001 budget has been completed;
- a special sub account at the Central Bank of the Congo to deposit resources released under the enhanced HIPC Initiative has been opened;
- a ministerial circular clarifying that no new tax can be decided upon without the approval of the Minister of Finance will be issued in the next few days;
- a ministerial circular clarifying that no external debt can be contracted in the name of the government without approval of the Minister of Finance, will be issued in the next few days; and
- a ministerial circular specifying that two major public companies, MIBA (diamonds) and GECAMINES (copper), will be brought under common tax law, will be issued in the next few days.

4. On the structural side, the members of the Steering Committee on the Reform of Public Enterprises (COPIREP) have been nominated by a presidential decree of July 2.

5. Concerning recent economic developments, inflation has come down in June and July 2003. The cumulative end-period inflation rate reached 5.6 percent at mid-July, or an annualized rate of 10.6 percent, broadly in line with the program. The Congolese franc slightly depreciated in recent weeks (2.4 % since end-May). Very preliminary estimates for the second quarter of 2003 show a continued increase in non-wage primary expenditure, including in sovereignty– and security–related expenditure and a higher-than-projected cash deficit of the BCC, while revenues (excluding grants) are broadly in line with the program. In order to address this increase in expenditure, the new government has decided to recall all related not-yet-paid payment orders and to freeze all non-essential expenditure until year-end. In addition to the revenue measures described above, the streamlining of procedures in the mobilization of revenue will be accelerated.

Press Release No. 03/127
FOR IMMEDIATE RELEASE
July 28, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF and World Bank Support US$10 Billion in Debt Service Relief for the Democratic Republic of the Congo

WASHINGTON, July 28, 2003 – The International Monetary Fund (IMF) and the World Bank's International Development Association (IDA) have agreed that the Democratic Republic of the Congo (DRC) has taken the steps necessary to reach its decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Debt relief under the enhanced HIPC Initiative from all of the DRC's creditors will amount to approximately US$10 billion in nominal terms (or US$6.3 billion in net present value (NPV) terms[1]) over time. The DRC becomes the 27th country to reach its decision point under the enhanced framework of the HIPC Initiative.

Under the enhanced HIPC Initiative, IDA will provide a total of US$1.031 billion in nominal debt service relief (about US$831 million in net present value terms), which will be delivered in part through a 90 percent reduction in debt service on IDA credits from 2003 to 2026. The IMF will provide assistance of approximately US$472 million in NPV terms (equivalent to about SDR 338 million in NPV terms) under the enhanced HIPC Initiative, which will be delivered in part through an average annual reduction in debt service of about 50 percent until 2012. Both institutions have already delivered some of their assistance through the concessional treatment of arrears owed to them, and IDA delivered an additional portion of its assistance through a post-conflict grant. Under the enhanced HIPC Initiative's burden-sharing approach, the DRC's other creditors will provide the remainder of the Initiative's debt relief.

In recognition of the authorities' satisfactory progress in implementing sound macroeconomic and structural policies, the DRC's total external debt in net present value terms is to be reduced by approximately 80 percent under the enhanced HIPC Initiative. "The authorities' implementation of their economic program to date, under difficult circumstances, has been broadly satisfactory and has paved the way for reaching the decision point under the enhanced HIPC Initiative," Mr. Horst Köhler, the IMF's Managing Director, said following the IMF Executive Board discussion on July 23, 2003.

[1] The net present value (NPV) of debt is the discounted sum of all future debt-service obligations (interest and principal). It is a measure that takes into account the degree of concessionality of a country's debt stock. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant element.)

Mr. Emmanuel Mbi, World Bank Country Director for the DRC, stressed that "Executive Directors of the World Bank also warned of the high risks the country faces going forward and urged determined action by the authorities and concerted support from the international community to ensure that economic recovery attains a stronger foothold and the economy begins to realize it enormous potential."

Resources made available by debt relief under the enhanced HIPC Initiative are being allocated to fund key poverty-related expenditure, which is outlined in the DRC's Interim Poverty Reduction Strategy Paper (I-PRSP).

Background:

The DRC

The DRC is emerging from years of political turmoil and economic decline. Over the past two years, in spite of periodic outbursts of violence, the DRC has made considerable progress in consolidating its peace process, stabilizing its economic situation, and creating the conditions for sustainable economic growth and poverty reduction. The DRC has put arrears-clearance operations in place with its external creditors and, after a decade of building up arrears, it is normalizing its economic relations with the international community. In April 2002, the DRC embarked on an economic reform program supported by the IMF and World Bank. For the first time in 13 years, economic growth was positive in 2002, and inflation fell sharply from 135 percent at end-2001 to 16 percent at end-2002. In March 2002, the government produced an I-PRSP through a participatory process that, in preparation of the full PRSP, will broaden as the country reunifies.

The HIPC Initiative

In 1996, the World Bank and IMF launched the HIPC Initiative to create a framework in which all creditors, including multilateral creditors, can provide debt relief to the world's poorest and most heavily indebted countries, and thereby reduce the constraints on economic growth and poverty reduction imposed by the debt-service burdens in these countries. The Initiative was modified in 1999 to provide three key enhancements:

- ***Deeper and Broader Relief.*** External debt thresholds were lowered from the original framework. As a result, more countries have become eligible for debt relief and some countries have become eligible for greater relief;

- ***Faster Relief.*** A number of creditors began to provide interim debt relief immediately at the "decision point." Also, the new framework permitted countries to reach the "completion point" faster; and

- ***Stronger Link Between Debt Relief and Poverty Reduction.*** Freed resources were to be used to support poverty reduction strategies developed by national governments through a broad consultative process.

To date, 27 countries[2] – two-thirds of the HIPCs – have reached their decision points and are receiving debt relief from all sources that will amount to more than US$40 billion over time, and an average stock-of-debt reduction in NPV terms of nearly two-thirds.

Of these 27, eight countries – Benin, Bolivia, Burkina Faso, Mauritania, Mali, Mozambique, Tanzania and Uganda – have reached their completion points.

[2] Benin, Bolivia, Burkina Faso, Cameroon, Chad, Democratic Republic of the Congo, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mauritania, Mali, Mozambique, Nicaragua, Niger, Rwanda, São Tome & Príncipe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia.

**Statement by Damian Ondo Mañe, Executive Director for the Democratic Republic of the Congo
July 23, 2003**

I. Introduction

After he took office in January 2001, aware of the fact that it was the main condition for economic recovery and development, President Kabila promised to bring peace to his country. He has delivered on his promise. A new constitution was adopted on April 4, 2003, President Kabila was sworn in as President of the Democratic Republic of Congo on April 7, 2003 for a two-year transition period, four Vice-Presidents were sworn in on July 16, 2003 and an all-inclusive government has been established to prepare the country for transparent elections. Peace is being restored in the Eastern part of the country, thanks to the intervention of the United Nations-sponsored Interim Emergency Multinational Force (UN-IEMF).

My Congolese authorities are fully aware that with the many new cabinet members, one of the major challenges facing the new government of national unity will be to maintain interministerial coordination. To this end, they have strengthened the two interministerial committees in charge of monitoring the implementation of the economic program and the poverty reduction strategy. The advent of the all-inclusive transitional government offers a good opportunity to consolidate the reconciliation and peace process and to stabilize the security situation. However, progress achieved so far in key areas of the economy remains fragile and support from the international community in the form of financial and technical assistance is vital.

Given the progress already made under the PRGF-supported program, my Congolese authorities are hopeful that they will reach the decision point under the Enhanced HIPC Initiative. My authorities are also requesting waivers for the non-observance of three quantitative performance criteria, one continuous performance criterion, and one structural performance criterion. The continuous performance criterion prohibiting budgetary expenditure financed by the Central Bank of Congo (BCC) without the prior authorization of the Ministry of Finance was not observed at end-March 2003, given that the unexpected expenditures required for security and the reconciliation process were supported solely by the government.

II. Major achievements under the PRGF program during 2002 and the first quarter of 2003

Overall macroeconomic performance under the program improved in 2002, with positive economic growth (3 percent) for the first time in 13 years. Inflation decreased substantially from 135 percent at end-2001 to about 16 percent at end-December 2002. In 2003, the rate of inflation for the first semester suggests that the target set for the year could be achieved. The exchange rate has remained relatively stable since the beginning of the year 2003.

Fiscal policy

Overall, fiscal performance for the period under review was satisfactory. However, my Congolese authorities' efforts to shift the composition of spending towards pro-poor outlays were hampered by a shortfall in foreign-assistance and increases in security and sovereignty related spending. These include the costs related to the reconciliation process, financed exclusively through the government's budget, and the security vacuum created by the withdrawal of foreign troops.

On the revenue side, the reforms aimed at modernizing the tax and customs administration have proceeded despite some delays due to administrative constraints. The Large Enterprises Directorate as well as the one-stop shop for customs matters in the main port of Matadi are now operational. A new tax code is also being drafted. The Customs and Excise Office (OFIDA) is being computerized. In addition, the 2003 budget has been adopted together with a set of laws reforming customs tariffs and indirect taxation. The new tariff law establishes a simplified tariff and the sales tax has been streamlined and extended to products subject to excise with the aim of introducing a VAT.

On the expenditure side, efforts undertaken in the area of public expenditure management have advanced. The government's budget adopted by Parliament in March 2003 provides for the elimination of 153 *budgets annexes* and follows the new functional, administrative and economic classification system. Furthermore, the monthly cash flow plan continues to be implemented. Progress is being made in the establishment of the computer link between the central bank and the Treasury, which is intended to expedite and increase the security and transparency of data sharing between these two institutions.

Monetary Policy and the Financial Sector

Facing an increase in inflation in the last quarter of 2002, the Central Bank of Congo (BCC) increased its refinancing rate and subsequently lowered it in June 2003. To regulate liquidity, the BCC launched a new financial instrument, the "*billet de trésorerie*", with maturities ranging from 1 to 4 weeks.

My Congolese authorities have also begun to implement various measures aimed at strengthening the legal, institutional and regulatory frameworks of the financial system as well as the supervision of the banking system. Significant progress has been made in cleaning up the accounts of the BCC and drafting a roadmap towards the adoption of international accounting standards. The BCC has also issued anti-money laundering instructions. These instructions, which are being discussed with commercial banks, will benefit from Fund's technical assistance and should be finalized when the anti-money laundering legal framework is implemented by end-2003.

Structural Reforms

My Congolese authorities have also made good progress on structural and sectoral reforms with a view to create an environment conducive to economic recovery and increased private sector activity. A forum for dialogue between the private sector and the government has been established and the government intends to join the Organization for the Harmonization of Business Law in Africa (OHADA).

The Steering Committee on the Reform of Public Enterprises (COPIREP) has been established, and its members have been appointed. The diagnostic study concerning the governance of public enterprises has been submitted to the government. In addition, progress is being made in restructuring the public mining company (GECAMINES).

As regards the forestry sector, the reforms underway aim at clarifying the rules on access to and the management of forestry resources. Although the new forestry code was published last year, the validation of concessions and the accompanying policies for the collection of the area tax were taken only recently because of capacity constraints. In the mining sector, the legal framework was completed in April 2003 with the publication by decree of new mining regulations, the mining registry and the mineral title validation commission.

In the area of governance, a strategy and action plan for combating corruption were approved by the Council of Ministers earlier this year. The Code of Conduct for Civil Servants was enacted last year and a campaign to explain this code has been launched. The decree on the organization and operations of the *Observatoire du Code Ethique et Professionnel* was published. Additionally, an anti-corruption commission was created last year.

III. The program for the rest of the year 2003

My Congolese authorities will steadfastly pursue their fiscal consolidation efforts and deepen structural and sectoral reforms, with a view to achieving a sustainable growth rate and reducing poverty.

Fiscal policy

To take account of the immediate effect of the country's reunification on both revenue and expenditure, the government has adopted a supplementary budget, which is based on the new budget classification system. It will be submitted to Parliament in its first session in July 2003. As soon as it becomes possible, my Congolese authorities plan to take stock of the situation in the reunified provinces, assess the revenue and expenditure base, conduct a thorough census of civil servants and military personnel, and prepare a reunification, reconstruction, and pro-poor budget for 2004.

On the revenue side, efforts to increase the effectiveness of the tax collection agencies will continue and taxpayers' paperwork will be reduced with technical assistance from the Fund. In this context, the customs office directorate for the main provinces will be reorganized. The new customs code will be enacted in September 2003 and the verification of exemptions will be stepped up with the elimination of ad hoc exemptions.

On the expenditure side, the government will eliminate extra-budgetary spending. To this end, the BCC firmly commits itself to refrain from financing any expenditure not previously authorized by the Minister of Finance. A joint commission comprising the Office of the President, the Ministries of Finance and Budget, and the BCC will ensure weekly monitoring of spending. The civil service reform will be undertaken, with a view to removing from the government payroll the identified "ghost workers" and speeding up the retirement of longstanding civil workers. The government is firmly committed to pursuing reforms aimed at improving the control and tracking of public expenditures. The tracking of poverty-reducing expenditures will be made easier by the special code included in the new budget classification to identify these expenditures separately upon execution.

Monetary Policy and the Financial Sector

Monetary policy will continue to aim at price stability in the context of a floating exchange rate system. The BCC will continue to strengthen the operational framework of its monetary program in strict accordance with the Fund's technical assistance missions. In addition, the monthly cash-flow plans for the government and the BCC will be strictly applied in the context of the monetary program. To this end, the BCC will continue to improve its financial management, reduce its operating costs, and limit its cash deficit to 0.4 percent of GDP. A study on the possible recapitalization of the BCC will be undertaken by end-2003.

External Sector

My Congolese authorities are committed to pursuing efforts to eliminate the few remaining restrictions that are not consistent with their Article VIII obligations. These concern the DRC's obligation under the bilateral payments agreement with the Economic Community of the Great Lakes Countries and the multiple currency practice with Zimbabwe. In the area of international trade, they have maintained the temporary quantitative restrictions established to deal with the alleged dumping of certain textile products. They will continue to deepen the customs reforms in a consistent manner through their participation in the Common Market for Eastern and Southern Africa (COMESA). Subscription to MIGA has been completed, which should help encourage foreign direct investments.

Structural Reforms

In the period through December 2003, my Congolese authorities will emphasize effective monitoring of the introduction of measures to fight corruption. To this end, the legal and regulatory framework for the anticorruption and ethics measures will be supplemented by the dissemination to the public of information about the Code of Good Conduct and the submission of the draft law on corruption, money laundering, and transnational organized crime to the new Parliament before end-2003.

With a view to strengthen the banking system and increasing the effectiveness of monetary policy, the BCC plans to introduce new instructions for prudential ratios by end-July 2003 and develop plans for the restructuring of commercial banks based on the external audits.

Concerning natural resources, the government will publish a report on the collection of taxes and the concessions of delinquent taxpayers will be revoked. In the mining sector, the program of voluntary separation at GECAMINES will be completed by end-December 2003. For the mining registry, the government will introduce financial management, audit, performance monitoring, and assessment mechanisms by end-November 2003.

IV. I-PRSP, DSA, and HIPC Decision Point

Poverty remains widespread in the DRC and the 2003 UN human development index ranks the country 167th out of 175 countries. In March 2002, the government produced an I-PRSP through a participatory process that, in preparation of the full PRSP, will broaden as the country reunifies. We would like to note that the JSA of the I-PRSP concludes that the strategy paper provides an adequate basis for the development of a fully participatory PRSP and the provision of concessional assistance. A National Poverty Survey, one of the first steps planned for drawing up the full PRSP, which is to be completed in October 2005, has been under preparation since June 2002.

My Congolese authorities are very thankful to creditors for their willingness to participate in the enhanced HIPC Initiative. However, it is to be noted that under the "reduced performance" scenario in which some main variables are out of my authorities' control, the NPV of debt-to-export ratio would never fall below the Enhanced HIPC threshold and risks persist. My authorities are hopeful that the DRC's creditors will assist in mitigating these risks. This implies that good performance in the DRC will need to be rewarded with timely and adequate financial assistance, especially in the event of adverse external developments.

My Congolese authorities have already taken measures to ensure transparency and efficiency in the use of the HIPC resources. A special account has been opened at the BCC to record receipts of enhanced HIPC Initiative assistance. The use of resources in this account will be limited to the financing of agreed upon poverty-related expenditures and, to this end; the account will be subjected to independent audits, with the results made publicly available. My authorities have also indicated that the overall composition of expenditure will be tracked, and public expenditure-tracking exercises will be conducted in priority sectors, with assistance from the World Bank. They have already put in place the instruments. The new expenditure chain, from the commitment to the payment phase, has been put in place with a codification of social outlays.

V. Technical Assistance

My Congolese authorities are very thankful for the external technical assistance that they have received so far including that from the Fund. The country's statistical data and institutional capacity have been gradually upgraded with the help of technical assistance from the international community. However, weaknesses remain and the progress made needs to be consolidated and sustained. On external debt management, my authorities have received assistance from Debt Relief International to identify the public debt management office's (OGEDEP) capacity building needs. Furthermore, a completion point trigger has been set on the installation and activation of a computerized debt-recording system at OGEDEP. In this context, my authorities are requesting further technical assistance from the international community on this issue. Assistance provided in the statistical area has also been essential in enabling my authorities to complete the remaining steps necessary for participation in the GDDS. With the country's reunification, the need to build the administrative capacities of the provinces will become acute; my authorities call for an extension of Fund's technical assistance in the fiscal area.

VI. Conclusion

With the progress made by my Congolese authorities under the PRGF and their ongoing efforts towards peace, they are hopeful that timely financial and technical assistance from the international community will be forthcoming and help to consolidate the reconciliation and reconstruction process. To this end, I would like to request the approval of the second review and the granting of the decision point under the Enhanced HIPC Initiative.