

Democratic Republic of the Congo: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Staff Supplement; and Press Release on the Executive Board Discussion

In the context of the third review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the third review under the three-year arrangement 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 **November 22, 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 February 13, 2004.** 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 supplement of **March 2, 2004** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during its March 3, 2004 discussion** of the staff report that completed the request and review.

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

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

*May also be included in Staff Report

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

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DEMOCRATIC REPUBLIC OF THE CONGO

**Third Review Under the Three-Year Arrangement 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 Amor Tahari and Anthony Boote

February 13, 2004

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Executive Summary

Discussions. Discussions on the third review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Kinshasa during November 8-22, 2003. The mission met, inter alia, with Vice President Bemba, in charge of economic and financial affairs, Vice President Yerodia, in charge of reconstruction and development, Vice President Ruberwa, in charge of political affairs, the President's Cabinet of Advisors, the Council of Ministers, and representatives of civil society, including trade unions, the international community, and the press.

The staff team. The mission comprised Messrs. Clément (Head), Gons, Akitoby (all AFR), Calcoen (FAD), Mati (EP-FAD), Ioannou (PDR), and Mrs. Ng Choy Hing (Administrative Assistant, AFR), and it was assisted by Mr. Kouwenaar, the Fund's Senior Resident Representative in Kinshasa. Mr. Horton from the World Bank participated in the mission, as did Mr. Guetat, Advisor to the Executive Director. The mission benefited from the recommendations of overlapping technical assistance missions in the fiscal, monetary, and statistical areas.

Political situation. The peace and reunification process has continued to evolve with remarkable speed. Following the promulgation of the Transitional Constitution on April 4, 2003, the Government of National Unity, and the National Assembly and the Senate, in which all political parties are represented, were inaugurated in July and August 2003, respectively. A unified army command was appointed in September 2003. The UN Security Council has decided to increase the size and broaden the mandate of the United Nations Observation Mission in the Democratic Republic of the Congo (MONUC). An international conference on peace and security in the Great Lakes region is scheduled for the fourth quarter of 2004.

PRGF arrangement. A three-year arrangement of SDR 580 million (108.8 percent of quota) was approved on June 12, 2002. Three tranches totaling SDR 473.4 million have been disbursed, and SDR 26.7 million would become available at the completion of this review.

Enhanced HIPC Initiative decision point. The Executive Board approved the DRC's reaching the decision point on July 23, 2003. The World Bank Board took the same decision one day later.

Program implementation. Overall macroeconomic performance under the program was broadly satisfactory in the first nine months of 2003, despite some fiscal slippages in the second quarter leading up to the appointment of the Government of National Unity. The programmed shift toward pro-poor spending has only been partly achieved because of the slippages and a shortfall in foreign-financed investment. Good progress was made on the structural side. The authorities have requested waivers for the nonobservance of three quantitative performance criteria, which were missed by relatively small margins.

Program for 2004. Consistent with the revised macroeconomic framework, the program for 2004 seeks to accelerate economic growth in a context of consolidation of the peace and reunification process, while fiscal and monetary policies will remain prudent within the framework of the floating exchange rate system. To continue improving the business climate, the ongoing structural and sectoral reforms will be deepened and applied to the entire country, with a particular emphasis on transparency and good governance.

I. INTRODUCTION

1. Discussions on the third review under the Poverty Reduction and Growth Facility (PRGF) were held in Kinshasa during November 8-22, 2003. In the attached letter of intent dated December 10, 2003, signed by His Excellency President Joseph Kabila (Appendix I), and in the memorandum on economic and financial policies (MEFP) (Appendix I, Attachment I), the authorities review political and economic developments during the first nine months of 2003 and outline the policies to be implemented during the rest of 2003 and in 2004, taking account of the reunification of the country. In their letter, the authorities request waivers for the nonobservance of three of the eleven quantitative performance criteria, 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, and the ceiling on net bank credit to the government. These criteria were missed by relatively small margins. The structural performance criterion on the completion of audits of five commercial banks was met. One of the four structural benchmarks, concerning the effective implementation of new expenditure procedures, is expected to be met with some delay in February 2004, while the other three were met. The prior action for the completion of the third review is set out in Table 5B of the MEFP. Table 1 summarizes the Fund's position during the program period and Table 2 contains the phasing of remaining purchases.

2. At the conclusion of the second review under the PRGF arrangement on July 23, 2003, Executive Directors commended the authorities for their sustained implementation of the PRGF-supported program and approved the Democratic Republic of the Congo's (DRC's) reaching the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). They welcomed the authorities' emphasis on continued fiscal consolidation, while stressing that sovereignty- and security-related expenditure should be closely monitored and their share in total spending reduced, in order to permit an increase in social- and infrastructure-related spending. Directors also stressed the importance of further strengthening public expenditure management.

3. The Fund and World Bank staffs have been cooperating closely in assisting the DRC.¹ On July 2, 2003, the World Bank's Executive Board approved a Private Sector Development and Competitiveness Project in the amount of US\$120 million. In addition, an Emergency Economic and Social Reunification Support Project in the amount of US\$214 million and a credit of US\$178.6 million (almost all of which benefiting the DRC) for the first phase of the Southern Africa Power Market Program were approved on September 11 and November 11, 2003, respectively. The two staffs have also maintained close contacts with the African

¹ Appendices II and III contain summaries of the DRC's relations with the Fund and the World Bank, respectively.

Development Bank (AfDB) Group and other multilateral creditors. On December 10, 2003, the AfDB approved an economic recovery and reunification support operation in the amount of about US\$60 million. In November 2003, the Paris Club agreed to the topping up of debt relief to take into account the DRC's qualification for enhanced HIPC Initiative assistance, and bilateral negotiations with creditors (Paris Club, non-Paris Club bilateral, and commercial) are ongoing (Box 1). At a donors' meeting in Paris on December 17-18, 2003, an amount of US\$3.9 billion was pledged for the period 2004-06. An investors' forum the following day was attended by more than 200 private entrepreneurs.

II. RECENT POLITICAL AND SECURITY DEVELOPMENTS

4. **Remarkable progress has been made concerning peace and reunification.** Following the promulgation of the Transitional Constitution on April 4, 2003, which provides for free and transparent elections after a two-year period, the Government of National Unity, and the National Assembly and the Senate, in which all political parties are represented, were inaugurated in July and August 2003, respectively. The new government is functioning well, with particularly good coordination of economic and financial policies. A unified army command was appointed in September 2003, and a unified police will be created in the near future. The draft decentralization law, which will define, inter alia, the transfer of revenues to the provinces, is scheduled to be presented to parliament in the next few months. On December 18, 2003, the interministerial Disarmament, Demobilization, and Reintegration (DDR) Committee, the National DDR Committee (CONADER), and a committee responsible for managing DDR funds were created by presidential decree. The national DDR program, to be financed with external resources, is expected to start in the second quarter of 2004. In late 2003, parliament adopted the organic law on the Independent Elections Committee. The United Nations Observation Mission in the Democratic Republic of the Congo (MONUC), the European Union, and several bilateral partners intend to assist the DRC in preparing for the upcoming elections. A committee of principal bilateral partners, presided over by the head of MONUC, is monitoring the transition.

5. UN Security Council Resolution 1493 of July 28, 2003 authorized an increase in the size of MONUC from 8,700 to 10,800 troops, and a broadened mandate under Article 7 of the UN Charter allowing, inter alia, the use of force. Following the expiration of the mandate of the French-led Interim Emergency Multinational Force on September 1, 2003, several MONUC units have been deployed in the northeast of the country, where the security situation remains worrisome. The "Final Report of the UN Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the DRC" was issued; it concluded that those who were involved in the plundering of the DRC's wealth at the time of the conflict were continuing their activities, and that arms trafficking continued. The November 2002 multidonor mission (with IMF participation) to the reunified provinces found appalling social conditions and widespread destruction of physical infrastructure. An international conference on peace and security in the Great Lakes region is scheduled for the fourth quarter of 2004.

III. PERFORMANCE UNDER THE PRGF-SUPPORTED PROGRAM DURING THE FIRST THREE QUARTERS OF 2003, AND ESTIMATES FOR THE YEAR AS A WHOLE

6. **Overall macroeconomic performance under the program was broadly satisfactory in the first nine months of 2003**, despite some fiscal slippages in the second quarter leading up to the appointment of the Government of National Unity. Good progress was also made on the structural side. For the year as a whole, real GDP growth is estimated to have accelerated to 5 percent, with all sectors posting positive growth for the first time in many years (Table 3).² In 2003, the DRC moved from the stabilization phase into the reconstruction phase, as envisaged in the interim poverty reduction strategy paper (I-PRSP). Year-end inflation decelerated more quickly than anticipated, to 4.4 percent, against an initial projection of 8 percent. The Congo franc appreciated in nominal terms by 2.5 percent vis à vis the U.S. dollar³ and the velocity of money decreased during the year.

7. **Despite the new government's strong efforts to compensate for the fiscal slippages of the second quarter,⁴ the targets for end-September 2003 were not fully met.** Total revenue (excluding grants) was slightly lower than anticipated for the first nine months of 2003, mainly reflecting implementation delays in the tariff and tax reforms adopted in March 2003, and tax evasion (MEFP, para. 5). Total expenditure, including larger-than-expected net financial losses of the central bank, was lower than envisaged, mainly owing to lower-than-programmed external interest payments and foreign-financed investment spending. No wage payments arrears were accumulated, and the projected 10 percent salary increase was postponed until 2004. However, there was a buildup of arrears on utility payments (estimated at 0.4 percent of GDP). Current primary expenditure was higher than projected, mainly due to the expenditure overruns in the second quarter leading up to the installation of the new government (MEFP, para. 6). The domestic primary balance (on a cash basis) showed a deficit of 0.3 percent of annual GDP instead of the 0.8 percent surplus programmed, and the consolidated overall balance on a cash basis showed a deficit of 1.7 percent of GDP instead of the programmed 1.2 percent (MEFP, Table 2A). Against this background, the ceiling on net

² According to the new Investment Promotion Agency (ANAPI), over 100 investment applications from domestic and foreign private investors were approved in 2002-03, amounting to about US\$2.3 billion.

³ Preliminary estimates show that in 2003 the Congo franc depreciated by about 24 percent in nominal effective terms and about 22 percent in real effective terms. These developments reflect the fact that the DRC's main trading partners are in the Euro zone.

⁴ The emergency measures taken in July 2003 included the recall of outstanding payment orders, the freeze of nonessential expenditures, and the rationalization of oil outlays (see MEFP, para. 6).

bank credit to the government (NCG), adjusted for net external nonproject disbursements, was missed by 0.8 percent of GDP, as was the adjusted ceiling on the BCC's net domestic assets (NDA) (by 0.5 percent of GDP).⁵

8. **As of end-September 2003, the programmed shift toward pro-poor spending was only partly achieved**, given the shortfall in foreign-financed investment (of 0.5 percent of GDP) and the slippages during the second quarter. The combined share of defense, security, and sovereign spending is estimated at 2.7 percent of GDP (compared with the 1.6 percent programmed), while poverty-reducing expenditure, the definition of which has been broadened in line with the I-PRSP to include infrastructure expenditure, is expected to amount to 1.0 percent of GDP (compared with the 1.2 percent programmed).⁶

9. **The fiscal targets for 2003 have been adjusted in light of the end-September outcome without compromising the inflation objectives, given the increased demand for the Congo franc.** Total revenues for the year as a whole (excluding grants) are projected to remain close to the originally programmed target (8.2 percent of GDP), despite a more appreciated exchange rate than expected (Table 4B and MEFP, para. 9). In the fourth quarter, the authorities continued their expenditure-restraining efforts by limiting nonessential outlays. Total expenditure (on a commitment basis) for the year is estimated to be lower than programmed by 2 percentage points of GDP, mainly on account of lower foreign-financed investment (by 1.4 percent of GDP) and lower external interest payments due (by 1.7 percent of GDP). The primary domestic surplus (on a cash basis) is estimated to reach 0.5 percent of GDP, or 1.2 percentage points lower than programmed, while the overall consolidated deficit, on a cash basis, is anticipated to reach the programmed target of 1.4 percent of GDP. In light of this, the net credit to the government target has been revised to 0.4 percent of GDP instead of zero, as originally programmed.

10. **Fiscal reform has progressed well, despite some delays** (MEFP, paras. 7 and 8). On the revenue side, the reform of the Customs and Excise Office (OFIDA), approved in March 2003, is being implemented satisfactorily with the opening in July 2003 of the one-stop window (*guichet unique*) in the seaport of Matadi, although further progress is still needed in streamlining the customs clearance process and computerizing customs procedures. In addition, the ministerial decree introducing tax stickers on tobacco products was adopted in November 2003, and the one concerning the nationwide use of taxpayer identification numbers will be adopted in January 2004. The newly established Large Taxpayers Unit (LTU) started its operations, although an inadequate operating budget, the lack of clear selection

⁵ Before adjustment, net credit to the government was 0.1 percent of GDP higher than programmed, while net domestic assets were marginally lower.

⁶ Appendix I, Attachment II, Annex II contains the definition of poverty-reducing expenditure.

criteria for large enterprises, and newly signed agreements exempting some companies from paying taxes are hindering its effectiveness. With some delay, the new expenditure procedures aimed at restoring and streamlining the entire expenditure chain, including commitment, verification, payment order and payment, will become fully effective in February 2004. Finally, the audit of the 2001 budget execution was submitted to parliament for subsequent publication in the *Journal Officiel*, while the audit of the 2002 budget execution has been completed and is expected to be presented to parliament by end-January 2004.

11. **On the monetary side, following the resumption of growth and the reunification of the country, the demand for Congo francs has increased**, as reflected in the decline in the velocity of money (Box 2). However, the actual increase in money demand was not fully met by the central bank. Although the BCC started issuing small-denomination banknotes to help with the resumption of transactions among the poorest segments of the population, it refrained from issuing new, larger-denomination banknotes it already had at its disposal, mainly because of a fear of rekindling inflationary expectations. Instead, the BCC chose to sell part of its gross reserves for Congo franc notes, thereby contributing to the nonobservance by about US\$34 million of the performance criterion on the net foreign assets of the BCC.⁷ This also contributed to the appreciation of the exchange rate.⁸

12. **In light of the deceleration of inflation, the BCC lowered its refinancing rate from 24 percent at end-December 2002 to 15 percent in late September 2003**, keeping the rate positive in real terms. Based on the monetary survey for September 2003, the compilation of which reflects the recommendations of the external audit of the BCC's accounts, broad money grew by 23 percent through that period, compared with the 15 percent projected under the program (Table 5). For 2003 as a whole, broad money is estimated to have increased by 31 percent, compared with the 20 percent projected in the program and the increase of 18 percent in nominal GDP.

13. **The BCC has made good progress in implementing its ambitious 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, para. 13 and Table 3A).

⁷ At the same time, the net foreign reserves of the commercial banks increased by more than this amount (US\$44 million).

⁸ Taking advantage of the appreciation of the Congo franc, the BCC began to reverse its policy in the foreign exchange market in November 2003 and purchased a net amount of US\$6 million through end-December 2003, compared with a net sale of about US\$40 million during July-September 2003.

14. **The external current account balance** (including grants and before debt-service relief) is expected to show a deficit of 2 percent of GDP in 2003, or half the initially programmed level (Table 6). Merchandise exports are estimated to have grown by 16 percent, considerably higher than projected reflecting, for the greater part, strong growth in diamond exports associated with the Kimberley diamond certification process. Merchandise imports rose by 25 percent, slightly more than projected. Aid-related imports grew by an estimated 31 percent and accounted for about 25 percent of merchandise imports. The overall balance of payments is expected to have recorded a deficit of 4.7 percent of GDP, about 1 percentage point of GDP less than projected. The BCC's foreign reserves are estimated to have increased from 3 to 5.3 weeks of non-aid-related imports of goods and nonfactor services (compared with 8 weeks projected), mainly reflecting the net foreign exchange sales by the BCC until October 2003. External debt service—after rescheduling and debt relief in the context of the enhanced HIPC Initiative—is estimated at 10 percent of exports of goods and nonfactor services in 2003. On December 24, 2003, the Executive Board approved an extension until December 31, 2004 of the period to phase out remaining exchange restrictions subject to approval under Article VIII (12/17/03).

15. With the help of, mainly, the World Bank, **good progress has been made in implementing structural and sectoral reforms**, particularly in the mining, forestry, and public enterprise sectors (Box 3, and MEFP, paras. 17-34). All public enterprises have been audited, and restructuring plans for the most important ones are being prepared. Government cross arrears with the domestic private sector and public enterprises have been audited, and amount to US\$209 million and US\$642 million, respectively. Several measures have been taken to improve governance. On August 28, 2003, President Kabila submitted a written declaration of his wealth to parliament, and several members of the new government have followed suit. The laws against corruption and on combating money laundering and the financing of terrorism are expected to be approved by parliament in January 2004. However, the operations of the new mining registry (*cadastre minier*) have not been fully in line with the mining code and action is being undertaken, with the help of the World Bank, to ensure full transparency in its operations.

IV. REPORT ON THE POLICY DISCUSSIONS AND THE PROGRAM FOR 2004

A. Medium-Term Macroeconomic Framework

16. **The medium-term macroeconomic framework for 2004–06 has been updated** to take into account (i) revised estimates of the impact of the changing international environment; (ii) the reunification of the country; (iii) the external debt sustainability analysis and the debt relief obtained in the context of the enhanced HIPC Initiative, based on end-2002 debt data; and (iv) anticipated external assistance.

17. The macroeconomic objectives include, inter alia, (i) average real GDP growth of about 6.7 percent over the period 2004–06, implying an annual average increase in per capita GDP of about 3.5 percent; (ii) an annual inflation rate of 5 percent by 2005; and (iii) a gradual

increase in gross official reserves to about 12 weeks of non-aid-related imports of goods and nonfactor services (see Tables 3 and 6). The net present value (NPV) of debt-to-exports ratio is expected to decline to 123 percent in 2006, the currently projected year of the completion point, compared with about 125 percent estimated at the time of the decision point. The program is, in principle, financed through end-2006, with the bulk of financing provided by multilateral and bilateral creditors (Table 9).

B. Macroeconomic Framework for 2004

18. **Against the backdrop of reunification, and in line with entering the reconstruction phase as envisaged in the I-PRSP, the program for 2004 seeks to further accelerate economic growth in a context of fiscal consolidation; meanwhile, monetary policy will remain prudent within the framework of the floating exchange rate system.** The ongoing structural and sectoral reforms will be deepened and applied to the entire country, with the help of the World Bank. Consistent with the revised medium-term framework, and in line with the preliminary objectives set at the time of the second review under the PRGF arrangement, the program for 2004 projects an acceleration of economic growth to 6 percent and aims at (i) a sharp increase in investment of more than 5 percentage points of GDP as a result of the acceleration of foreign-financed investment; (ii) an increase in national saving to over 13 percent of GDP, resulting from a rise in government savings and net official transfers from abroad (including debt relief); and (iii) an annual inflation rate of 6 percent. Gross official reserves are targeted to increase to eight weeks of non-aid-related imports of goods and nonfactor services.

Fiscal policy

19. **Fiscal policy for 2004 will continue to aim at fiscal consolidation while taking into account the impact of the country's reunification and the tilting of the composition of expenditure toward pro-poor spending.** The 2004 pro-poor reunification budget, which will be presented to parliament before end-January 2004, reflects the new expenditure classification and the de facto merger of all military forces. If necessary, a supplementary budget will be presented in 2004 to take into account (i) updates of the impact of reunification and of the demobilization and reintegration program financed by the international community; (ii) the financial impact of the decentralization law; (iii) an updated estimate of public enterprise and commercial bank restructuring costs; and (iv) the timetable for the settlement of government cross arrears with the domestic private sector. Total revenues are expected to reach 9 percent of GDP, and total expenditures (on a commitment basis) are projected at 17.6 percent of GDP, an increase over 2003 of 4.4 percentage points of GDP caused by the sizable rise in foreign-financed capital expenditures and social spending. Against this background, the domestic primary surplus, on a cash basis, is projected at 2.1 percent of GDP, up from 0.5 percent in 2003, while the overall consolidated cash deficit (including the projected net financial losses of the BCC) would widen to 3 percent of GDP in 2004 from 1.4 percent in 2003 (see Tables 4A and 4B). Net credit to the government will be zero.

20. **The 2004 revenue objective is based on a further strengthening of tax administration and improvement in tax compliance** (MEFP, paras. 38–39). While the authorities do not envision any new large-scale fiscal reforms for 2004, tax revenues are expected to benefit from the full-year impact of the tax and tariff reform started in 2003 (Box 4) and from the uniform implementation of all tax and customs laws throughout the country, including the reunified provinces (Box 5). The effectiveness of the LTU will be strengthened through the implementation of several measures, including, inter alia, the provision of an adequate operating budget (MEFP, para. 39). The new customs code is expected to be adopted by parliament before end-March 2004. In addition, reforms in the forestry sector, notably by raising the area tax, and payments of dividends by the public diamond mining company (MIBA) are expected to improve revenue collection. In all these areas, the government's efforts to improve transparency and address corruption—with potentially large revenue gains—need the continued support of the international community.

21. **Strengthening the management of public expenditure will be the authorities' key priority in 2004** (Box 6, and MEFP, para. 44). The main areas of reform include (i) a reorganization of the cashier operations within the central bank to ensure their consistency with the treasury; (ii) the monitoring and rationalization of government bank accounts; (iii) adoption of a double entry government accounting framework; and (iv) a comprehensive audit of the payroll system. Monitoring of pro-poor expenditures will be strengthened by the new functional classification system, the production of timely and accurate reports on externally funded project execution, and audits by the Consultative Committee on the Monitoring of Pro-poor Spending. Transparency in budget procedures will also be enhanced by the elimination of the special budgets and of some of the *budgets annexes*. The wage bill is targeted to increase by 0.4 percentage point of GDP (to reach 2.7 percent of GDP), reflecting an increase in civil service wages of 10 percent starting in January 2004, the incorporation of the wages of 135,000 civil servants and 15,000 national police in the reunified provinces, and the cost of the de facto merger of all military forces (estimated at 317,000) in the national army, pending the creation of a leaner national army by midyear. The payroll system will be audited in the first half of 2004 with the help of France, and a nationwide civil service census will be undertaken in the second half with the help of Belgium and the United Nations Development Program (UNDP). Utility outlays will henceforth be paid on the basis of a monthly allocation, pending the installation of meters to measure actual consumption (MEFP, paras. 40–42).

22. **Reflecting the government's objectives, pro-poor expenditure will increase significantly in 2004**, reaching 6.3 percent of GDP, of which about one quarter (1.7 percent of GDP) will be financed through the recently established HIPC subaccount at the BCC. These increases are comparable with other post-conflict cases. In the case of the DRC, pro-poor expenditure includes infrastructure, which is expected to increase substantially, reflecting the reconstruction needs, in particular roads, hospitals, and schools. The related projects have been defined with the help of the World Bank to address the most urgent needs. All these projects follow a transparent bidding process through the Central Coordination Office (BCECO), which was established with the assistance of the World Bank (Box 6). Military-

and-security related expenditures will be limited to 2.0 percent of GDP, compared with 2.1 percent in 2003 (see table below).

Defense and Security, Sovereign, and Pro-Poor Spending, 2003--04

(In percent of GDP, unless otherwise indicated)

	End-Sep. 2003		2003		2004
	Prog. EBS/03/98	Est. 1/	Prog. EBS/03/98	Rev. Prog 1/	Prog. 1/
Defense and security	1.0	1.6	1.6	2.1	2.0
Sovereign 2/	0.6	1.1	1.1	1.4	1.1
Pro-poor spending	1.2	1.0	2.0	1.2	6.3
Pro-poor spending (in percent of total expenditure)	14.2	12.0	13.1	9.1	35.7

1/ Uses new pro-poor definition, which has been expanded to include infrastructure (see Appendix I, Attachment II, Annex II).

2/ Sovereign expenditure includes spending by political institutions such as the presidency and parliament.

Monetary and financial sector policies

23. **Monetary policy in 2004 will continue to aim at achieving the overriding objective of price stability within the framework of the floating exchange rate system.** With the reunification of the country, the BCC will face the challenge of facilitating a return to normal and unified operations of the payment system. During 2004, the BCC will adopt a number of key measures to strengthen and fine-tune the conduct of monetary policy and foreign exchange operations, with a view to addressing in a timely fashion domestic and external shocks without going against economic fundamentals (MEFP, paras. 48 and 49). Broad money is projected to grow by 25 percent, a rate exceeding the growth rate of nominal GDP (12 percent), in order to take account of the gradual return of confidence in the Congo franc against the backdrop of economic recovery and reunification. The trend experienced in 2003 in the increase in money demand is anticipated to continue in 2004 (Box 2). The BCC will make no new advances to the government (in accordance with its statutes). This should allow for a 36 percent increase in credit to the private sector, albeit from a small base (see Table 5). Official reserves are projected to continue to increase.

24. **In the context of overall banking sector reform** and with a view to reviving financial intermediation and increasing the effectiveness of monetary policy, the BCC will by end-March 2004 conclude restructuring agreements with those commercial banks deemed to be viable on the basis of the 2003 audits, and it will revoke the licenses of those banks deemed to

be nonviable (MEFP, para. 52). The BCC is committed to fully implementing its action plan, which includes preparations for its recapitalization (MEFP, para. 50).

External sector policies

25. The external current account deficit, including grants, is expected to increase, reflecting a continued strong increase in imports associated with the reconstruction effort. The 2004 program is financed through a combination of grants and loans amounting to 14.6 percent of GDP (Table 9). Borrowing (all of which on highly concessional terms) will remain below the levels assumed at the time of the DRC's reaching the decision point.

26. The authorities agree with the staff that the DRC's floating exchange rate system remains appropriate, given the current circumstances. They are committed to limiting foreign exchange market interventions to the smoothing of short-term exchange rate fluctuations. With regard to trade policy, the temporary quantitative restriction established to deal with the alleged dumping of certain textile products (printed fabrics) continues to be in place⁹ (MEFP para. 16). The government has continued to deepen the customs reforms consistent with the DRC's obligations deriving from its membership in the Common Market for Eastern and Southern Africa (COMESA). The government is continuing its efforts to eliminate the few remaining restrictions contrary to the Article VIII obligations concerning the DRC's obligation under the regional payments agreement with the Economic Community of the Great Lakes countries and the fixed exchange rate under the bilateral agreement with Zimbabwe. With the help of the international community, the authorities will continue to strengthen their external debt management.

C. Structural and Sectoral Policies

27. On the structural and sectoral side, far-reaching reforms will continue to be implemented with the help of, especially, the World Bank. The effective restructuring or privatization of public enterprises will be initiated in 2004, starting in those sectors that have a direct impact on production costs—electricity, water, transportation, and communications. The government has decided to cancel cross arrears within the public sector and reach agreement with the private sector on the consolidation of these arrears, taking into account its financial constraints (MEFP, para. 26). Governance will continue to be strengthened, and the authorities have decided to launch a study of the diamond sector, as well as an external audit of MIBA. The authorities also intend to review the tax exemptions of MIBA and its recent loan and diamond sales contract with a foreign firm (MEFP, paras. 53-69).

⁹ The DRC's trade regime is relatively open, as evidenced by its score of 3 on the IMF's trade restrictiveness index (with 10 being the most restrictive).

D. Poverty Reduction

28. **The action plan to draw up the full poverty reduction strategy paper (PRSP)** has been modified to ensure its completion by the established deadline (August 2005) (MEFP, para. 70). Also, by end-December 2003, arrangements had been made for (i) a workshop to launch the PRSP formulation process; (ii) an information and education campaign on the process of preparing the full PRSP; and (iii) the conduct of the national poverty survey, which is to be launched in January 2004 and completed one year later.

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

29. The DRC's administrative and statistical capacities have been improving, with technical assistance from the international community. However, weaknesses remain, especially in the areas of national accounts and the balance of payments. An IMF multitopic mission recently assessed the quality of the DRC's statistical data and proposed measures to further improve them, as well as to identify technical assistance needs (MEFP, para. 71). The authorities are preparing for their country's participation in the Fund's General Data Dissemination System (GDDS). Technical assistance continues to be provided, particularly to buttress administrative capacity, including at the provincial level.

V. PRGF ARRANGEMENT MONITORING

30. The committee chaired by Vice President Bemba is monitoring economic and financial developments. In addition, the interministerial committee in charge of monitoring the programs agreed with the Bretton Woods institutions (CISPI), chaired by the Minister of Finance, and the interministerial committee responsible for implementing the poverty reduction and anticorruption strategy, chaired by the Minister of Planning, will continue to closely monitor the implementation of the Government Economic Program and the poverty reduction strategy. Program implementation in 2004 will continue to be monitored by means of semiannual reviews, semiannual quantitative performance criteria (March and September 2004), and quarterly benchmarks (for December 2003 and 2004), as shown in the MEFP, paras. 74 and 75, and Tables 4B and 5B. To ensure the success of the program, the government will implement before end-January 2004 the following prior action: submission to parliament of the draft 2004 budget law, reflecting the broad aggregates agreed with Fund staff and presented according to the new classification system (MEFP, Table 5B).

VI. STAFF APPRAISAL

31. **The staff commends the authorities for their steadfast efforts to consolidate peace.** The inauguration of the new, all-inclusive Government of National Unity, and of the National Assembly and the Senate, in July and August 2003, respectively, formally completes the peace and reunification process in the DRC that was effectively initiated by President Joseph Kabila in early 2001.

32. **The advent of the Government of National Unity marks the beginning of a two-year transition period during which effective reunification will pose many challenges to the authorities**, notably the demobilization and reintegration of ex-combatants, the creation of a national integrated army and police, the rehabilitation of administrative capacity at the provincial level, the adoption and implementation of a decentralization law, and the preparation and holding of free and transparent elections. At the same time, the authorities will need to preserve macroeconomic stability, deepen structural reforms, and combat poverty.

33. **The staff welcomes the intention of the international community to help the authorities address the many challenges of effective reunification.** In this connection, the staff notes the importance of timely and well-coordinated external assistance covering the entire territory, including in the form of grants and direct budgetary assistance.

34. **The staff encourages the new government to continue to strengthen the coordination of economic and financial policies.** The staff notes the prompt implementation of the emergency fiscal measures of July 2003, which, although bringing developments in the third quarter in line with the program, did not fully offset the slippages of the second quarter. The revised program targets for end-2003 should have been achieved. The staff welcomes the government's action plan, presented to parliament by President Kabila on December 2, 2003, which clearly states the intention to advance quickly to make reunification effective.

35. **Overall, the PRGF-supported program is being implemented satisfactorily so far, as manifested, for example, by good progress on the structural side.** In 2003, real GDP growth was positive and accelerated for the second year in a row, while inflation decelerated more quickly than envisaged. These developments have permitted the country to move from the stabilization phase into the reconstruction phase, as envisaged in its I-PRSP.

36. **The staff finds the main objectives of the updated medium-term macroeconomic framework realistic in light of the challenges posed by the country's reunification and consistent with the approach outlined in the I-PRSP**, which aims at creating an enabling environment for private sector-led economic growth and reducing widespread poverty. The staff notes the authorities' intention to complete a full PRSP by August 2005.

37. **Fiscal policy in 2004 should aim at further consolidation and a shifting of expenditure toward pro-poor spending.** The new budget nomenclature, introduced in 2003, together with the full implementation of the new expenditure procedures and the continued strict adherence to a monthly cash plan, should allow for effective tracking of expenditure. On the revenue side, the staff encourages the authorities to continue implementing their comprehensive tax reform, redeploy the revenue-collecting agencies throughout the country, and improve transparency in revenue collection. The staff agrees that, if necessary, a supplementary budget will be presented to take account of, inter alia, the implementation of the DDR program, the creation of an integrated national army, and the adoption of the decentralization law, consistent with the overall macroeconomic targets for 2004. The staff

encourages the central government to seek a balanced revenue and expenditure sharing system with the provinces.

38. **The Central Bank of the Congo (BCC) should continue to aim at achieving the overriding objective of price stability within the framework of the floating exchange rate system, a policy that has served the country well.** The staff encourages the monetary authorities to continue to strengthen their monetary policy instruments to enable them, inter alia, to build up foreign reserves to a comfortable level.

39. **The staff commends the BCC for the progress in implementing its action plan to improve its accounting, operations, and management.** The staff encourages the BCC to continue to implement steadfastly this action plan, which includes, inter alia, preparations for its recapitalization. This, together with the strict implementation of its monthly cash-flow plan and cost-reducing efforts, should help contain the BCC's cash deficit to a strict minimum. The staff urges the BCC to implement in a timely fashion the restructuring of the banking system and make its branches operational in all provinces. Microfinance institutions and credit unions also have an important role to play in financial reintermediation.

40. **The authorities' intention to deepen the structural reforms is welcome, in particular the promotion of good governance and the fight against corruption.** The staff agrees that respect for the rule of law will enhance the population's ownership of, and support for, the ongoing adjustment efforts, and it welcomes the draft laws against corruption and money laundering that are soon to be discussed by parliament. The staff encourages the authorities to end, with the help of the international community, the illegal plundering of the DRC's natural resources. In this regard, it notes the authorities' intention to conduct an audit of the diamond sector. The staff also encourages the authorities to steadfastly implement the reform of the public enterprises. At the same time, the reforms to strengthen the legal system and the judiciary, and to reduce the amount of "red tape" should be vigorously pursued.

41. **The staff notes that the unstable security situation in some parts of the country continues to represent a risk to the program, particularly to the achievement of fiscal targets, the financing of foreign-financed projects, and the reduction in poverty.** Effective reunification, including the steadfast implementation of the DDR program and the creation of an integrated national army and police, as well as the full liberalization of movements of persons and goods throughout the country, would reduce this risk. The staff is of the view that the upcoming elections will have to be all-inclusive to avoid marginalization of certain segments of the population—an outcome that could undermine the remarkable political and economic achievements obtained so far and hamper the restoration of the social fabric.

42. **In light of the authorities' overall track record in bringing about peace and implementing economic and financial reforms, as well as the strength of their program for 2004 and the medium term, particularly in light of the measures taken to strengthen fiscal policy and enhance monetary policy instruments, the staff recommends**

completion of the third review under the PRGF arrangement and supports the authorities' request for waivers for the nonobservance of three quantitative performance criteria.

Box 1. External Debt and Enhanced HIPC Initiative Assistance

Debt estimates

The DRC's total outstanding debt at end-2003 is estimated (in nominal terms) at about US\$10.6 billion (about 190 percent of GDP) (Table 7). About 35 percent of this debt is owed to multilateral creditors, 62 percent to official bilateral creditors, and 3 percent to private creditors.

Paris Club

Following the DRC's reaching the decision point in the context of the enhanced HIPC Initiative in July 2003, Paris Club creditors agreed on November 17, 2003 to top up their debt relief from Naples to Cologne terms. The participating creditors were the governments of Austria, Belgium, Brazil, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. The United States, which participated in the September 2002 Naples rescheduling, could not join the consensus at the time for technical reasons.

The key terms of the agreement are as follows:

- For creditors choosing the debt-service reduction (DSR) option, cancellation of 70 percent of principal due (excluding late interest) during the consolidation period on pre-cutoff-date debt (before June 30, 1983) and previously rescheduled commercial credits, and rescheduling of the remainder.
- For all participating creditors, 70 percent of interest (excluding late interest) due between July 1, 2003 and June 30, 2005 on pre-cutoff-date and previously rescheduled debt will be canceled. The remaining 30 percent will be capitalized as provided for under the September 2002 agreement.
- For all participating creditors, 70 percent of interest (excluding late interest) due between July 1, 2003 and June 30, 2005 on moratorium interest that had already been capitalized by June 30, 2003 will be cancelled. The remainder will be paid by the DRC, as provided for under the September 2002 rescheduling agreement.
- Official development assistance (ODA) credits, short-term credits, and post-cutoff-date debt that were dealt with in the context of the September 2002 rescheduling agreement are not covered.

Other creditors

Since the DRC reached its decision point in July 2003, the country has benefited from interim assistance from the IMF and the World Bank (in addition to that of Paris Club creditors). The European Union has also expressed its readiness to provide interim assistance to the DRC, the modalities of which are being finalized in close association with the DRC authorities. The authorities are contacting all creditors to secure their participation in the HIPC Initiative. Some private creditors, however, have expressed unwillingness to provide debt relief commensurate with the HIPC Initiative's provisions and have threatened legal action in the event that the authorities do not meet their legal obligations emanating from the loan agreements.

Box 2. Money Demand, Dollarization, and Financial Reintermediation

Money demand

Reflecting the resumption of growth and the reunification, demand for Congo francs has increased in the context of the newly achieved macroeconomic and political stabilization. Congo francs were scarce in the newly reunified provinces, which were isolated from the rest of the country. The pickup in money demand is evidenced by the decline in income velocity from 21.9 at end-2002 to 19.7 at end-2003. The fall in income velocity mainly stems from lower inflation expectations, fueled by the sharp deceleration in inflation and the exchange rate appreciation.

The increase in money demand is expected to continue in 2004, reflecting the reasons discussed in the MEFP (paras. 11 and 45). Although the monetary authorities so far have not fully accommodated the increase in money demand (MEFP, para. 11), they have started to issue larger-denomination banknotes and take advantage of the appreciation of the Congo franc, through net purchases of foreign currency in the foreign exchange market.

Dollarization

Despite the rapid decline in inflation, the dollarization of the economy has persisted. More than 85 percent of private sector bank deposits are denominated in foreign exchange, and foreign currency circulates widely.

The lack of large-denomination notes and of confidence in the banking system contributes to the dollarization of large transactions. The denomination of banknotes in Congo francs has not followed the evolution of prices. Until the introduction of the CGF 200 note in late 2003, the largest-denomination note (CGF 100) was worth less than US\$0.30; it was equivalent to US\$70 when it was issued back in 1998. With Fund technical assistance, the central bank will review the structure of banknote denomination to better respond to the needs of the economy.

Mindful of the risks that dollarization may involve, the central bank has strengthened the supervision of the banking system, in particular through the introduction of new prudential regulations (MEFP, para. 51).

Financial reintermediation

The environment in which the Congolese financial system operates has improved over the last three years, mainly owing to macroeconomic stabilization and a new regulatory and legal framework. However, financial reintermediation has not yet materialized: less than one in 2,000 Congolese holds a bank account, and bank deposits represent less than 3 percent of GDP. The marginal role of the banking sector reflects continued low public confidence in the banking system; prohibitive fees and conditions for opening bank accounts; and limited bank branch networks. To jump-start financial reintermediation, the central bank would need, among other things, to complete the restructuring of the banking sector and implement a strategy that ensures the provision of effective payment services in Congo francs throughout the country (MEFP, para. 52).

Box 3. Status of Structural Conditionality

Structural and sectoral reforms under 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, the mining and forestry sectors, the social sectors, agriculture, and the rehabilitation of key infrastructure.

Status of structural conditionality

The implementation of structural measures subject to conditionality (performance criteria and benchmarks) has been broadly satisfactory, although in a few cases delays have occurred. The financial audit of the Central Bank of the Congo (BCC) has been completed, and its recommendations have been incorporated in an action plan, drawn up with IMF technical assistance, the implementation of which is already showing tangible results. The liquidation of five commercial banks is in progress, and audits of nine operating commercial banks have been completed; on this basis, restructuring plans will be formulated for those banks judged viable, while those judged not viable will be liquidated.

The Code of Ethics and Good Conduct was published with a delay of a little over one month, so as 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. Audits of all public enterprises have been completed, and effective restructuring or privatization of public enterprises will be initiated in 2004, starting in those sectors that have a direct impact on production costs: electricity, transportation, and communications.

In the area of expenditure management, by September 2003 about 21,000 "ghost workers" had been eliminated from the payrolls as scheduled. New expenditure procedures, aiming at reinstating and rationalizing the full expenditure chain, including commitment, verification, payment order, and payment, will be fully effective in February 2004. The draft law on money laundering and the financing of transnational organized crime and the draft anticorruption law have been prepared, with a view to their adoption by end-January 2004. The ministerial circular, which clarifies that external debt contracted without the approval and signature of the Minister of Finance does not carry the state's guarantee, was issued in September 2003 as scheduled.

The structural conditionality performance criteria and benchmarks for 2004 are contained in Table 5B of the MEFP.

Status of World Bank lending benchmarks or triggers

Structural conditionalities are defined in the Economic Recovery Credit (ERC), approved by the World Bank Board in June 2002, which provided support for the (i) clearance of arrears to the World Bank Group; (ii) forestry sector reforms; (iii) mining sector reforms; and (iv) high-impact public expenditure programs. All tranches have been released following satisfactory implementation of related conditionalities. With respect to forestry, the ERC contained a specific tranche of SDR 12 million, which 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.

The mining sector is supported by a specific tranche of SDR 20 million, which finances the voluntary departure program of about 10,500 workers of the state mining company, GECAMINES. The mining tranche was released in June 2003 following the (i) 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) preparation of the voluntary separation plan for GECAMINES workers. The departure program is proceeding satisfactorily and is expected to be completed in January 2004. The program was more costly than originally thought, so additional support of about SDR 14 million has been provided through the Private Sector Development and Competitiveness Project.

Box 4. Tariff and Tax Reforms

The November 2002 Fund technical assistance mission recommended the adoption of a new tariff structure, simplification of excise taxes, elimination of all quasi-fiscal levies applied to petroleum products, and a reform of the turnover tax to allow enterprises to deduct the turnover tax paid on their inputs. These reforms are expected to facilitate the introduction of a VAT (value-added tax) in 2005. Follow-up Fund missions on revenue administration took place in July and September 2003, and two long-term resident experts have been posted in the country since January 2002.

In March 2003, a set of laws on tariff and indirect taxes was adopted. These include (i) 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 final consumption goods), with elimination of all tariff exemptions and surcharges; (ii) reform of the turnover tax through application of a 3 percent rate to investment and agricultural inputs and a 13 percent rate to all other products, and authorization of enterprises to deduct the turnover tax paid on their inputs; (iii) extension of the 13 percent turnover tax to all products subject to excises; and (iv) simplification of the petroleum price structure through an increase in excises and elimination of quasi-fiscal levies.

While the March 2003 tariff and tax reform has been implemented since mid-2003, a few legal texts to complete the reforms are expected to be adopted by end-January 2004, including, inter alia, (i) the elimination of excise taxes on sugar, cement, and matches; (ii) limiting the credit mechanism to companies being monitored by the Large Taxpayers' Unit, while no longer confining this mechanism to inputs consumed; and (iii) elimination of the turnover tax on exports. Other pending legislation concerns the fiscal law on the harmonized classification system reducing the number of taxes collected by the General Directorate of Administrative and State Revenues (a structural benchmark for end-February 2004).

Full implementation of the tariff and indirect tax reform laws is expected to increase tax revenues by 0.5 –1 percentage point of GDP.

In 2004, no major fiscal reforms are contemplated. However, measures envisaged include the following:

- the adoption of a new customs code and the uniform application of customs and tax laws throughout the territory;
- the continued reform of the forestry sector, including a gradual reduction in quasi-fiscal levies (ONATRA); an increase in the area tax from US\$0.0625 to US\$0.15 per hectare as of January 1, 2004; a gradual reduction of the export tax; and a change in stumpage fees; and
- the review of the numerous quasi-fiscal levies, leading to their simplification by June 2004 with the help of the World Bank; in addition, a timetable for the reform of direct and indirect corporate taxation will be established in 2004.

Tax administration will continue to be enhanced in 2004 through the modernization of the Customs and Excise Office, the strengthening of the Large Taxpayers' Unit, the strict control of all exemptions (ensuring their conformity with the investment and mining codes), and the redeployment of revenue-collecting agencies throughout the country.

Box 5. Fiscal Aspects of Reunification

For the reunified provinces, the main budgetary aggregates for 2004 include an increase in total revenue of 0.4 percent of GDP and in total expenditure of 1 percent of GDP. A supplementary budget will be adopted, if necessary, to account for, inter alia, the creation of a new national army and police, the implementation of the Disarmament, Demobilization, and Reintegration (DDR) program to be financed by the international community, and the modalities of the forthcoming decentralization law.

Reunification impact on revenues. Before the start of the war in 1998, government revenue collected from the reunified provinces ranged from 10 percent to 20 percent of tax revenue. Revenue collected in the reunified provinces represented 0.07 percent of GDP in 2003 and is conservatively projected to reach about 0.5 percent of GDP in 2004 (less than 7 percent of government revenue) and 0.7 percent of GDP in 2006. With the gradual strengthening of provincial administrations and redeployment of the revenue-collecting agencies, it is anticipated that it will take about five years to reach prewar revenue levels.

Reunification impact on total expenditure (excluding capital expenditure). Total expenditure will increase from 0.2 percent of GDP in 2003 to 1.2 percent of GDP in 2004. Wages for the estimated 135,000 civilian employees (including pensions for retirees) in the reunified territories would amount to 0.2 percent of GDP in 2004, including a 10 percent increase as of January 2004. The payment of wages to police and military forces in the reunified provinces, pending the creation of a leaner national army and the implementation of a demobilization plan, would represent 0.6 percent of GDP in 2004, including food rations distributed to the armed forces.

Other expenditures linked to reunification, including transfers, are expected to increase from 0.05 percent of GDP in 2003 to 0.5 percent of GDP in 2004.

Fiscal Impact of the Reunification, 2003-06

	2003 Prel. Est.		2004 Proj.		2005 Proj.		2006 Proj.	
	In millions of CGF	In percent of GDP	In millions of CGF	In percent of GDP	In millions of CGF	In percent of GDP	In millions of CGF	In percent of GDP
Revenue	1,500	0.07	12,301	0.48	17,681	0.62	23,477	0.74
Expenditure (excluding investment spending) 1/	3,874	0.17	29,706	1.17	29,801	1.05	34,070	1.07
<i>Of which</i>								
Wages—civil servants in reunified provinces 2/	385	0.02	5,086	0.20	5,502	0.19	6,332	0.20
Wages—integration in the army and police 3/	2,289	0.10	9,645	0.38	7,771	0.27	8,944	0.28
Other current expenditure 4/	1,200	0.05	13,575	0.54	13,024	0.46	13,691	0.43
Balance	-2,374	-0.10	-17,406	-0.69	-12,120	-0.43	-10,594	-0.33

1/ Data on investment-related expenditure in the reunified provinces are not yet available.

2/ Includes pensions and benefits.

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

4/ Includes transfers to reunified provinces from 2004 onward.

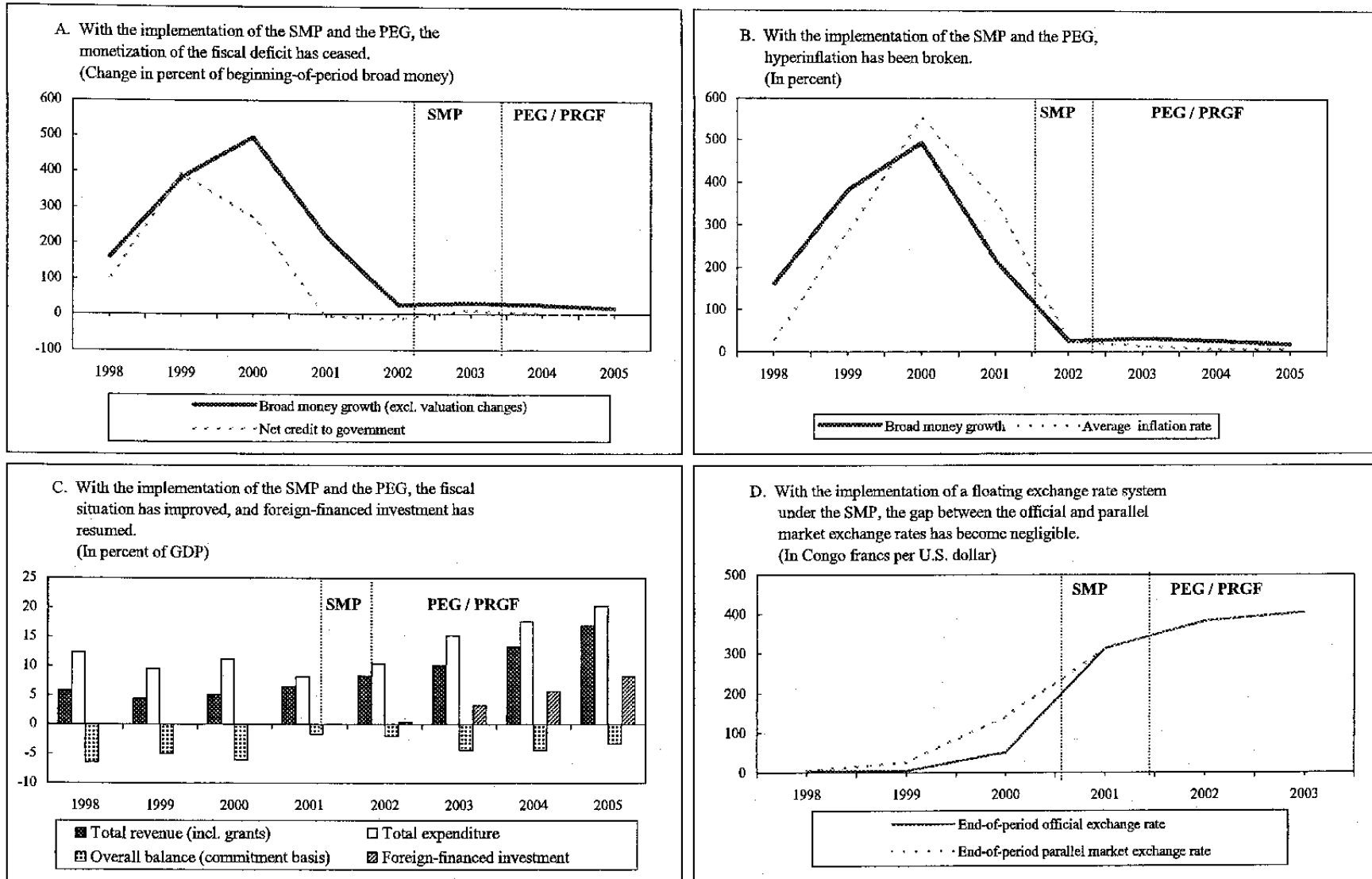
Box 6. Public Expenditure Management

In the past two years, the authorities made major progress in strengthening their budget formulation, budget execution, and budget-reporting procedures. Measures undertaken in 2003 include (i) adherence to a decree whereby the Central Bank of the Congo (BCC) no longer finances expenditures not previously authorized by the Ministry of Finance; (ii) the opening of a subaccount at the BCC for depositing the resources generated by the enhanced HIPC Initiative; (iii) regular meetings for the reconciliation of fiscal data between the treasury and the BCC; (iv) presentation of the 2003 supplementary budget to parliament according to the new economic, administrative, and functional classification system; and (v) submission of the 2001 and 2002 budget execution audits to parliament in December 2003 and January 2004, respectively.

In 2004, more reforms, implemented with Fund technical assistance and in accordance with the World Bank's action plan designed in the context of its 2002 public expenditure review, will be carried out. Notably, the measures will strengthen budget execution and preparation through the following:

- **A new budget classification system.** Based on recommendations from the Fund technical assistance mission of November 2003, some modifications to the new classification system used for the 2003 budget will be applied in order to provide more accurate and detailed information about expenditure composition.
- **New budget execution procedures.** The 2001 budget execution audit indicated some serious deficiencies. Notably, it showed that (i) 31 percent of all outlays did not go through a commitment stage, (ii) a large amount of credit was not utilized, and (iii) certain expenditures were not transiting through the normal process. The effective start in 2004 of the new expenditure procedures approved in June 2003 will help address the above-mentioned weaknesses by ensuring that all current expenditures go through four stages: commitment, verification, payment order, and payment. The upcoming comprehensive audit of the payroll system with French assistance will also help in this regard.
- **Budget execution reporting.** The new computerized information system allows for the production of monthly execution reports according to the new budget classification system. In addition, as of January 1, 2004, all externally financed investments will be included in the government flow-of-funds table (TOFE), with all externally funded expenditure and all pro-poor spending (including HIPC Initiative) tracked using the functional classification. An interministerial committee is being put in place with participation of civil society to track all pro-poor expenditures. The Central Coordination Office (BCECO) also enhances the monitoring of pro-poor expenditures to ensure, with the help of the World Bank, a transparent procurement process for externally funded projects. In addition, budget execution will be enhanced by the adoption of a double entry accounting system by June 2004 to replace the existing single entry one. This new accounting framework will provide a comprehensive picture of the government's position, including better tracking of cash advances, transfers to provinces, and government arrears.
- The special budgets and *budgets annexes* will be rationalized and streamlined, and a new schedule will be used to ensure timely submissions for the preparation of the 2005 budget.
- **The transparency of government operations will be further improved through better cash management.** Key reforms in these areas include (i) the rationalization of the commercial bank accounts held by different ministries with a list of the accounts to be closed by March 2004; (ii) consolidation of government accounts in the treasury account at the BCC; and (iii) reorganization of the government's cashier operations, now spread over five directorates, into one.

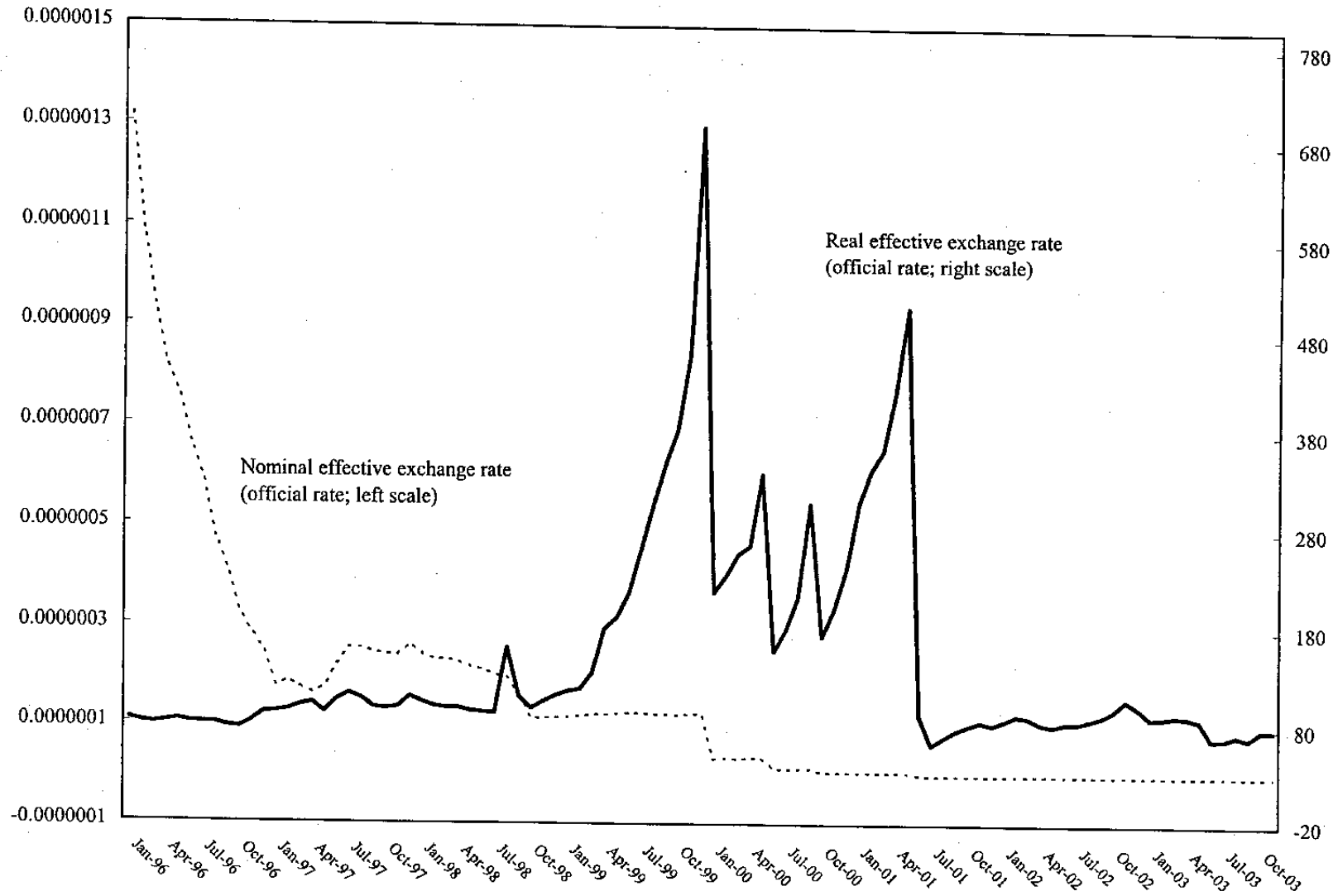
Figure 1. Democratic Republic of the Congo: Selected Fiscal and Monetary Indicators, 1998–2005 1/



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, January 1996-November 2003
(Index, 1990=100)



Sources: IMF, Information Notice System (INS).

Table 1. Democratic Republic of the Congo: Fund Position During 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 June 12, 2002)	403.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	2.0	1.8	1.7	1.8	1.9	2.0	2.0
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	1.2	1.2	1.3	1.4
SDR charges	0.0	0.9	0.7	0.6	0.6	0.6	0.6	0.6
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	0.3	0.3	0.3	0.3	0.4	0.4
Debt service (in percent of exports of goods and services) 1/		0.2		0.3		0.3		0.2

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

1/ 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	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	February 27, 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, 2001-06

	2001	2002		2003		2004		2005		2006
		EBS/03/98	Est.	EBS/03/98	Rev. Prog.	EBS/03/98	Prog.	EBS/03/98	Proj.	Proj.
(Annual percentage change)										
Output and prices										
Real GDP	-2	3	3	5	5	6	6	7	7	7
GDP deflator	384	27	32	14	12	8	5	6	5	5
Consumer prices, annual average	357	25	25	14	13	7	6	5	5	5
Consumer prices, end of period	135	16	16	8	4	6	6	5	5	5
External sector										
Exports, f.o.b. (in U.S. dollar terms)	-1	24	22	6	16	14	11	16	11	11
Imports, f.o.b. (in U.S. dollar terms)	19	31	35	22	25	23	27	20	15	11
Export volume	-5	15	22	7	11	14	12	9	12	12
Import volume	25	30	31	12	19	23	25	18	14	10
Terms of trade	9	6	4	-9	-2	0	-3	6	-2	-2
Nominal effective exchange rate 1/	-84	-71	-71	...	...	...	...	...	...	...
Real effective exchange rate 1/	-6	-58	-58	...	...	...	...	...	...	...
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)										
Money and credit										
Broad money	217	26	26	20	31	...	25	...	...	...
Net foreign assets	-695	10	10	16	11	...	23	...	...	...
Net domestic credit	31	-16	-13	8	18	...	6	...	...	...
Net credit to the government	-7	-17	-14	0	11	...	0	...	...	...
Credit to the private sector	37	1	1	8	8	...	6	...	...	...
Credit to the parastatals	0	0	0	0	0	...	0	...	...	...
Central bank refinance rate (level in percent) 2/	140	24	24	25	15	...	...	...	...	...
(In percent of GDP)										
Central government finances										
Revenue (excluding grants)	6.5	7.9	7.9	8.3	8.2	9.0	9.0	10.1	10.1	11.0
Grants (excluding humanitarian aid)	0.0	0.4	0.4	2.6	1.9	3.4	4.3	5.3	6.8	8.8
Expenditure 3/	8.2	10.4	10.3	15.2	13.2	18.6	17.6	20.6	20.2	21.5
Domestic primary cash balance 4/	0.6	1.4	1.4	1.7	0.5	3.0	2.1	4.5	3.3	4.7
Overall balance (commitment basis)	-1.7	-2.0	-2.0	-4.4	-3.1	-6.3	-4.3	-5.2	-3.3	-1.7
Overall consolidated cash balance 5/	0.6	0.0	-0.1	-1.4	-1.4	-3.7	-3.0	-3.4	-1.5	0.3
Investment and saving										
Gross national savings	0.4	11.1	11.3	13.7	11.1	14.6	13.3	16.9	15.8	18.9
Government	-1.6	1.3	1.3	3.1	-0.2	4.4	2.7	7.0	6.3	9.8
Nongovernment	2.0	9.8	10.0	10.6	11.2	10.2	10.6	9.9	9.5	9.1
Gross domestic savings	3.2	4.9	4.1	5.8	5.2	7.6	5.9	8.9	7.4	9.0
Government	-0.2	1.1	1.1	2.1	1.0	2.9	1.5	3.8	2.7	4.1
Nongovernment	3.4	3.8	3.0	3.7	4.2	4.7	4.5	5.1	4.7	4.9
Investment	5.2	9.0	9.0	13.5	12.1	18.1	17.4	21.0	20.6	22.5
Government 6/	0.1	1.0	1.0	4.0	2.6	7.6	6.9	10.0	9.6	11.5
Nongovernment 7/	5.1	8.0	8.0	9.5	9.5	10.5	10.5	11.0	11.0	11.0

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2001–06 (concluded)

	2001	2002		2003		2004		2005		2006
		EBS/03/98	Est.	EBS/03/98	Rev. Prog.	EBS/03/98	Prog.	EBS/03/98	Proj.	Proj.
(In millions of U.S. dollars, unless otherwise indicated)										
Balance of payments										
Exports of goods and nonfactor services	961	1,189	1,177	1,265	1,384	1,437	1,530	1,659	1,698	1,881
Imports of goods and nonfactor services	1,067	1,415	1,447	1,686	1,772	2,063	2,232	2,448	2,574	2,858
External current account, including grants, before debt relief (in percent of GDP)	-4.8	-2.9	-2.7	-3.8	-2.0	-7.7	-6.0	-8.6	-7.6	-7.6
External current account, excluding grants, before debt relief (in percent of GDP)	-10.6	-9.4	-10.2	-11.7	-10.7	-14.8	-14.7	-16.1	-16.8	-16.7
External current account, including grants, after debt relief (in percent of GDP) 8/	-4.8	2.1	2.3	0.1	-1.1	-3.5	-4.1	-4.1	-4.7	-3.5
Gross official reserves (end of period)	22	75	75	191	157	254	272	341	382	479
Gross official reserves (weeks of non-aid-related imports of goods and nonfactor services)	1.1	3.6	3.0	8.0	5.3	9.1	8.2	10.5	10.7	12.1
External public debt										
Total stock, including IMF 9/	13,280	10,434	10,659	8,728	10,633	9,082	10,714	9,474	10,970	11,055
Net present value (NPV) of debt 10/	12,504	7,163	8,404	7,456	7,900	7,838	8,166	8,131	8,372	8,388
Scheduled debt service 8/	728	35	34	180	140	219	140	207	205	314
In percent of exports of goods and nonfactor services	76	3	3	14	10	15	9	12	12	17
In percent of government revenue	218	8	7	30	25	30	17	20	18	22
Exchange rate										
Congo francs per U.S. dollar (end of period) 11/	312	382	382	...	373	...	...	...	...	...
Nominal GDP (in billions of Congo francs)	1,407	1,915	1,922	2,298	2,270	2,627	2,537	2,989	2,851	3,189

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.

2/ For 2003, as of end-September.

3/ Includes interest due on external debt (including 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 Initiative). Before 2002, excludes 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/ From 2003 onward, after debt relief from bilateral creditors and HIPC Initiative assistance.

9/ End-of-period debt stock, including arrears and before HIPC Initiative assistance. Current estimates do not assume an up-front reduction in the stock of debt associated with the provision of future debt relief.

10/ Estimates and projections based on end-2002 debt sustainability analysis (DSA). Before rescheduling and debt relief.

11/ For 2003, as of end-December.

Table 4A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2001-06

	2001	2002	2003		2004		2005		2006
		Est.	EBS/03/98	Rev. Prog.	EBS/03/98	Prog.	EBS/03/98	Proj.	Proj.
(In millions of Congo francs)									
Total revenue and grants	91,276	159,640	249,087	229,248	324,223	335,238	460,691	481,184	631,699
Total revenue	91,276	152,193	189,587	185,857	235,189	227,073	302,431	286,656	349,518
Customs and excise (OFIDA)	31,368	54,668	84,556	76,786	118,180	108,602	148,331	137,629	164,327
Direct and indirect taxes (DGC)	21,560	40,505	51,788	51,069	61,350	63,000	87,660	86,877	116,458
Petroleum (royalties and taxes)	4,475	31,507	29,582	36,709	23,505	30,319	23,704	30,495	29,741
Off-budget revenue	24,826	11,679	2,337	2,100	0	0	0	0	0
Other	9,046	13,834	21,324	19,193	32,155	25,153	42,736	31,656	38,991
Total grants	0	7,447	59,500	43,391	89,034	108,165	158,259	194,528	282,181
Of which: HIPC assistance 1/	...	...	9,667	13,642	29,581	44,331	66,800	79,201	129,029
Total expenditure	115,147	198,406	349,339	298,994	489,465	445,478	616,998	576,469	684,808
Current expenditure	96,040	168,243	250,080	238,297	275,054	249,148	285,651	276,436	287,734
Wages	23,540	39,287	49,957	51,510	65,645	67,655	64,691	74,261	72,657
Interest due 2/	19,532	61,157	116,428	77,891	131,633	83,856	130,946	97,084	102,140
Transfers and subsidies	4,984	6,674	21,680	20,006	13,670	12,095	17,303	15,234	18,923
Other current expenditure	47,983	61,125	62,016	88,890	64,106	85,542	72,712	89,857	94,013
Of which: centralized payments 3/	13,692	15,439	16,716	24,094	19,718	25,885	22,826	27,186	28,421
Off-budget expenditure	17,404	11,679	2,337	2,100	0	0	0	0	0
Capital expenditure	1,694	10,385	86,755	58,508	184,830	151,999	264,547	244,592	334,108
Foreign financed	0	6,657	74,755	43,331	176,330	144,299	254,047	235,432	323,347
Domestic financed	1,694	3,728	12,000	15,177	8,500	7,700	10,500	9,160	10,761
Other operations	203	112	500	89	0	0	0	0	0
Guarantee and Contingency Fund	0	0	0	0	0	0	0	0	0
Net lending	-194	7,987	0	0	0	0	0	0	0
HIPC-related expenditure	...	...	9,667	0	29,581	44,331	66,800	55,441	62,966
Overall balance (commitment basis)	-23,871	-38,766	-100,252	-69,746	-165,242	-110,240	-156,308	-95,285	-53,109
Domestic primary balance (commitment basis) 4/	-4,339	21,601	41,098	8,085	83,268	54,081	137,226	98,144	153,163
Change in arrears 5/	31,787	4,712	-2,094	4,109	-3,500	-2,000	-4,000	-4,000	-4,000
Overall balance (cash basis, before interest rescheduling)	7,916	-34,054	-102,346	-65,637	-168,742	-112,240	-160,308	-99,285	-57,109
Domestic primary balance (cash basis) 4/	8,461	26,313	39,004	12,194	79,768	52,081	133,226	94,144	149,163
Central bank operational result 6/	...	-12,719	-10,000	-15,000	-10,000	-16,000	-10,000	-15,000	-14,000
Overall consolidated balance (cash basis, before interest rescheduling)	...	-46,773	-112,346	-80,637	-178,742	-128,240	-170,308	-114,285	-71,109
Total financing	-5,376	51,651	112,346	77,928	178,742	128,240	170,308	114,285	71,109
Domestic financing	1,577	-17,240	-344	9,200	0	0	0	0	0
Banks	-1,488	-9,913	0	9,544	0	0	0	0	0
Nonbank (certificates of deposit)	3,065	-7,327	-344	-344	0	0	0	0	0
Foreign financing	-6,953	68,891	112,690	68,728	178,742	128,240	170,308	114,284	71,109
Nondomestic nonresident banks	-6,953	7,096	0	0	0	0	0	0	0
Amortization due before debt relief	-87,351	-91,165	-106,752	-95,487	-107,912	-82,689	-117,466	-126,941	-198,158
Change in arrears 7/	87,351	-3,599,475	0	0	0	0	0	0	0
Additional financing	0	24,663	81,268	60,897	171,611	147,246	199,038	184,213	236,247
Arrears consolidation 7/	0	2,032,531	0	0	0	0	0	0	0
Arrears cancellation 7/	0	1,566,943	0	0	0	0	0	0	0
Debt relief before HIPC assistance 8/	0	128,297	138,174	103,318	115,043	63,684	88,736	57,012	33,020
Financing gap after debt relief	0	0	0	0	0	0	0	0	0
Discrepancy 9/	2,540	4,878	0	-2,709	0	0	0	0	0
(In percent of GDP, unless otherwise indicated)									
Memorandum items:									
GDP (in billions of Congo francs)	1,407	1,922	2,298	2,270	2,627	2,537	2,989	2,851	3,189
Revenue	6.5	7.9	8.3	8.2	9.0	9.0	10.1	10.1	11.0
Wages	1.7	2.0	2.2	2.3	2.5	2.7	2.2	2.6	2.3
Current primary expenditure (cash basis)	4.5	5.3	5.9	6.9	5.6	6.6	5.3	6.4	5.9
Investment spending 10/	0.1	1.0	4.0	2.6	7.6	6.9	10.0	9.6	11.5
Overall balance (commitment basis)	-1.7	-2.0	-4.4	-3.1	-6.3	-4.3	-5.2	-3.3	-1.7
Domestic primary cash balance 4/	0.6	1.4	1.7	0.5	3.0	2.1	4.5	3.3	4.7
Domestic primary cash balance (including HIPC related expenditure)	0.6	1.4	1.3	0.5	1.9	0.3	2.2	1.4	2.7
Overall consolidated cash balance 11/	0.6	-0.1	-1.4	-1.4	-3.7	-3.0	-3.4	-1.5	0.3

Sources: Congolese authorities; and staff estimates and projections.

1/ Reflects revised calculation of HIPC assistance from 2002-based debt sustainability analysis. HIPC assistance is equal to (i) for official bilateral and commercial creditors, the difference between debt service due after a hypothetical Naples stock operation at end-2002 and debt service due after HIPC relief; and (ii) for multilateral creditors, the difference between debt service due after arrears clearance operations and debt service due after HIPC relief.

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

3/ In 2001, 2002, and 2003, includes a preliminary estimate for accumulation of arrears on utilities (CGF 12 billion).

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

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

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

7/ In 2002, arrears included interest and principal.

8/ Reflects debt relief on all reschedulings, less HIPC assistance, which enters the fiscal accounts as a grant.

9/ Discrepancy between monetary and fiscal data.

10/ Including a part of HIPC expenditure.

11/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes central bank operations.

Table 4B: Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2001–06

(In percent of GDP, unless otherwise specified)

	2001	2002	2003		2004		2005		2006
			Est.	EBS/03/98	Rev.	Prog.	EBS/03/98	Prog.		EBS/03/98	Proj.
Total revenue and grants	6.5	8.3	10.8	10.1	12.3	13.2	15.4	16.9	19.8
Total revenue	6.5	7.9	8.3	8.2	9.0	9.0	10.1	10.1	11.0
Customs and excise (OFIDA)	2.2	2.8	3.7	3.4	4.5	4.3	5.0	4.8	5.2
Direct and indirect taxes (DGC)	1.5	2.1	2.3	2.2	2.3	2.5	2.9	3.0	3.7
Petroleum (royalties and taxes)	0.3	1.6	1.3	1.6	0.9	1.2	0.8	1.1	0.9
Off-budget revenue	1.8	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.7	0.9	0.8	1.2	1.0	1.4	1.1	1.2
Total grants	0.0	0.4	2.6	1.9	3.4	4.3	5.3	6.8	8.8
Of which: HIPC assistance 1/	...	...	0.4	0.6	1.1	1.7	2.2	2.8	4.0
Total expenditure	8.2	10.3	15.2	13.2	18.6	17.6	20.6	20.2	21.5
Current expenditure	6.8	8.8	10.9	10.5	10.5	9.8	9.6	9.7	9.0
Wages	1.7	2.0	2.2	2.3	2.5	2.7	2.2	2.6	2.3
Interest due 2/	1.4	3.2	5.1	3.4	5.0	3.3	4.4	3.4	3.2
Transfers and subsidies	0.4	0.3	0.9	0.9	0.5	0.5	0.6	0.5	0.6
Other current expenditure	3.4	3.2	2.7	3.9	2.4	3.4	2.4	3.2	2.9
Of which: centralized payments 3/	1.0	0.8	0.7	1.1	0.8	1.0	0.8	1.0	0.9
Off-budget expenditure	1.2	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.5	3.8	2.6	7.0	6.0	8.9	8.6	10.5
Foreign financed	0.0	0.3	3.3	1.9	6.7	5.7	8.5	8.3	10.1
Domestic financed	0.1	0.2	0.5	0.7	0.3	0.3	0.4	0.3	0.3
Other operations	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related expenditure	...	...	0.4	0.0	1.1	1.7	2.2	1.9	2.0
Overall balance (commitment basis)	-1.7	-2.0	-4.4	-3.1	-6.3	-4.3	-5.2	-3.3	-1.7
Domestic primary balance (commitment basis) 4/	-0.3	1.1	1.8	0.4	3.2	2.1	4.6	3.4	4.8
Change in arrears 5/	2.3	0.2	-0.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance (cash basis, before interest rescheduling)	0.6	-1.8	-4.5	-2.9	-6.4	-4.4	-5.4	-3.5	-1.8
Domestic primary balance (cash basis) 4/	0.6	1.4	1.7	0.5	3.0	2.1	4.5	3.3	4.7
Central bank operational result 6/	...	-0.7	-0.4	-0.7	-0.4	-0.6	-0.3	-0.5	-0.4
Overall consolidated balance (cash basis, before interest rescheduling)	...	-2.4	-4.9	-3.6	-6.8	-5.1	-5.7	-4.0	-2.2
Total financing	-0.4	2.7	4.9	3.4	6.8	5.1	5.7	4.0	2.2
Domestic financing	0.1	-0.9	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Banks	-0.1	-0.5	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Nonbanks (certificates of deposit)	0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-0.5	3.6	4.9	3.0	6.8	5.1	5.7	4.0	2.2
Nondomestic, nonresident banks	-0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due before debt relief	-6.2	-4.7	-4.6	-4.2	-4.1	-3.3	-3.9	-4.5	-6.2
Variation of arrears 7/	6.2	-187.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New loans	0.0	1.3	3.5	2.7	6.5	5.8	6.7	6.5	7.4
Arrears consolidation 7/	0.0	105.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears cancellation 7/	0.0	81.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief before HIPC assistance 8/	0.0	6.7	6.0	4.6	4.4	2.5	3.0	2.0	1.0
Financing gap after debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy 9/	0.2	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
GDP (in billions of Congo francs)	1,407.0	1,922.2	2,297.8	2,270.1	2,626.7	2,536.8	2,989.0	2,850.8	3,188.8
Current primary expenditure (cash basis)	4.5	5.3	5.9	6.9	5.6	6.6	5.3	6.4	5.9
Domestic primary cash balance (including HIPC related expenditure)	0.6	1.4	1.3	0.5	1.9	0.3	2.2	1.4	2.7
Overall consolidated cash balance 10/	0.6	-0.1	-1.4	-1.4	-3.7	-3.0	-3.4	-1.5	0.3

Sources: Congolese authorities; and staff estimates and projections.

1/ Reflects revised calculation of HIPC assistance from 2002-based debt sustainability analysis. HIPC assistance is equal to (i) for official bilateral and commercial creditors, the difference between debt service due after a hypothetical Naples stock operation at end-2002 and debt service due after HIPC relief; and (ii) for multilateral creditors, the difference between debt service due after arrears clearance operations and debt service due after HIPC relief.

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 onward. Excludes interest on arrears before 2002.

3/ In 2001, 2002, and 2003, includes a preliminary estimate for accumulation of arrears on utilities (CGF 12 billion).

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

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

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

7/ In 2002, arrears included interest and principal.

8/ Reflects debt relief on all reschedulings, less HIPC assistance, which enters the fiscal accounts as a grant.

9/ Discrepancy between monetary and fiscal data.

10/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes central bank operations.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2001-04 1/

	2001	2002	September 2003		2003		2004
		Est.	EBS/03/98	Act.	EBS/03/98	Rev. Prog.	Prog.
(In millions of Congo francs)							
Net foreign assets	-181,368	-174,111	-186,393	-181,865	-160,435	-164,519	-138,298
Net domestic credit	23,426	14,184	40,074	39,623	19,247	30,317	37,086
Net credit to government	12,242	2,328	23,081	23,447	542	11,872	11,872
Credit to the private sector	10,789	11,177	16,298	15,888	18,005	18,145	24,714
Credit to the parastatals	395	679	695	289	700	300	500
Broad money (M2)	69,686	87,626	101,065	107,455	105,545	114,949	143,686
Narrow money (M1)	42,627	57,893	67,199	65,120	70,300	69,120	91,706
Currency in circulation	31,873	49,757	56,732	57,506	59,057	60,506	80,506
Demand deposits	10,754	8,135	10,466	7,614	11,243	8,614	11,200
Quasi money	27,059	29,733	33,867	42,335	35,244	45,829	51,980
Time deposits in domestic currency	25	162	297	674	342	845	900
Foreign currency deposits	27,034	29,571	33,570	41,661	34,902	44,984	51,080
Import deposits	6,347	3,893	5,848	5,531	6,500	6,076	10,330
Other items, net (including valuation change)	-233,974	-251,447	-253,233	-255,227	-253,233	-255,227	-255,227
Of which: valuation change	0	60,855	60,855	61,521	60,855	61,521	61,521
(Annual change in percent)							
Net foreign assets	-536	4	-7	-4	8	6	16
Net domestic credit	40	-39	223	179	55	114	22
Net credit to government	-11	-81	4,158	907	0	410	0
Credit to the private sector	325	4	46	42	61	62	36
Credit to the parastatals	-3	72	2	-57	3	-56	67
Broad money (M2)	217	26	15	23	20	31	25
Narrow money (M1)	130	36	16	12	21	19	33
Currency in circulation	100	56	14	16	19	22	33
Demand deposits	314	-24	29	-6	38	6	30
Quasi money	685	10	14	42	19	54	13
Time deposits in domestic currency	6,867	547	84	317	112	423	7
Foreign currency deposits	684	9	14	41	18	52	14
Import deposits	308	-39	50	42	67	56	70
Other items, net (including valuation change)	-561	-7	0	-2	0	-2	0
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)							
Net foreign assets	-695	10	-14	-9	16	11	23
Net domestic credit	31	-13	32	29	8	18	6
Net credit to government	-7	-14	26	24	0	11	0
Credit to the private sector	37	1	6	5	8	8	6
Credit to the parastatals	0	0	0	0	0	0	0
Broad money (M2)	217	26	15	23	20	31	25
Narrow money (M1)	109	22	11	8	14	13	20
Currency in circulation	72	26	8	9	11	12	17
Demand deposits	37	-4	3	-1	4	1	2
Quasi money	107	4	5	14	6	18	5
Time deposits in domestic currency	0	0	0	1	0	1	0
Foreign currency deposits	107	4	5	14	6	18	5
Import deposits	22	-4	2	2	3	2	4
Other items, net (including valuation change)	-902	-25	0	-4	0	-4	0
Memorandum items:							
Velocity (GDP/ broad money)	20.2	21.9	...	...	21.8	19.7	17.7
Net foreign assets (in millions of U.S. dollars)	-582	-555	-594	-580	-512	-525	-441
Of which: central bank	-623	-609	-653	-678	-572	-618	-569

Sources: Congolese authorities; and staff estimates and projections.

Note: The central bank balance sheet at end-September 2003 has been audited by an international firm.

1/ At end-2001 exchange rate of US\$1 = CGF 313.6.

Table 6. Democratic Republic of the Congo: Balance of Payments Summary, 2001-06 (concluded)

	2001	2002		2003		2004		2005		2006
		EBS/03/98	Est.	EBS/03/98	Rev.	EBS/03/98	Prog.	EBS/03/98	Proj.	
(In percent of GDP, unless otherwise indicated)										
Memorandum items:										
Debt service, after debt relief (percentage of goods and nonfactor services exports) 6/	76	3	3	14	10	15	9	13	12	17
Current account balance, including grants, before debt relief	-5	-3	-3	-4	-2	-8	-6	-9	-8	-8
Current account balance, excluding official transfers, before debt relief	-11	-9	-10	-12	-11	-15	-15	-16	-17	-17
Current account balance, including grants, after debt relief	-5	2	2	0	-1	-4	-4	-4	-5	-4
Current account balance, excluding grants, after debt relief	-11	-5	-5	-8	-10	-11	-13	-12	-14	-13
Gross official reserves (millions of U.S. dollars)	22	75	75	191	157	254	272	341	382	479
In weeks of non-aid-related imports of goods and nonfactor services	1	4	3	8	5	9	8	11	11	12
HIPC Initiative assistance 7/	0	0	0	383	35	402	107	377	185	293

Sources: Congolese authorities; and staff estimates and projections.

1/ Including interest due to the IMF.

2/ Excluding repayments to the IMF.

3/ The Naples flow rescheduling was concluded in September 2002. It provided for a rescheduling of arrears and current debt service on eligible debt during the consolidation period (July 2002-June 2005) after a cancellation of 67 percent in net present value (NPV) terms of arrears outstanding at June 30, 2002 and of current debt service during the consolidation period. In addition, the Paris Club treatment provided for a capitalization of moratorium interest on debt that has been rescheduled. To facilitate the clearance of arrears on short-term debt and post-cutoff-date (June 30, 1983) debt, as well as the servicing of post-cutoff-date debt, the Paris Club treatment envisaged a repayment of the amounts due in accordance with a new payments schedule.

4/ At the end of 2002, arrears outstanding to Paris Club creditors had been cleared, and, accordingly, Naples flow rescheduling applies only to current debt service.

5/ The rescheduling on Cologne terms begins in 2003. The data for 2002 refer to the capitalization of moratorium interest.

6/ Taking into account the Naples flow rescheduling, the capitalization of moratorium interest, the Cologne flow rescheduling, the grants provided by multilateral creditors in the context of the enhanced HIPC Initiative, and the impact of the stock-of-debt operation at the completion point on debt service. In addition, the data take into account the impact on debt service of the accumulation of arrears to non-Paris Club and commercial creditors.

7/ For bilateral and commercial creditors, including debt relief resulting from the enhanced HIPC Initiative following the use of all traditional debt-relief mechanisms, and a hypothetical stock-of-debt operation on Naples terms. For multilateral creditors, it includes the amount of HIPC grants that are made available for the purpose of delivering their share of assistance under the Initiative. The difference in current estimates in relation to program numbers is due to the use of a different database (as a result of the change in the base year for the HIPC decision point) upon which calculations of HIPC assistance were made.

Table 7. Democratic Republic of the Congo: Nominal Stock of External Public Debt and Net Present Value of External Public Debt, by Creditor Group, End-2003 1/

	Nominal Debt Stock 2/		Net Present Value of Debt 3/	
	Millions of U.S. dollars	Percent of total	Millions of U.S. dollars	Percent of total
Total	10,633.5	100.0	7,900.0	100.0
Multilateral	3,700.8	34.8	2,634.3	33.3
World Bank	1,646.6	15.5	870.8	11.0
African Development Bank Group	1,130.7	10.6	739.9	9.4
IMF	659.5	6.2	504.7	6.4
Other multilateral	264.0	2.5	519.0	6.6
Bilateral and commercial	6,932.6	65.2	5,265.7	66.7
Paris Club	6,212.6	58.4	4,569.8	57.8
Other official bilateral	441.0	4.1	421.2	5.3
Commercial	279.0	2.6	274.6	3.5

Sources: Congolese authorities; staff estimates; and end-2002 debt sustainability analysis.

1/ Preliminary estimates.

2/ Includes the stock of debt outstanding at the base year (i.e., in 2002) after Naples rescheduling, outstanding arrears, rescheduling, and new debt disbursed since 2002.

3/ Before rescheduling and HIPC debt relief. Estimates do not take into account changes in the discount rate.

Table 8. Democratic Republic of the Congo: Debt Service on External Debt, 2002–06

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

	2002 Est.	2003 Rev. Prog.	2004 Prog.	2005 Proj.	2006 Proj.
Before debt relief 1/					
Debt service due	403.9	433.8	403.9	525.2	683.1
Interest	141.2	195.2	203.6	228.2	233.1
IMF	1.3	3.5	5.4	5.7	5.7
World Bank	8.7	11.3	11.1	10.9	10.7
African Development Bank Group	8.4	1.2	1.2	1.2	1.1
Other multilaterals	0.0	2.6	4.0	7.6	10.6
Bilaterals	122.7	176.6	182.0	202.8	204.9
Short term	0.0	0.0	0.0	0.0	0.0
Principal	262.7	238.5	200.3	297.0	450.0
IMF	0.0	0.0	0.0	0.0	0.0
World Bank	20.3	23.7	25.0	26.9	30.3
African Development Bank Group	20.8	3.9	8.0	13.1	19.1
Other multilaterals	0.0	5.9	19.1	22.8	23.4
Bilaterals	221.6	205.0	148.2	234.1	377.3
Short term	0.0	0.0	0.0	0.0	0.0
After debt relief (including HIPC) 2/					
Debt service due	34.2	139.9	140.3	204.9	313.5
Interest	9.9	42.3	39.3	57.7	45.9
IMF	1.3	2.7	3.4	4.1	4.1
World Bank	8.0	6.2	1.1	1.1	1.1
African Development Bank Group	0.6	1.2	0.2	0.2	0.2
Other multilaterals	0.0	1.3	3.7	7.0	9.0
Bilaterals	0.0	30.8	30.9	45.3	31.5
Short term	0.0	0.0	0.0	0.0	0.0
Principal	24.3	97.6	101.0	147.1	267.6
IMF	0.0	0.0	0.0	0.0	0.0
World Bank	14.3	13.1	2.5	2.7	3.0
African Development Bank Group	1.8	3.9	1.7	2.9	4.2
Other multilaterals	0.0	1.2	16.2	17.2	12.8
Bilaterals	8.2	79.5	80.5	103.9	207.8
Short term	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Debt service due, before debt relief					
In percent of goods and nonfactor services exports	34.3	31.3	26.4	30.9	36.3
In percent of government revenue 3/	87.8	76.9	49.7	46.6	47.6
Debt service due, after debt relief					
In percent of goods and nonfactor services exports	2.9	10.1	9.2	12.1	16.7
In percent of government revenue 3/	7.4	24.8	17.3	18.2	21.9
Stock of debt/nominal GDP (in percent)	192.4	190.3	174.4	164.5	152.7
Net present value (NPV) of debt/exports of goods and nonfactor services (in percent) 4/ 5/	812.8	672.8	598.8	544.6	492.6
NPV of debt/exports of goods and nonfactor services (in percent) 5/ 6/	812.8	628.2	552.7	509.8	123.0

Sources: Congolese authorities; staff estimates and projections; and end-2002 debt sustainability analysis (DSA).

1/ Reflects debt service on current maturities, including rescheduling and new financing. Based on end-2002 DSA data.

2/ Reflects debt relief in the form of flow rescheduling, as well as HIPC grants by multilateral creditors. It also takes into account the accumulation of arrears to non-Paris Club and commercial creditors, pending the conclusion of rescheduling agreements.

3/ Including grants.

4/ Before rescheduling and HIPC debt relief. The figures at end-2002 reflect the Naples rescheduling agreement.

5/ Three-year backward average of exports of goods and nonfactor services.

6/ After rescheduling and HIPC debt relief. The numbers also take into account the accumulation of arrears to non-Paris Club and commercial creditors. The figures at end-2002 reflect the Naples rescheduling agreement.

Table 9. Democratic Republic of the Congo: External Financing Requirements and Sources, 2002–06

(In millions of U.S. dollars)

	2002	2003 Rev. Prog.	2004 Prog.	2005 Proj.	2006 Proj.
Resource balance	-269	-388	-702	-876	-978
Exports of goods and nonfactor services	1,177	1,384	1,530	1,698	1,881
Imports of goods and nonfactor services	-1,447	-1,772	-2,232	-2,574	-2,858
Income 1/	-11	-22	-70	-111	-114
Receipts	21	23	24	24	25
Expenditure	-32	-45	-94	-135	-138
Current transfers, net 2/	2	9	70	92	117
Public	48	8	11	15	20
Private	-46	1	59	77	97
Noninterest current account 2/	-278	-401	-702	-895	-974
Interest on public debt	-285	-195	-204	-228	-233
Capital and financial account 3/	-250	-311	-169	-140	-275
Official capital	-263	-239	-200	-297	-450
<i>Of which:</i> amortization	-263	-239	-200	-297	-450
Private capital (net)	13	-73	31	157	175
Change in net reserves (increase, -) 4/	-47	-105	-158	-178	-81
Errors and omissions	-163	0	0	0	0
External financing requirements	-1,024	-1,013	-1,233	-1,442	-1,564
Sources of financing					
Humanitarian assistance	229	230	207	187	154
UN humanitarian assistance	114	135	131	127	95
Bilateral humanitarian assistance	116	95	76	60	59
Financing gap after humanitarian assistance	-795	-782	-1,026	-1,255	-1,409
Net change in arrears	-10,142	-59	-406	0	0
Financing gap after net change in arrears	-10,937	-841	-1,432	-1,255	-1,409
Consolidation of arrears	9,960	88	411	0	0
Financing gap after consolidation of arrears	-977	-753	-1,021	-1,255	-1,409
Assistance on debt service	370	264	258	320	370
Naples flow rescheduling	273	118	57	32	0
Cologne flow rescheduling and capitalization of moratorium interest 6/	96	130	156	236	218
HIPC grants	0	17	45	53	66
Debt relief from stock-of-debt operation	0	0	0	0	85
Financing gap after assistance on debt service	-607	-488	-762	-935	-1,040

Table 9. Democratic Republic of the Congo: External Financing (concluded)
Requirements and Sources, 2002–06

(In millions of U.S. dollars)

	2002	2003 Rev. Prog.	2004 Prog.	2005 Proj.	2006 Proj.
Project financing 5/	514	294	526	711	890
Project grants	186	254	332	430	503
Multilateral	136	171	225	260	277
World Bank	21	38	70	129	146
African Development Bank (AfDB)	0	2	6	4	1
European Union (EU)	66	73	92	73	89
Other	49	58	56	54	41
Bilateral	51	84	107	170	226
Project loans	328	40	195	281	387
Multilateral	326	38	191	263	357
World Bank	326	38	177	243	313
AfDB	0	0	12	10	8
EU	0	0	0	5	26
Other	0	0	1	5	10
Bilateral	2	1	4	18	30
Financing gap after project financing	-93	-194	-236	-224	-150
Budget and balance of payments support 5/	93	194	236	224	150
Budget grants	0	0	0	0	0
Multilateral	0	0	0	0	0
World Bank	0	0	0	0	0
AfDB	0	0	0	0	0
EU	0	0	0	0	0
Other	0	0	0	0	0
Bilateral	0	0	0	0	0
Budget loans	93	194	236	224	150
Multilateral	93	194	236	174	100
IMF 6/	21	74	74	74	0
World Bank	72	120	100	100	100
AfDB	0	0	62	0	0
EU	0	0	0	0	0
Other	0	0	0	0	0
Bilateral	0	0	0	50	50
Residual financing gap	0	0	0	0	0

Sources: Congolese authorities; staff estimates and projections; and end-2002 debt sustainability analysis.

- 1/ Excluding interest on public debt.
- 2/ Excluding official aid.
- 3/ Excluding loan disbursements.
- 4/ Excluding net use of IMF credit.
- 5/ By implementing agency. Includes currently unidentified financing.
- 6/ On a net basis.

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		
Population, midyear (millions, 2001)	52.4	674
Population growth rate (2001)	3.0	2.5
GDP per capita in U.S. dollars (2001)	99	470
Mortality		
Infant (per 1,000 live births 2001)	129	105
Under 5 (per 1,000 live births, 2001)	205	171
Maternal mortality rate (modeled, per 100,000 live births)	940	...
HIV/AIDS		
HIV/AIDS prevalence (adults, 2001)	4.9	8.0
HIV/AIDS prevalence for women in conflict areas	8.0	...
Life expectancy at birth (years)		
Total (2001)	45	46
Male (2001)	45	45
Female (2001)	46	47
Immunization rate (percentage under 12 months)		
Measles	46	58
DPT	40	53
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, December 10, 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 third program review covering the period April 1, 2003 to September 30, 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 and in 2004, taking into account our country's reunification. 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, February 4, 2003, and July 3, 2003.

2. We are pleased to note the broadly satisfactory implementation of the PEG during the first nine months of 2003, in spite of some difficulties encountered during the second quarter leading up to the appointment of the Government of National Unity in July 2003. Immediately upon its appointment, the new government implemented budgetary measures to address these difficulties. The government is determined to strengthen its current efforts aimed at preserving macroeconomic stability. The Central Bank of the Congo (BCC) will continue to pursue an independent monetary policy, as required by its charter, under which its primary objective remains price stability. Furthermore, the government undertakes to adopt and submit to parliament before end-January 2004 a reunification and "pro-poor" budget for 2004, and continue its far-reaching structural and sectoral reform program to consolidate the acceleration of outward-oriented economic growth and create an environment conducive to private sector activity and poverty reduction throughout our national territory. The government will redouble its efforts to fully establish the rule of law and ensure compliance with all the new relevant codes and related enactments, as well as good governance and transparency in the conduct of public affairs. The government intends to fight corruption at all levels and reduce bureaucratic "red tape". If necessary, we will prepare a draft supplementary budget, consistent with the objectives of our program for 2004, to take into account the implementation of our national plan for the disarmament, demobilization, and reintegration (DDR) of the armed forces, progress in the restructuring of public enterprises, the repayment schedule for the government's domestic arrears with the private sector, and an update of the effects of reunification and external aid.

3. The consolidation of the peace process culminated in the promulgation of the new Transitional Constitution on April 4, 2003. Article I of the constitution provides for free and transparent elections after a transitional period of two years. The Government of National Unity, and the National Assembly and the Senate, in which all political parties are represented, were installed in July and August 2003, respectively. A unified army command was appointed in September 2003, and a unified army will be created in the near future. We will ensure that military and security spending remains compatible with our pro-poor budget. The forces of the United Nations Observation Mission in the Democratic Republic of Congo (MONUC) have been strengthened, with a broadened mandate under Article 7 of the Charter of the United Nations. Several MONUC units have been deployed in Ituri, where the situation has not yet been fully stabilized. MONUC, the European Union, and bilateral partners will assist us in preparing for the elections under the best possible conditions throughout our vast country. The reunified country is thus moving from the macroeconomic stabilization phase to the reconstruction phase, as envisaged in our I-PRSP. Furthermore, we expect that parliament will pass the decentralization law (which will define the transfer of tax resources to the provinces) within the next few months. We will proceed to appoint or confirm government representatives and senior civil servants in all provinces as quickly as possible. With the support of the international community, we intend to gradually strengthen the administrative capacity of the provinces and of the decentralized administrative units.

4. The review of the performance criteria as at end-September 2003 indicates that three of the eleven quantitative performance criteria have not been observed, while the structural performance criterion relating to the completion of the audits of five commercial banks was observed. Furthermore, three of four structural benchmarks were observed. The structural benchmark concerning implementation of the complete expenditure chain will be observed by February 2004 at the latest. The floor on the BCC's net foreign assets was missed by US\$34 million. The ceilings on the net domestic assets of the BCC and on net bank credit to the government, adjusted for external assistance, were overshot by 0.5 percent of GDP and 0.8 percent of GDP, respectively. 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 the three quantitative performance criteria referred to above.

5. We express our sincere gratitude to the international community, and to the International Monetary Fund in particular, for its support and for allowing our country, based on the broadly satisfactory implementation of our PRGF-supported program, to benefit from external debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. We hope that the disbursements of external financing for priority investment programs and projects in the social and infrastructure sectors, designed in collaboration with World Bank staff, will accelerate. We also hope that these investments will be extended as quickly as possible to the entire national territory. Indeed, the peace dividends will benefit the entire population only with the resumption of economic growth and with poverty reduction, which, in turn, are not only dependent on government actions but also on the timely financing of the government's investment programs and projects. Finally, we hope that with the comprehensive measures already implemented to better control our budgetary expenditures—measures that we intend to deepen—we will be able to quickly benefit from direct budgetary assistance from our external partners, in addition to that of the World Bank.

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 fourth and fifth six-month reviews of its economic program supported by the PRGF, which should be completed by July 15, 2004 and January 15, 2005, 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 2004

Kinshasa, December 10, 2003

I. INTRODUCTION

1. With the return of peace, the Democratic Republic of the Congo (DRC) is now reunified. The primary goal of the Government of National Unity is rebuilding the country while preserving macroeconomic stability and extending across the whole nation the broad-based structural and sectoral reforms that are being implemented. The law on decentralization, which, *inter alia*, will specify the transfer of tax resources to the provinces, will soon be adopted by parliament. This law, in addition to the creation of a national army and a national police and the appointment of new provincial governors, as well as the gradual reopening of the provincial directorates of the government, and of the agencies of the Central Bank of the Congo (BCC) and the provincial governments, will result in the effective reunification of the DRC. We are aware of the urgent need to ensure security throughout the DRC and to organize free and transparent elections within two years, as envisaged in the Transitional Constitution. As we address these challenges, we welcome the support of the international community. In particular, we appreciate the international community's humanitarian and food aid, but we hope that the disbursement of financing for investment projects will gather momentum, along with direct budgetary assistance, to ensure that the peace dividends can finally reach the entire population. We also call upon the international community—and in particular the United Nations and the World Bank—to help us step up the implementation of the Multi-Country Demobilization and Reintegration Program (MDRP), which our nation so urgently needs to ensure genuine peace throughout the country, and without which armed groups will continue to terrorize the populations in certain parts of our country. Furthermore, enhanced and properly coordinated technical assistance will help us strengthen the institutional capacity of our central government and, gradually, that of the provincial and local governments as well. To ensure that external assistance is used effectively, we are implementing new expenditure and budget classification systems, which will enable us to better track expenditures and their composition, in particular pro-poor spending. The government is committed to ensuring that the central bank maintain full independence in the conduct of monetary policy as required by its statutes, so as to enable it to achieve its primary objective of price stability in the context of the floating exchange rate system. Finally, we are determined to reinforce good governance and enhance transparency in our management of public affairs, including procurement, in order to create an environment conducive to private sector activity and poverty reduction.

II. IMPLEMENTATION OF THE GOVERNMENT ECONOMIC PROGRAM DURING THE PERIOD APRIL-SEPTEMBER 2003 AND OUTLOOK FOR END-2003

2. We are pleased to note that program implementation was broadly satisfactory during the period April-September 2003, with a notable deepening of the ongoing structural and sectoral reforms. We believe that, notwithstanding the problems encountered during the second quarter of the year leading up to installation of the new government, the overall objectives for end-2003 remain achievable. We have set up four committees, chaired by the Vice Presidents concerned, with the aim of ensuring the consistency and effectiveness of government actions. The Economic and Financial Committee, chaired by Vice President Jean-Pierre Bemba, is monitoring the implementation of the government's economic program supported by the IMF's PRGF.

3. Our estimates confirm that economic growth in 2003 may reach the programmed target of 5 percent (Appendix I, Table 1). According to the new Investment Promotion Agency (ANAPI), created to provide a range of services to investors and simplify administrative procedures, over 100 investment applications from domestic as well as foreign private investors were approved in 2002-03, amounting to about US\$2.3 billion. For the first time in many years, the output of all sectors in the economy is rising, with particularly good performance in the mining sector on account of both a gradual shift of diamond production to the formal sector following the implementation of the Kimberley certification process and an increase in crude oil production. The improvement in agricultural activity mainly stems from the steadily increasing accessibility of agricultural regions (including forests) thanks to the restoration of peace and the resumption of river traffic. The end-of-period inflation rate decreased to 4.4 percent at end-October 2003, or well below the 8 percent programmed for 2003 and the 16 percent recorded in 2002 and 135 percent in 2001. Furthermore, the exchange rate appreciated by approximately 2 percent, to reach CGF 375 per US\$1 by mid-November 2003, compared with CGF 382 per US\$1 at end-December 2002. The guaranteed minimum wage (SMIG) was instituted for the private sector at the beginning of 2003, bringing it to CGF 335 a day (about US\$1). GDP in nominal terms is expected to increase by 18 percent in 2003 instead of the 20 percent programmed, on account of a decrease in the GDP deflator.

A. Government Finances

4. **The overall fiscal objectives for end-September 2003 were not fully met**, despite the government's efforts since July 2003 to counteract the difficulties encountered during the second quarter. Accordingly, the domestic primary balance (on a cash basis) showed a deficit of 0.3 percent of annual GDP, against a programmed surplus of 0.8 percent at end-September 2003, whereas the consolidated general balance (on a cash basis) showed a deficit of 1.7 percent of GDP instead of the programmed 1.2 percent (Appendix I, Table 2A). Net credit to the government was 0.1 percent of GDP higher than programmed before adjustment for net foreign nonproject disbursements, and 0.8 percent of GDP higher than programmed after this adjustment.

5. **Total revenues (excluding grants) are slightly lower than anticipated (0.2 percent of GDP), reflecting the delays in implementing the tariff and tax reforms adopted in March 2003, as well as tax evasion, which continues to be significant, particularly concerning imports of food and petroleum products in the south of the country. The additional measures decided upon in July 2003—in particular the decision to accelerate the transfer to the treasury of the revenues legally due from the reunified provinces and to make GECAMINES and MIBA subject to regular tax treatment—are beginning to slowly produce results. This is due to the limited administrative capacity at the provincial level, delays in appointing the new provincial authorities, and the tax exemption agreement (*convention*) between the government and MIBA.**

6. **Total expenditure, including the BCC's treasury deficit, was 0.1 percent of GDP below the programmed level for end-September 2003. However, the composition of expenditure was not in line with program objectives.** The implementation of the emergency measures decided upon in July (including the recall of outstanding payment orders, the freeze of nonessential expenditures, and the rationalization of fuel outlays) did not fully offset the slippages of the second quarter, namely the overrun in current primary expenditure (0.7 percent of GDP), the unanticipated repayment of domestic arrears and the larger BCC treasury deficit. Although the 10 percent across-the-board wage increase planned for 2003 was not implemented, the wage bill target was slightly exceeded because of the adoption of specific measures in favor of certain categories of government employees. In addition, there was a buildup of arrears on centralized payments—which are still difficult to measure because of the lack of meters for water and power consumption. Conversely, capital expenditure was 0.4 percent of GDP lower than programmed, reflecting the slower disbursement of external financing.

7. The fiscal policy measures planned for 2003 have been implemented, albeit with some slight delays. The enactments of the March 2003 tax and tariff reforms have only recently been issued and the related legislation (eliminating excise taxes on sugar, cement, and matches, abolishing the proportionality principle for the turnover tax (ICA) deductibility and confining it to large enterprises, and eliminating the ICA on exports) was adopted by the government in November 2003 and is expected to be adopted by parliament by end-January 2004. A number of agreements (*conventions*) authorizing unjustified tax or customs exemptions have been revised. The new revenue classification for the General Directorate of Administrative and State Revenues (DGRAD) is expected to be adopted by parliament in February 2004. At the same time, the Customs and Excise Office (OFIDA) has continued to implement its modernization program, with technical assistance from the IMF. It focuses primarily on the reorganization of the provincial directorate of the Bas-Congo Province, together with the establishment of the Matadi one-stop window. In a crackdown on tax evasion in the southern part of the country, a number of unlawful customs clearance operations in Kasumbalesa have been suspended. Slightly behind schedule, the new customs code is expected to be submitted to the ministerial steering committee by end-January 2004 and adopted by end-March 2004. Legislation on the Large Enterprises Directorate (DGE) and the decree governing specific taxation and the introduction of tax stickers (*vignettes*) on tobacco were adopted in November 2003, and the draft decree on the systematic use of tax

identification numbers will be adopted by end-January 2004. However, the DGE's activities are hampered by the absence of a complete list of large enterprises, problems concerning the transfer of relevant records (including the status of tax credits handled by the DGE), and its still inadequate operating budget.

8. Concerning expenditure, the BCC is no longer financing expenditures that have not been authorized by the Minister of Finance (a continuous performance criterion under the program). A subaccount for depositing the resources generated by the HIPC Initiative has been opened at the BCC. New procedures for executing expenditures and the computer links between the BCC and the Treasury are being implemented and are expected to become fully operational by end-February 2004 with the daily electronic transfer of debit/credit memoranda and account statements. The agreement (*convention*) with the BCC concerning its function of government cashier will be adopted by the government by end-January 2004. The 2003 supplementary budget was adopted by parliament in November 2003 in accordance with the new expenditure classification system, which will enable us to track poverty-reducing expenditures. The 21,333 "ghost workers" in the civil service that were identified in June 2003 have been removed from the payroll. To enhance transparency, the 2001 budget execution was audited by the General Accounting Office (*Cour des comptes*) and submitted to parliament in December 2003, to be subsequently published in the official gazette (*Journal Officiel*). The 2002 audit has been completed and will be submitted to parliament by end-January.

9. **The estimated budget outcome for 2003 has been revised on the basis of the results for end-September.** Revenue for the year as a whole is expected to be very close to the program target, despite a more appreciated currency than anticipated. This is on account of an improvement in oil revenues and the anticipated MIBA payment. The efforts to curb the government's operating outlays and limit the treasury deficit of the BCC will continue during the fourth quarter. On the basis of a preliminary census of government employees in the reunified territories, we will initiate wage payments in December 2003. The delivery of food rations to the armed forces throughout the DRC began in October 2003 and wage payments began in November 2003. Thus, for the whole of 2003, domestic primary expenditures are expected to be 1 percent of GDP higher than programmed and the nonconsolidated domestic primary surplus (cash basis) lower by 1.2 percent of GDP. The consolidated general balance (cash basis) is expected to be close to the initial target. On account of the slippages observed during the second quarter, security and sovereignty expenditures are expected to reach 2.1 percent of GDP and 1.4 percent of GDP, respectively, compared with the programmed 1.6 percent and 1.1 percent. Poverty-reducing expenditures, the definition of which has been broadened in line with our interim PRSP to include infrastructure expenditures, are expected to reach 1.2 percent of GDP.

B. Monetary Policy

10. Concerning monetary policy, the BCC has gradually decreased its refinancing rate to take account of the deceleration of inflation. Thus, the rediscount rate moved from 24 percent at end-December 2002 to 15 percent as of September 30, 2003. The interbank market rate

moved from 27 percent to 20 percent over the same period, while a modest pickup in activity was observed at the rediscount window. In spite of this decline, the average lending rate of commercial banks has stayed fairly high (50 percent on average per year), reflecting a still substantial risk premium. In order to manage the liquidity in the banking system, the BCC launched a new short-term financial instrument (*billet de trésorerie*) with maturities of 7, 14, and 28 days in December 2002. Their yields have fallen in parallel with the decline in the rediscount rate, while their outstanding stock has decreased significantly. The latter was due to the higher liquidity needs of the commercial banks as a result of a drop in public sector transfers through the banking system, and to the implementation of reserve requirements on foreign currency deposits.

11. Based on the monetary survey at end-December 2002, which reflects the changes recommended by the external audit of the BCC's accounts, broad money increased by 23 percent at end-September 2003, compared with the programmed 15 percent. The share of currency in circulation declined in favor of quasi money and, in particular, of foreign currency deposits, which would suggest some increase in the dollarization of the economy. The increase in the demand for money denominated in Congo francs following the resumption of growth and the reunification of the country was not met by the issuing of currency by the BCC. Under pressure from the government, which feared a rekindling of inflationary expectations, the BCC met the treasury's liquidity needs in Congo francs by selling foreign exchange in the market rather than issuing new larger-denomination banknotes it already had at its disposal. This policy led to a shortage of Congo francs, an appreciation of the exchange rate, and a larger-than-anticipated decline in the inflation rate, and contributed to the nonobservance of the performance criterion on the net foreign assets of the BCC at end-September 2003. The counterparts of money supply, relative to the beginning-of-period money stock, show a decline in the share of net foreign assets and an increase in the shares of net credit to the government and credit to the private sector (with over 90 percent of the latter in foreign currency).

12. On the basis of the end-September 2003 results, the money supply is expected to increase by 31 percent in 2003, compared with the 20 percent originally programmed (Appendix I, Table 1). Net credit to the government is expected to increase by 11 percent of the beginning-of-period money stock, as opposed to the initially programmed zero percent. Credit to the private sector is expected to increase by 8 percent, as expected, while credit to public enterprises is projected to diminish slightly. The net foreign assets of the BCC are expected to increase during the final quarter to minus US\$618 million, compared to minus US\$678 million at end-September 2003, taking account of the resumption of currency issue to meet the liquidity needs of the treasury, the gradual purchase of foreign exchange in the market by the BCC, and the anticipated net external financing.

13. During 2003, the BCC has implemented an ambitious action plan to strengthen its institutional capacity (Appendix I, Table 3A). This plan had been designed with technical assistance from the IMF on the basis of an external audit. The progress achieved in implementing the plan has helped overcome a number of shortcomings in the accounting system, and the BCC accounts now more closely reflect the monetary situation and the

foreign exchange position of the BCC. The work done in this area by the Accounts Consolidation Committee has been key. However, the BCC's 2002 financial statements—which were audited by a reputable international firm—do not yet fully meet international standards. To achieve that objective, the BCC plans to take additional steps identified in conjunction with the recent IMF technical assistance mission, as described below.

14. As for the financial system and financial intermediation, the adoption of the corrective fiscal measures as envisaged in the program has successfully eliminated the nonfungibility of base money and the resulting premium of currency in circulation over bank money. The BCC has launched its own liquidity management instrument (*billet de trésorerie*), and fine-tuned the issuing of Congo franc notes, its techniques for intervening in the foreign exchange market, and the management of its foreign reserves. The BCC is, however, aware that additional efforts will be required in these areas—specifically, to conduct a more fine-tuned monetary policy to respond in a timely fashion to monetary and exchange rate pressures without going against the fundamentals of the economy. Finally, with financial assistance from the World Bank, external audits of nine operating commercial banks were completed, and the liquidation of five other banks has begun. The audits have identified weaknesses in the financial structure of a number of commercial banks. However, we are pleased to note that the situation of the banking sector appears to have improved somewhat over the past 12 months. Indeed, as of October 31, 2003, seven banks recorded a preliminary operating surplus, against just two in 2002. On the basis of action plans that will be finalized by the commercial banks by end-January 2004, the BCC will prepare by end-March 2004 a list of banks to be liquidated or restructured.

C. Balance of Payments and External Debt

15. On the external front, the current account balance for 2003 (including grants) is expected to show a deficit of 2 percent of GDP, about half the programmed deficit. The estimate has been revised to take into account developments through end-December 2003, the decision of the Paris Club in November 2003 to consolidate external debt service in the context of the enhanced HIPC Initiative, and the updating of foreign aid. The overall balance of payments is expected to show a deficit of US\$263 million. External debt service after rescheduling under the HIPC Initiative is projected at 10 percent of exports of goods and nonfactor services. The government signed bilateral agreements with all its Paris Club member creditors (except Japan) and with all its multilateral creditors, and it is currently negotiating with its creditors to have these agreements reflect the debt relief under the enhanced HIPC Initiative that the DRC obtained when it reached the decision point in July 2003. The government is contacting its non-Paris Club bilateral creditors, as well as its London Club creditors, with a view to reaching similar agreements.

16. In the area of international trade, the government has maintained the temporary quantitative restrictions that were implemented to address the dumping of certain textile products (printed fabrics) on the informal market. In addition, the government has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF Articles of Agreement. The government is discussing with Zimbabwe to end the bilateral payments agreement with

that country, and it plans to hold similar discussions in connection with the regional (CEPGL) payment agreement with Rwanda and Burundi, when circumstances permit.

D. Structural and Sectoral Reforms

17. **In the area of governance and the fight against corruption**, the government has pursued the implementation of the strategy and action plan adopted by the Council of Ministers in February 2003. The strategy focuses on four main areas: (i) establishing a legal, regulatory, and institutional framework against corruption; (ii) designing and implementing effective sanctions against corruption; (iii) reforming public institutions, particularly the civil service, the judiciary, and fiscal management; and (iv) strengthening effective partnerships among the public sector, civil society, and the international community.

18. **In the fight against corruption**, the draft law on money laundering and the financing of transnational organized crime and the draft anticorruption law have been prepared with a view to their submission to parliament by end-November 2003 and their adoption by end-January 2004. These draft laws reflect comments made by the IMF and the World Bank. The information campaign concerning the decree-law establishing the Code of Conduct for Civil Servants promulgated in November 2002 was launched in March 2003 in Mbuji Mayi, but had to be temporarily suspended for lack of external financing. The contents of the citizens' *vade mecum* (compendium of citizens' rights and obligations) have been prepared and will be approved by the government shortly.

19. **Civil service reform** has progressed more slowly than anticipated. However, we believe that the delays can be made up in 2004. **The audit of the payroll system**, to be undertaken with technical and financial assistance from France, will be completed by end-April 2004 with a slight delay. The methodology for the census of government employees, which has been drawn up with technical and financial assistance from Belgium and other donors, was adopted by the government in September 2003. However, the census will not begin in January 2004 as planned because the financing from Belgium, the European Union (EU), and the African Development Bank (AfDB) was delayed until November 2003. We had hoped to launch **the retirement program** (10,000 people) by end-December 2003, but this objective may not be achievable as program preparation and the mobilization of financial assistance from the World Bank have taken longer than anticipated.

20. Concerning the **judiciary**, an audit of the entire judicial system began in October 2003 with support from the EU and other donors. A preliminary report is expected to be available by end-December 2003. This audit, which covers the entire country, will take stock of the judicial system and propose a plan for its strengthening.

21. **In the area of government finance**, a comprehensive review of the government procurement system was initiated in July 2003 with World Bank assistance, and the final report will be submitted by end-April 2004. On the basis of this report, a strategy for establishing a modern regulatory and institutional framework for government procurement will be established, together with an implementation timetable.

22. **Development of the private sector and reform of public enterprises.** The government's goal is to improve the legal, regulatory, and social environment for enterprises, whether private or public, and thereby speed up economic growth by boosting competitiveness.

23. **Investment climate.** The National Arbitration Center was created by Ministerial Order of June 18, 2003, its offices were inaugurated, and about 30 arbitrators have been registered. The one-stop customs window in Matadi has been operational since June 2003. The Regulatory Authority for the Congo Post and Telecommunications Service (ARPTC) was created in 2002. Its work on sectoral policy design is ongoing and focuses particularly on the pricing of interconnections.

24. **Taxation.** The government has temporarily suspended the imposition of a number of levies, pending the preparation of a comprehensive action plan for the reform of taxation and quasi taxation of enterprises, which will be drawn up with World Bank assistance. In this context, the selection of a consultant has been initiated, and the work will be carried out during the first half of 2004, whereas the original timetable provided for its completion, and for the reforms to begin, on January 1, 2004. It is further anticipated that the study on the "red tape" facing enterprises will be completed by April 2004.

25. **Labor code.** We still expect to finalize and adopt the 20 main implementing decrees for the Labor code by end-December 2003 as planned, taking account of the conclusions of the tripartite discussions among the government, trade unions, and employers.

26. **Domestic debt.** An audit of government payments arrears to the private sector was completed in September 2003 for claims that had accumulated between July 1, 1997 and December 31, 2001. The total amount of the certified debt was established at US\$209 million. Similar work on claims accumulated prior to June 30, 1997 is expected to be completed by end-December 2003. The Domestic Debt Committee is being created and, on the basis of these audits, will proceed to reach agreement with private creditors regarding the amounts, terms and conditions of repayment, which will be financed by the World Bank. An audit of cross arrears between public enterprises and the government was completed in October 2003. The government has decided to cancel these arrears but to pay for its utility consumption and any services rendered starting January 1, 2004, and to no longer accumulate arrears. In connection with the possible departure of certain post office (OCPT) employees in the context of its planned restructuring, wage payments arrears as well as required severance payments, have been determined. Once an agreement has been reached on the social cost of the separations, it will be financed by the World Bank's Private Sector Development Credit. The Steering Committee on the Reform of Public Enterprises (COPIREP) has been operational since July 2003.

27. **Forestry sector.** Forestry reform—and in particular, the new forestry code—intends to enhance transparency and equitable access to forest resources. All forestry contracts have been reviewed, and a list of contracts deemed to be valid was published in May 2003. In addition, the survey of the logging sector was completed, and its recommendations will soon

be considered by the government. These recommendations are designed to simplify the structure of forestry taxation, to ease the overall tax burden, and to make collection procedures more efficient. The rebalancing of forestry taxation consists of eliminating quasi taxation while steadily increasing the area tax (*taxe de superficie*), so as to encourage optimal use of forest space. In the 2003 budget, the government took the decision to raise the area tax from US\$0.00143 per hectare per year to US\$0.50 per hectare per year. However, it has not been possible to implement the new rate because of delays in the adoption of accompanying measures. An interim rate of US\$0.0625 was negotiated for 2003 with the sector.

28. **Mining sector.** The new mining regulations were approved in March 2003 and the new mining registry (CAMI) became operational in June 2003. However, the new mining code is still not being fully implemented because its dissemination has been essentially limited to Kinshasa. Furthermore, the mining registry's management needs improvement; we intend to achieve this in a transparent fashion in order not to jeopardize the goals of the reform. Also, although the decree establishing the Commission for the Validation of Mining Titles was approved in August 2003, its members have yet to be appointed, thus leaving a void in the implementation of the new mining code.

29. **Restructuring of GECAMINES.** The program of voluntary separations for 10,500 employees of GECAMINES, which began on August 11, 2003, is proceeding satisfactorily and is expected to be completed by January 2004. The diagnostic part of the external audit concerning the restructuring of GECAMINES was approved by the government in June 2003. The proposed strategy comprises the following: (i) establishing a new company—a wholly owned subsidiary of GECAMINES—which would receive the key assets of GECAMINES; the existing GECAMINES would focus on the orderly settlement of the remaining net liabilities; (ii) reviewing the partnership agreements signed in the past; and (iii) establishing a strengthened and independent management team. The experts responsible for preparing the technical studies needed to implement this strategy will be recruited in the coming months and measures concerning GECAMINES' management should be considered by the government by end-November 2003.

30. **Agriculture.** For the 2002/03 crop year, the government has begun (with the support of the Emergency Multisectoral Rehabilitation and Reconstruction Program—EMRRP) to implement a seed multiplication program (cassava, corn, and vegetables). In addition, a pilot program for the rehabilitation of 32 hectares of rice-growing areas is in progress with assistance from China, and the goal is to rehabilitate 850 hectares by 2005. Finally, preparations are under way for a program to improve poultry farming and the breeding of small ruminants, as well as to revitalize fish farming and artisanal fishing. These programs are expected to get under way in early 2004.

Social Sectors

31. In the context of the EMRRP, eight contracts were signed with the authorities (Maîtres d'Ouvrages Délégés (MOD)) representing a total of US\$41.8 million in assistance for the 67 health regions targeted by the project. The Ministry of Health's proposals

regarding the provincial and national capacity-building component of the EMRRP are being finalized. As planned, a poverty/health status report (RESP) was initiated in September 2003 with the aim of preparing an assessment of the health sector.

32. **Education.** The government is refurbishing 140 schools, which were selected in the context of the EMRRP. The status report on the national education system (RESEN) is being drawn up, and the preliminary recommendations are expected to be disseminated shortly. The report will serve as a basis for preparing a sectoral strategy and action plan for meeting the objectives of the "Education for All" (Education pour Tous) program.

33. **Social safety net.** Studies on the vulnerability of the poor and the disabled and on the risks they face have been carried out and are being published. A social fund is being considered. Finally, the implementation manual for the "vulnerable groups" subcomponent of the EMRRP has been adopted, and an initial set of eight microprojects has been selected for IDA financing.

34. **Poverty reduction strategy paper (PRSP).** By end-December 2003, arrangements had been made for the following: (i) a workshop to launch the PRSP formulation process; (ii) an information and education campaign on the process of preparing the full PRSP; (iii) finalization of the questionnaire and the methodology for the participatory consultations to be organized at all levels (national, provincial, local, and community); and (iv) finalization and implementation of the poverty survey, to be launched in January 2004 with a view to its completion one year later.

III. POLICIES AND MEASURES FOR 2004

35. We have defined the objectives for 2004, consistent with the medium-term macroeconomic framework. The latter has been revised to reflect the updated estimates of the impact of the changing international environment, the reunification of the country, and the external debt sustainability analysis, taking account of the additional debt relief obtained in the context of the enhanced HIPC Initiative and the anticipated external assistance. The objectives for 2004 remain broadly in line with the preliminary objectives of the second review of our program: (i) a growth rate of 6 percent, (ii) an average annual inflation rate of 6 percent, and (iii) an external current account deficit (including grants and before debt service relief) of 6 percent of GDP, associated with a substantial increase in investment financed by international assistance. To achieve these objectives, we will continue to strengthen our macroeconomic framework by pursuing a prudent fiscal policy and an independent monetary policy focusing on price stability in the context of the floating exchange rate regime. We are determined to improve the economic environment and to enhance the competitiveness of our economy by deepening the wide-ranging structural and sectoral reforms, which will be expanded to encompass our entire country, with the aim of achieving sustainable growth and reducing poverty, in line with the objectives set out in our interim PRSP. The government reaffirms its commitment to implement good governance and transparency in matters concerning public affairs, as well as to combat corruption, money laundering, and the financing of terrorism.

A. Fiscal Policy

36. Fiscal policy in 2004 is designed to consolidate the macroeconomic stabilization efforts, while taking full account of the effects of reunification and harnessing the peace dividends to refocus public spending on poverty reduction. Fiscal consolidation and transparency achieved through the use of the new expenditure chain will constitute the essential elements of the government's economic and financial policy in 2004. The 2004 budget, to be adopted by the government by end-January 2004, will be submitted in accordance with the new classification system and adopted by parliament by end-March 2004; it will reflect the objectives agreed with Fund staff. A supplementary budget law will be prepared, if necessary, with due regard for the goals we have set in our economic program, to take account of the establishment of our national DDR plan, the ongoing restructuring of public enterprises, and the timetable for the settlement of domestic cross arrears with the private sector (to be discussed first with IMF and World Bank staffs), as well as an update of the effects of reunification and foreign aid.

37. For 2004, the domestic primary balance (on a cash basis) is targeted to show a surplus of 2.1 percent of GDP, while consolidated government operations—including the treasury deficit of the BCC (limited to 0.6 percent of GDP)—are expected to record a consolidated overall deficit (on a cash basis, after debt rescheduling) of 3 percent of GDP (Appendix I, Table 2B). Total revenues (excluding grants) are expected to reach 9 percent of GDP, and total expenditures (on a commitments basis) are projected to amount to 17.6 percent of GDP, mainly associated with the increase in externally financed investment.

38. The revenue target takes account of the full-year impact of the tax and tariff reform undertaken in 2003, the centralization at the treasury of the revenues collected in the reunified provinces (valued at CGF 12 billion), and the continued reform of the tax and customs administrations with IMF technical assistance. We do not envisage large-scale tax reforms for 2004, but we will focus our efforts on ensuring the uniform implementation of the tax and customs laws throughout the country, including Boma and the reunified territories. Steps will be taken to disseminate the laws and procedures governing the revenue-collecting agencies (*régies financières*), as well as to launch an information campaign. The tax regime for small enterprises will be reformed by June 2004. A study of the taxes and duties collected outside the DGRAD will be finalized by end-June 2004. In addition, the reform of forestry sector taxation will be continued, inter alia, by increasing the area tax (*taxe de superficie*) from US\$0.0625 per hectare to US\$0.15 per hectare, by lowering quasi taxation (ONATRA in particular), and by modifying export taxes, stumpage fees, and the reforestation tax by January 1, 2004.

39. At the same time, the Customs and Excise Office (OFIDA) will continue its modernization program adopted in March 2003, including efforts to combat tax evasion by freight forwarders at Kinshasa airport, computerize the East Kinshasa customs office by end-June 2004, and establish a computerized customs office in Kasumbalesa by December 2004. This will ensure a strict control over exemptions, and unjustified exemptions for petroleum products and foodstuffs will be eliminated as of January 2004. The plan to modernize the

General Directorate of Taxes (DGI), covering the entire country, will be adopted by end-December 2003. The DGI will ensure the optimal functioning of the DGE as of January 1, 2004 by (i) providing it with an adequate operating budget; (ii) adopting objective criteria for the selection of enterprises, and enhancing and ensuring the DGE's sole authority over such firms; and (iii) giving it the operational independence it needs for its functioning, including auditing tasks. Finally, further steps will be taken to set up a pilot tax center for medium-sized enterprises in Kinshasa in June 2004. An inventory of the office facilities of the Ministries of Finance and of the Budget, and of the three revenue-collecting agencies in the reunified provinces will be undertaken in the first quarter of 2004, with a view to preparing an action plan for the gradual rehabilitation of these offices. In order to reduce "red tape" for enterprises operating in the formal sector, the laws allowing the authorities to prosecute third parties in lieu of debtors for tax collection purposes will be enforced only in cases of strict necessity and as a last resort; meanwhile the laws authorizing the General Inspectorate of Finance (IGF) to conduct tax audits of firms will be abolished. The IGF will again be brought under the auspices of the Ministry of Finance and its role will be reviewed. Pending an external audit of MIBA, we will ensure that its dividends are regularly paid to the government.

40. On the expenditure side, the increase in the wage bill in 2004 will be about 27 percent, excluding the cost of retirement allowances, reflecting the impact of (i) a 10 percent salary adjustment for all civil servants and military in January 2004; (ii) a reduction of 10,000 active staff through implementation of the retirement plan for employees above retirement age; (iii) inclusion, following the government's stocktaking mission in the reunified provinces, of 135,000 civil servants (including pensionable employees) and 15,000 national police officers; and (iv) the cost of the merged army, assumed since October 2003 and to be continued until the start of the effective implementation of our national DDR program, which, we hope, will be financed by the international community. The reform of the civil service will gain momentum after completion of the nationwide civil service census in 2004.

41. Following certification of the government's domestic debt owed to private creditors, a repayment schedule will be drawn up by end-June 2004 and implemented starting in 2005. The government undertakes to pay for its centralized expenditures on the basis of billed consumption or, in the case of water and power outlays and pending the installation of meters, on the basis of monthly lump-sum allocations. An action plan for controlling centralized payments—to be adopted by end-December 2003—will be implemented in 2004, and it will include a comprehensive survey of delivery points, the installation of electricity and water meters by end-June 2004 with World Bank assistance, regular monitoring of the billing process, and greater accountability of consuming entities.

42. The efforts to control operating expenditures that have been in progress since July 2003 will be continued, focusing particularly on official travel, which will be monitored to ensure that it takes place in the public interest and not for election purposes.

43. With the restoration of peace, current expenditures will be contained, although increases in external financing will enable our country to raise the level of poverty-reducing expenditures and investments. Military and security-related expenditure and spending by institutions will be limited to 2 percent and 1.1 percent of GDP, respectively, whereas pro-poor expenditures should reach 6.3 percent (as opposed to 1.2 percent in 2003), including 3.3 percent externally funded (grants and project loans) and 1.7 percent financed through resources mobilized under the enhanced HIPC Initiative. The monitoring of these expenditures, based on the new functional classification system, is expected to be facilitated by the establishment of new expenditure execution procedures, which will also be applied to externally funded capital expenditures.

44. To improve the public expenditure management system, the government intends to pursue the implementation of the new expenditure execution procedures and the periodic production of budget-tracking statements at various stages in the expenditure cycle and in accordance with the various classifications. To ensure optimal monitoring of externally funded expenditure, monthly information on the execution and financing of EMRRP and Central Coordination Office (BCECO) projects will be reported to the Ministry of Budget and the Ministry of Finance, beginning in January 2004, to ensure its inclusion in the government flow-of-funds table (TOFE). All externally funded expenditures will be classified in accordance with the new classification system and included in the budget-tracking statements starting July 1, 2004. In addition, the following reforms will be implemented during 2004: (i) elimination of the special budgets (*budgets pour ordre*) and some of the *budgets annexes*, and the adoption by March 2004 of regulations governing the eligibility and management of the *budgets annexes*; (ii) reorganization by end-June 2004 of the work units in charge of government accounts within the BCC to ensure consistency in its operations as government cashier and enhance the quality of the exchange of information between the treasury and the BCC; (iii) improvements in the treasury's liquidity management by having it permanently monitor the full set of government bank accounts with a view to their rationalization and possible closure of certain accounts as of March 31, 2004; (iv) adoption of a double entry government accounting framework before June 30, 2004, with a view to its implementation as of January 2005; and (v) a comprehensive audit of the payroll system by end-April 2004 and its reorganization by end-2004. Pending this reorganization, salary payments will continue to be handled through the banking system.

B. Monetary Policy

45. In 2004, the BCC intends to pursue a monetary policy focusing on price stability in the context of the floating exchange rate system. For this purpose, broad money will rise by 25 percent—a rate exceeding the rate of growth in nominal GDP—to take account of the gradual return of confidence in the Congo franc in an environment of economic recovery and reunification. There will be no further advances from the BCC to the government (pursuant to the BCC charter), and net credit from the banking system to the government will not increase. Credit to the private sector is expected to rise by 36 percent. The net foreign assets of the BCC are forecast to improve, reaching minus US\$569 million at end-2004.

46. The government reaffirms the BCC's independence as enshrined in its new charter. Cognizant of the fact that a central bank's credibility is not determined solely by its independence, but also requires transparency in its operations and performance, the monetary authorities have undertaken to carry out a self-assessment of the extent to which Congolese practices conform to the IMF Code of Good Practices on Transparency in Monetary and Financial Policies, in accordance with the recommendations of the recent IMF technical assistance mission. Although the BCC has already taken a number of key steps in accordance with its action plan, it should complete the plan's implementation as soon as possible, as it is the linchpin of the BCC's rehabilitation exercise (Appendix I, Table 3B).

47. With the reunification of the country, the BCC will face the challenge of facilitating a return to normal and unified operations of the payment systems, without jeopardizing the newly acquired macroeconomic stability. Accordingly, the BCC will develop and implement a strategy to ensure efficient payment services in Congo francs throughout the DRC. In the immediate future, the BCC must restore the functionality of its branch network in coordination with the redeployment of commercial banks' branches. Also, the BCC will study the complementary role to be played by microfinance institutions and credit unions in providing payment services, especially in those communities lacking access to the banking system.

48. The BCC undertakes to further reinforce its operating framework for monetary programming in accordance with the recommendations of IMF technical assistance missions. It will adopt a number of key measures during 2004 to strengthen the conduct of monetary policy and foreign exchange operations. Accordingly, to safeguard the security of refinancing operations, the BCC's short-term refinancing facilities will be collateralized in foreign exchange. In order to improve the management of currency in circulation, the BCC will take steps to build up a stock of banknotes that will enable it to make payments without depending exclusively on banknote reflows at its teller windows. Furthermore, it will be advisable to speed up the introduction of CGF 200 and CGF 500 banknotes, which are already available, and to provide for the introduction of even larger denominations, so as to ensure that the composition of currency in circulation more closely reflects the needs of economic agents. This introduction of banknotes should be carried out in the context of the BCC's monetary programming efforts. To enhance the transparency of its foreign exchange transactions, the BCC undertakes to use single-price auctions for the sale of foreign exchange.

49. In addition, the monthly cash-flow plans of the government and the BCC will be strictly implemented in the context of the monetary programming. In this respect, the BCC will continue to strengthen its financial management, reduce its operating costs, and limit its treasury deficit to CGF 16 billion in 2004 (0.6 percent of GDP). The BCC reaffirms its commitment to abide by the April 2002 Presidential Decree and, accordingly, will continue to refrain from financing government expenditures not first authorized by the Minister of Finance (a continuous performance criterion).

50. The government is aware of the need to strengthen the financial position of the BCC so that it can ensure the full implementation of monetary policy. Accordingly, a study on the

recapitalization of the BCC will be undertaken by end-January 2004. The purpose of this study will be to determine the stock of interest-bearing government securities that the state will make available to the BCC in order to endow it with sufficient resources to cover its operating expenditures as well as its outlays to conduct monetary policy and issue currency.

51. In the area of banking supervision, although a number of key measures have already been adopted with assistance from an IMF expert, the BCC intends to follow up on the recommendations of the recent IMF technical assistance mission: (i) the explicit assignment of supervisory personnel to one of the two functions (on-site inspection or off-site supervision); (ii) computerization of supervision; (iii) strengthening of the capacity for off-site supervision through a complete modernization of the existing tools; (iv) implementation of an audit plan for on-site inspections; and (v) adoption of a new chart of accounts and the electronic transmission of periodic statements by commercial banks.

52. Concerning the restructuring of commercial banks, by end-June 2004 the BCC will conclude restructuring agreements based on the plans that would be finalized by end-January 2004 by those commercial banks deemed to be viable on the basis of the audits, with an implementation timetable, as well as performance indicators. Moreover, the BCC will revoke the licenses of those banks deemed to be nonviable. Independent liquidators, financed by the World Bank, will be appointed for the Banque Concolaise du Commerce Extérieur (BCCE), the Banque du Crédit Agricole (BCA) and the Nouvelle Banque de Kinshasa (NBK) before end-March 2004, subject to completion of the recruitment process by BCECO, to promptly carry out the liquidation. Moreover, we sincerely hope that the program for the separation of the staff of these three banks will be completed with World Bank financing.

C. Structural and Sectoral Reforms

Governance, combating corruption, and institutional reform

53. **The audit of the payroll system**, which is expected to take three to four months, will begin in January 2004 and should be completed by end-April 2004. The purpose of the audit will be to establish a new, secure, and closed system, which is expected to become operational—at least in its initial, temporary, configuration—on January 1, 2005.

54. **Concerning the civil servants' census**, the main technical partner plans to launch an international call for bids to recruit the firm responsible for conducting the census, with a view to starting the work on June 1, 2004. The fieldwork is scheduled for September-November 2004. Based on the results of the nationwide census, a new effort will be made to eliminate "ghost workers," a list will be compiled of active personnel eligible for retirement, new personnel and payroll files will be created, and an in-depth civil service reform will be prepared.

55. **The retirement program** will be carried out in two phases. Initially, severance payments will have to be made to the approximately 10,000 employees who have already retired but who, owing to a lack of financing, have not yet received their severance pay. We expect to disburse these payments no later than April 1, 2004, subject to obtaining World

Bank financial assistance. In the second phase, which can begin only by the end of 2004, the retirement of employees identified in the census will begin. This phase will require the definition and adoption of a methodology for managing the retirement program, including separation procedures and, possibly, a phased approach to ensure the proper functioning of departments, at least insofar as key managerial positions and the social sectors are concerned. The retirement program will start with the departure of line staff.

Private sector development and public enterprise reform

56. **Private sector development.** Efforts will continue to focus on improving the business and investment climate. In the area of the judiciary, a training program for judges, assistant judges (*assesseurs*), and court clerks will be undertaken between January and May 2004, with World Bank financing. The government is committed to quickly establishing commercial courts and finding the office space necessary for their proper functioning. The work related to the reform and modernization of the legal framework will continue, given the DRC's intention to join the Organization for the Harmonization of Business Law in Africa (OHADA) in the near future. In the area of taxation, the emphasis will be on the finalization, by end-June 2004, of an action plan for the reform of direct and indirect corporate taxation, to be implemented in stages, beginning July 1, 2004.

57. **Public enterprise reform** comprises four main objectives in 2004. First, the submission by end-December 2004 to parliament of a reform of the legal and regulatory framework governing public enterprises (general provisions applicable to public enterprises, the law on public institutions, and the law governing divestment by the state of public enterprises and the various forms of private sector participation in, and/or partnerships with, public enterprises). Second, the sectoral groups to develop the public enterprise reform process in priority sectors should become operational shortly. Third, action plans will be prepared in 2004 for a number of key enterprises, particularly GECAMINES, the Régie des Voies Aériennes (RVA), the Société Nationale des Chemins de Fer (SNCC), the Lignes Aériennes Congolaises (LAC), Cititrain, the Office Congolais des Postes et Télécommunications (OCPT) and the Société Nationale d'Electricité (SNEL). In this regard, the work related to GECAMINES and the RVA is already well advanced. Moreover, a plan to restructure and reorganize COHYDRO will be prepared by end-June 2004. Fourth, we plan to launch a call for bids to conduct a strategic audit of the Public Enterprise Council (Conseil Supérieur du Portefeuille) by end-March 2004, which would be completed by end-June 2004 and would aim at restructuring the council and strengthening the government's capacity to monitor and supervise public enterprises. We also expect to make severance payments by June 2004, with World Bank financing, in order to facilitate voluntary departures during the restructuring of the OCPT and the separation of employees during the liquidation of the NBK, BCCE and BCA banks.

58. The government plans to request assistance from the international community to define a sectoral approach to combat fraud in the diamond sector. The tax agreements (*conventions*) between the government on the one hand, and MIBA and Sengamines on the other, will be revised, as well as a contract between MIBA and a foreign private corporation.

Financial support will also be requested for the selection by end-March 2004 of an international firm to conduct an external audit of MIBA.

59. **Forestry sector.** Three types of action are envisaged by end-June 2004. First, it is expected that the preparatory work for adjusting the area tax (*taxe de superficie*) and for reducing export duties as well as quasi taxation in the timber transportation system will be completed shortly, followed by implementation of the relevant measures in early January 2004. Second, we intend, by end-March 2004, to publish a report on the collection of the area tax in 2003 and to strictly enforce the contractual provisions requiring cancellation of contracts of those companies that have not paid that tax. Third, we plan to launch a program for converting recently canceled contracts into "sustainable-management concessions", in accordance with the new forestry code. This program will be carried out with the help of an independent observer and completed within the next 12 months. Expired or noncomplying contracts will be canceled, and the new list of concessions will be published. The government will continue to apply the moratorium on all concessions allocated by mutual agreement (*allocation de gré à gré*). It will also launch the Program to Secure Forestry Revenue, to be managed jointly by the Ministry of Finance and the Ministry of the Environment. Forty percent of the area tax collections will be transferred to local government entities. Regulations implementing the new forestry code (awarding of concessions, management and development, and combating illegal operations) will be adopted. Finally, the draft Law on the Conservation of Nature will be submitted to parliament.

60. **Mining sector.** The reform of the legal and institutional framework of the mining sector will focus on (i) widespread dissemination of the mining code; (ii) restructuring of the mining registry; and (iii) creation of the new GECAMINES. Concerning the first point, the government will give wide publicity to the legal texts and provide training concerning the new procedures by end-March 2004. Second, by end-March 2004 the government will begin restructuring the management of the mining registry and introduce financial management and audit procedures, as well as procedures to monitor and assess registry performance, with a view to preserving the credibility of the new legal framework for the mining sector and the integrity of the mining administration. Also, a Commission for the Validation of Mining Titles will be established in January 2004 to analyze mining property disputes. Its first task will be to regularize existing mining titles, the objective being to resolve at least 85 percent of existing disputes by end-June 2004.

61. **Restructuring of GECAMINES.** The experts selected to examine the partnership agreements and prepare the by-laws of the new company are scheduled to begin their work in January 2004 and to present their final reports by end-June 2004. This should allow for the finalization of the government's restructuring strategy sometime between July and September 2004 and for submission of the strategy to parliament by end-December 2004, in the context of a law on the restructuring of GECAMINES. This law will define the action plan, as well as the implementing institutions, and would also authorize the sale or partnership holding of the company's assets. We believe that this approach, including the adoption of a special law, is the best way to ensure the successful restructuring of GECAMINES.

62. **Agriculture and rural development.** The main rural development objectives for the 2004-05 period include improving food security for rural populations and formulating a medium- and long-term rural development strategy aimed at sustaining the growth of agricultural production and incomes. This strategy is a benchmark for the HIPC Initiative completion point and will encompass the two main goals of the development of a rural strategy: (i) revival of the main agro-industrial sectors (palm oil, cotton, cocoa, café robusta and café arabica, and rubber), and (ii) development of small and medium-sized private enterprises. It is expected that the relevant studies will be launched with World Bank assistance in the first quarter of 2004, together with a study on the regulatory and fiscal environment in which agro-industries operate. The results of these studies, as well as the experience gleaned from activities related to the revival of production and the improvement of community infrastructures, will serve as the basis for the formulation of a rural development strategy.

63. In addition, the program to rehabilitate nearly 5,000 kilometers of rural roads by June 2005 will contribute to the development of productive areas and facilitate the marketing of agricultural products. The first phase of the program, which is supported by the World Bank and covers approximately 1,200 kilometers, is scheduled to begin by February 2004, a few months behind schedule. The civil engineering work (rebuilding of bridges) will continue. The authorities also plan to establish a market price information system for agricultural products, which should be operational by end-June 2004.

64. **Infrastructure (roads, energy, electricity, and water).** For the EMRRP, the work plan through 2005 can be summarized as follows. Concerning **roads**, work on approximately 3,000 kilometers of roads is expected to begin in July 2004, following the selection of contractors in an international bidding procedure, and should be completed two years later. **Work in other transport sectors** (ports, rivers, airports, and railroads) could begin as early as April 1, 2004 and should be completed within two years. **In the electricity sector**, an important study on the equipment of SNEL facilities is already under way and will last 11 months. Emergency work to ensure a reliable production capacity of 600 megawatts could begin in the first half of 2004, but the major tasks involved in rehabilitating the system will begin only in 2005 and will end in 2008. Concerning **drinking water**, invitations to bid have been launched for various projects. Work will start in April 2004, following the selection of the relevant enterprises, and is expected to continue for approximately two years. Finally, **in the urban sector**, the renewal of Kasa-Vubu and the work to combat erosion in Selembao is scheduled to begin in early 2004 and be completed by end-2005.

65. In 2004, the **legal and regulatory framework** governing activities in the energy sector (oil, electricity, and water) will be revised. To that end, we have already held a round table on water and plan to do the same for the electricity sector in January 2004. Working from these bases, various codes will be submitted to parliament by end-2004.

Social Sectors

66. With World Bank assistance, major reforms in the social sectors (health, education, and welfare) are planned between now and 2005, encompassing the following: (i) sectoral studies and the preparation of quantified sectoral strategies aimed at progressing toward achievement of the Millennium Development Goals (MDGs) by 2015; and (ii) the rehabilitation of infrastructure.
67. **Health.** By March 2004, the stepped-up implementation of eight MOD contracts is expected to improve perceptibly the delivery of basic services to the population. The final version of the RESP, to be prepared with World Bank assistance, will be available in October 2004 and will serve as the basis for discussions on the sectoral strategy, which is a benchmark for the HIPC Initiative completion point.
68. **Education.** The action plan for the Education for All program will be presented to the international community in March 2004. The final version of the RESEN should be available by August 2004 and will be used to prepare a sectoral strategy (also a benchmark for the HIPC Initiative completion point).
69. **Welfare.** A sectoral welfare strategy will be defined by end-June 2004. An audit of the National Social Security Institute will be undertaken with assistance from the international community.
70. **Poverty reduction strategy.** The action plan has been changed to ensure completion of the final PRSP by the established deadline (August 2005). The participatory consultations will take place from January through May 2004. The reports and feed-back for technical ministries and communities on sectoral and community consultations will be drafted in June and July 2004. Concurrently with the qualitative poverty survey, to be organized on a participatory basis, the authorities plan to conduct a survey on household budgets, employment, and the informal sector (applying the 1-2-3 model) in both urban and rural environments. The survey will be carried out jointly by the Poverty Reduction Strategy Technical Committee (CTSRP) and the National Statistics Institute (INS) in order to give the latter a pivotal role in the collection, analysis, and dissemination of data on poverty. The thematic groups and sectoral ministries will prepare their contributions to the PRSP by end-September 2004. Based on the poverty survey, to be completed in December 2004, the report will be finalized by end-February 2005 and then sent back for comments to the sectoral ministries, provinces, communities, and other partners by May 2005. A preliminary version of the PRSP should be available in April 2005. It could be sent for comments to the national and international partners as early as June 2005. This schedule would allow for the completion of the final version sometime between July and August 2005, before it is submitted to the government in August 2005. It is expected that the final document will be adopted by end-October 2005.
71. **Statistical apparatus.** The government will strengthen its statistical apparatus, particularly the INS. It will follow the recommendations of the last IMF technical assistance

mission. In particular: (i) the government will adopt a law on statistical information, including the role of the INS, in all its aspects; (ii) to strengthen and enhance the efficiency of the agencies responsible for the supervision and the implementation of fiscal reforms, the government will take the necessary steps to ensure effective coordination between the work of the Commission on the Government Flow-of-Funds Table (TOFE) and the Technical Committee for Reform Monitoring, and will ensure more regular cooperation among the Public Debt Management Office (OGEDep), the Treasury Management and Payment Authorization Directorate (DTO), and the BCC in order to facilitate the preparation of financial and monetary statistics; (iii) for monetary statistics, the central bank and commercial banks will finish preparing the new charts of account, which, when completed, will be used to classify monetary data according to the criteria of residence, economic sector, and type of financial instrument; (iv) to resume the production of reliable foreign trade statistics on a regular basis, the central bank will assume responsibility for initiating the work of the Technical Committee for Foreign Trade Statistics Management (CTSC) envisaged in the interministerial decree of February 16, 2001; and (v) in view of the future importance of sociodemographic statistics, especially in the context of developing and monitoring the poverty reduction strategy, the government will issue a decree creating a Sociodemographic Statistics Coordination and Monitoring Committee, the work of which will be supervised by the INS with the participation of the social ministries and other interested national institutions, particularly the permanent secretariat responsible for preparing the PRSP.

IV. PROGRAM MONITORING, PRIOR ACTIONS, AND PERFORMANCE CRITERIA AND INDICATORS

72. The interministerial committee in charge of monitoring the programs agreed with the Bretton Woods institutions (CISPI), which is chaired by the Minister of Finance, and the interministerial committee responsible for implementing the poverty reduction strategy, which is chaired by the Minister of Planning, will continue to implement the Government Economic Program and the poverty reduction strategy. The two interministerial committees will continue to report to the Economic and Financial Committee, which is responsible for the coordination of the two programs. The latter will, in particular, ensure establishment of the rule of law, including the strict enforcement of all applicable codes and related legislative texts, and will ensure that any new agreement or contract with the government (or bearing its guarantee), including public enterprises, is consistent with them. The same will be true for any loan contracted (or guaranteed) by the government, the terms of which will incorporate the concessionality defined in the technical memorandum of understanding. The circular stipulating that any new external borrowing must be approved in advance by the Minister of Finance (with prior notice to the BCC and the OGEDep) will be widely disseminated, particularly among the sectoral ministries and public enterprises. All new external debt contracted (or guaranteed) by the government will be recorded by OGEDep and the BCC.

73. To ensure the success of the program, the government will implement the following prior action: submission to parliament of the draft 2004 budget law, reflecting the broad aggregates agreed with IMF staff and presented according to the new budget classification (January 2004) (Appendix I, Table 5B).

74. Program implementation in 2004 will continue to be monitored by means of semiannual reviews, semiannual quantitative performance criteria (March and September 2004), and quarterly benchmarks (for December 2003 and 2004). As shown in Table 4B of this Appendix and defined in the technical memorandum of understanding, this involves the following: (i) a floor on the net foreign assets of the BCC; (ii) a ceiling on the net domestic assets of the BCC; (iii) a ceiling on net bank credit to the government; (iv) a ceiling on BCC credit to nonfinancial public enterprises; (v) a ceiling on BCC credit to the nonfinancial private sector; (vi) a ceiling on new nonconcessional external debt (with a grant element of less than 35 percent) contracted or guaranteed by the government with maturities of more than one year (excluding IMF credit); (vii) 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 (viii) no accumulation of civil service, military, or BCC arrears on wages (including all forms of compensation). The program will include three continuous performance criteria: (i) the BCC will not finance any budgetary expenditure not previously authorized by the Ministry of Finance; (ii) the BCC will not purchase domestic and foreign currency banknotes on the market at a premium against bank money payments; and (iii) 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 SDR 8 million in its accounts with the IMF to ensure the regular payment of its obligations to the Fund.

75. The program also includes a structural performance criterion for end-March 2004 (Table 5B), namely, adoption by the BCC of the list of commercial banks to be liquidated or restructured. The structural benchmarks for 2004 include the following:

- (i) submission to parliament of the draft law on the harmonized classification rationalizing the number of taxes collected by the DGRAD (February 2004);
- (ii) effective implementation of the new expenditure procedures, from commitment to payment (February 2004);
- (iii) submission to parliament of the new customs code (March 2004);
- (iv) selection of an international firm to conduct the external audit of MIBA (March 2004);
- (v) finalization of the plans for the reorganization of commercial banks considered viable and the putting into liquidation of nonviable commercial banks (June 2004);
- (vi) finalization of the COHYDRO reorganization plan (June 2004);
- (vii) completion of the strategic audit of the Public Enterprises Council (Conseil Supérieur du Portefeuille) (June 2004);
- (viii) adoption of a double entry government accounting framework (June 2004);

(ix) finalization of the Law Governing Public Institutions and of the Law Governing Divestment by the State of Public Enterprises (December 2004); and

(x) reorganization of the procedures for paying civil servants, based on the recommendations of the external audit of the payroll system (December 2004).

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2001–06

	2001	2002		2003		2004		2005		2006
		EBS/03/98	Est.	EBS/03/98	Rev. Prog.	EBS/03/98	Prog.	EBS/03/98	Proj.	Proj.
(Annual percentage change)										
Output and prices										
Real GDP	-2	3	3	5	5	6	6	7	7	7
GDP deflator	384	27	32	14	12	8	5	6	5	5
Consumer prices, annual average	357	25	25	14	13	7	6	5	5	5
Consumer prices, end of period	135	16	16	8	4	6	6	5	5	5
External sector										
Exports, f.o.b. (in U.S. dollar terms)	-1	24	22	6	16	14	11	16	11	11
Imports, f.o.b. (in U.S. dollar terms)	19	31	35	22	25	23	27	20	15	11
Export volume	-5	15	22	7	11	14	12	9	12	12
Import volume	25	30	31	12	19	23	25	18	14	10
Terms of trade	9	6	4	-9	-2	0	-3	6	-2	-2
Nominal effective exchange rate 1/	-84	-71	-71	...	...	...	...	...	...	...
Real effective exchange rate 1/	-6	-58	-58	...	...	...	...	...	...	...
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)										
Money and credit										
Broad money	217	26	26	20	31	...	25	...	...	...
Net foreign assets	-695	10	10	16	11	...	23	...	...	...
Net domestic credit	31	-16	-13	8	18	...	6	...	...	...
Net credit to the government	-7	-17	-14	0	11	...	0	...	...	...
Credit to the private sector	37	1	1	8	8	...	6	...	...	...
Credit to the parastatals	0	0	0	0	0	...	0	...	...	...
Central bank refinance rate (level in percent) 2/	140	24	24	25	15	...	...	...	...	...
(In percent of GDP)										
Central government finances										
Revenue (excluding grants)	6.5	7.9	7.9	8.3	8.2	9.0	9.0	10.1	10.1	11.0
Grants (excluding humanitarian aid)	0.0	0.4	0.4	2.6	1.9	3.4	4.3	5.3	6.8	8.8
Expenditure 3/	8.2	10.4	10.3	15.2	13.2	18.6	17.6	20.6	20.2	21.5
Domestic primary cash balance 4/	0.6	1.4	1.4	1.7	0.5	3.0	2.1	4.5	3.3	4.7
Overall balance (commitment basis)	-1.7	-2.0	-2.0	-4.4	-3.1	-6.3	-4.3	-5.2	-3.3	-1.7
Overall consolidated cash balance 5/	0.6	0.0	-0.1	-1.4	-1.4	-3.7	-3.0	-3.4	-1.5	0.3
Investment and saving										
Gross national savings	0.4	11.1	11.3	13.7	11.1	14.6	13.3	16.9	15.8	18.9
Government	-1.6	1.3	1.3	3.1	-0.2	4.4	2.7	7.0	6.3	9.8
Nongovernment	2.0	9.8	10.0	10.6	11.2	10.2	10.6	9.9	9.5	9.1
Gross domestic savings	3.2	4.9	4.1	5.8	5.2	7.6	5.9	8.9	7.4	9.0
Government	-0.2	1.1	1.1	2.1	1.0	2.9	1.5	3.8	2.7	4.1
Nongovernment	3.4	3.8	3.0	3.7	4.2	4.7	4.5	5.1	4.7	4.9
Investment	5.2	9.0	9.0	13.5	12.1	18.1	17.4	21.0	20.6	22.5
Government 6/	0.1	1.0	1.0	4.0	2.6	7.6	6.9	10.0	9.6	11.5
Nongovernment 7/	5.1	8.0	8.0	9.5	9.5	10.5	10.5	11.0	11.0	11.0

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2001–06 (concluded)

	2001	2002		2003		2004		2005		2006
	EBS/03/98	Est.	EBS/03/98	Rev.	Prog.	EBS/03/98	Prog.	EBS/03/98	Proj.	Proj.
(In millions of U.S. dollars, unless otherwise indicated)										
Balance of payments										
Exports of goods and nonfactor services	961	1,189	1,177	1,265	1,384	1,437	1,530	1,659	1,698	1,881
Imports of goods and nonfactor services	1,067	1,415	1,447	1,686	1,772	2,063	2,232	2,448	2,574	2,858
External current account, including grants, before debt relief (in percent of GDP)	-4.8	-2.9	-2.7	-3.8	-2.0	-7.7	-6.0	-8.6	-7.6	-7.6
External current account, excluding grants, before debt relief (in percent of GDP)	-10.6	-9.4	-10.2	-11.7	-10.7	-14.8	-14.7	-16.1	-16.8	-16.7
External current account, including grants, after debt relief (in percent of GDP) 8/	-4.8	2.1	2.3	0.1	-1.1	-3.5	-4.1	-4.1	-4.7	-3.5
Gross official reserves (end of period)	22	75	75	191	157	254	272	341	382	479
Gross official reserves (weeks of non-aid-related imports of goods and nonfactor services)	1.1	3.6	3.0	8.0	5.3	9.1	8.2	10.5	10.7	12.1
External public debt										
Total stock, including IMF 9/	13,280	10,434	10,659	8,728	10,633	9,082	10,714	9,474	10,970	11,055
Net present value (NPV) of debt 10/	12,504	7,163	8,404	7,456	7,900	7,838	8,166	8,131	8,372	8,388
Scheduled debt service 8/	728	35	34	180	140	219	140	207	205	314
In percent of exports of goods and nonfactor services	76	3	3	14	10	15	9	12	12	17
In percent of government revenue	218	8	7	30	25	30	17	20	18	22
Exchange rate										
Congo francs per U.S. dollar (end of period) 11/	312	382	382	...	373	...	...	...	...	...
Nominal GDP (in billions of Congo francs)	1,407	1,915	1,922	2,298	2,270	2,627	2,537	2,989	2,851	3,189

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.

2/ For 2003, as of end-September.

3/ Includes interest due on external debt (including 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 Initiative). Before 2002, excludes 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/ From 2003 onward, after debt relief from bilateral creditors and HIPC Initiative assistance.

9/ End-of-period debt stock, including arrears and before HIPC Initiative assistance. Current estimates do not assume an up-front reduction in the stock of debt associated with the provision of future debt relief.

10/ Estimates and projections based on end-2002 debt sustainability analysis (DSA). Before rescheduling and debt relief.

11/ For 2003, as of end-December.

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

(In millions of Congo francs, unless otherwise indicated)

	Jan.-Mar.		In percent of GDP	Apr.-Jun.		Jan.-Jun.		Jul.-Sep.		Jan.-Sep.			Oct.-Dec.		Total 2003				
	EBS/03/98	Act.		EBS/03/98	Act.	EBS/03/98	Act.	EBS/03/98	Act.	EBS/03/98	In percent of GDP	Act.	In percent of GDP	EBS/03/98	Rev. Prog.	EBS/03/98	In percent of GDP	Rev. Prog.	In percent of GDP
	Total revenue and grants	46,720	49,502	2.2	45,087	48,153	91,807	97,655	74,192	52,911	165,999	7.2	150,566	6.6	83,088	78,681	249,087	10.8	229,247	10.1
Total revenue	40,954	40,954	1.8	39,754	38,854	80,708	79,808	51,964	47,287	132,672	5.8	127,095	5.6	56,915	58,761	189,587	8.3	185,856	8.2
Customs and excise (OFIDA)	14,097	14,097	0.6	14,809	13,966	28,906	28,063	25,585	22,363	54,491	2.4	50,426	2.2	30,065	26,360	84,556	3.7	76,786	3.4
Direct and indirect taxes (DGC)	11,785	11,785	0.5	10,142	9,267	21,927	21,052	14,778	13,292	36,705	1.6	34,344	1.5	15,083	16,725	51,788	2.3	51,069	2.2
DGRAD (including revenue from public enterprises)	4,631	4,631	0.2	4,405	3,943	9,036	8,574	4,088	3,813	13,124	0.6	12,387	0.5	4,200	3,106	17,324	0.8	15,493	0.7
GECAMINES	0	0	0.0	0	0	0	0	250	0	250	0.0	0	0.0	250	0	500	0.0	0	0.0
MIBA	670	670	0.0	777	334	1,447	1,004	777	0	2,223	0.1	1,004	0.0	777	2,000	3,000	0.1	3,004	0.1
Petroleum	7,823	7,823	0.3	9,077	10,765	16,900	18,588	6,291	7,650	23,192	1.0	26,238	1.2	6,390	10,470	29,582	1.3	36,708	1.6
Production	6,382	6,382	0.3	6,204	8,363	12,586	14,745	6,291	6,953	18,877	0.8	21,698	1.0	6,390	10,464	25,267	1.1	32,162	1.4
Distribution	1,441	1,441	0.1	2,874	2,403	4,315	3,844	0	697	4,315	0.2	4,541	0.2	0	6	4,315	0.2	4,547	0.2
Other	76	76	0.0	124	351	200	427	150	169	350	0.0	596	0.0	150	100	500	0.0	696	0.0
Off-budget revenue	1,872	1,872	0.1	420	228	2,292	2,100	45	0	2,337	0.1	2,100	0.1	0	0	2,337	0.1	2,100	0.1
Total grants	5,766	8,548	0.4	5,334	9,299	11,100	17,847	22,228	5,624	33,327	1.5	23,471	1.0	26,173	19,920	59,500	2.6	43,391	1.9
Project grants	5,766	8,548	0.4	5,334	9,299	11,100	17,847	16,781	5,624	27,881	1.2	23,471	1.0	21,953	6,278	49,833	2.2	29,749	1.3
HIPC debt relief	0	0	0.0	0	0	0	0	5,447	0	5,447	0.2	0	0.0	4,220	13,642	9,667	0.4	13,642	0.6
Total expenditure 1/	48,608	52,350	2.3	49,084	76,103	97,691	128,453	96,055	60,564	193,746	8.4	189,017	8.3	87,749	72,851	281,496	12.3	261,868	11.5
Current expenditure	33,352	33,352	1.5	34,881	50,246	68,233	83,598	65,044	42,143	133,277	5.8	125,741	5.5	35,150	52,540	168,427	7.3	178,281	7.9
Wages	12,169	12,169	0.5	11,469	10,225	23,638	22,394	11,786	14,153	35,425	1.5	36,547	1.6	14,532	14,964	49,957	2.2	51,511	2.3
Military and police	5,139	5,139	0.2	4,530	3,949	9,669	9,088	4,530	5,679	14,200	0.6	14,767	0.7	4,530	6,997	18,730	0.8	21,764	1.0
Civilians	7,030	7,030	0.3	6,939	6,276	13,969	13,306	7,256	8,473	21,225	0.9	21,779	1.0	10,002	7,967	31,227	1.4	29,746	1.3
Interest payments	1,038	1,038	0.0	7,419	9,482	8,457	10,520	24,675	1,943	33,132	1.4	12,463	0.5	3,359	17,410	36,490	1.6	29,873	1.3
External debt (interest payment after debt relief) 2/	861	861	0.0	7,211	9,210	8,072	10,071	24,467	1,432	32,539	1.4	11,503	0.5	3,151	17,218	35,690	1.6	28,721	1.3
Domestic debt (interest payment)	177	177	0.0	208	272	385	449	208	511	592	0.0	960	0.0	208	192	800	0.0	1,152	0.1
Other current expenditure	18,501	18,501	0.8	13,483	28,414	31,984	46,915	14,158	15,597	46,142	2.0	62,512	2.8	14,158	14,379	60,300	2.6	76,891	3.4
Institutions	5,826	5,826	0.3	3,425	10,541	9,251	16,367	3,875	5,207	13,125	0.6	21,574	1.0	3,875	4,805	17,000	0.7	26,379	1.2
Ministries	9,943	9,943	0.4	4,202	10,713	14,145	20,656	4,427	5,719	18,573	0.8	26,375	1.2	4,427	5,566	23,000	1.0	31,941	1.4
Centralized payments (utilities)	1,467	1,467	0.1	4,511	4,998	5,978	6,465	4,511	3,077	10,489	0.5	9,542	0.4	4,511	2,552	15,000	0.7	12,094	0.5
Provinces	1,265	1,265	0.1	1,345	2,161	2,610	3,426	1,345	1,594	3,955	0.2	5,020	0.2	1,345	1,456	5,300	0.2	6,476	0.3
Transfers and subsidies	1,644	1,644	0.1	2,510	2,125	4,154	3,769	14,425	10,450	18,579	0.8	14,219	0.6	3,101	5,787	21,680	0.9	20,006	0.9
MIBA and GECAMINES	0	0	0.0	0	0	0	0	11,620	8,412	11,620	0.5	8,412	0.4	0	3,148	11,620	0.5	11,560	0.5
Transfers to public agencies and budgets annexes	0	0	0.0	503	414	503	414	503	77	1,007	0.0	491	0.0	503	157	1,510	0.1	648	0.0
Retrocessions to revenue- collecting agencies	1,644	1,644	0.1	2,007	1,711	3,650	3,355	2,302	1,961	5,952	0.3	5,316	0.2	2,597	2,482	8,550	0.4	7,798	0.3
Off-budget expenditure	1,872	1,872	0.1	420	228	2,292	2,100	45	0	2,337	0.1	2,100	0.1	0	0	2,337	0.1	2,100	0.1
Capital expenditure	6,564	10,307	0.5	11,286	14,274	17,850	24,581	28,069	11,556	45,919	2.0	36,137	1.6	40,836	22,371	86,755	3.8	58,508	2.6
Foreign-financed investment	4,514	8,179	0.4	8,086	8,841	12,601	17,020	24,969	8,038	37,570	1.6	25,058	1.1	37,185	18,273	74,755	3.3	43,331	1.9
Congoese-financed investment	2,050	2,129	0.1	3,200	5,433	5,250	7,562	3,100	3,518	8,350	0.4	11,080	0.5	3,651	4,098	12,000	0.5	15,177	0.7
Net lending	0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0	0	0	0	0.0	0	0.0
Other operations	33	33	0.0	156	56	189	89	156	0	344	0.0	89	0.0	156	0	500	0.0	89	0.0
HIPC-related expenditure	0	0	0.0	0	0	0	0	400	0	400	0.0	0	0.0	9,267	0	9,667	0.4	0	0.0

Table 2A. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2003 (concluded)

(In millions of Congo francs, unless otherwise indicated)

	Jan.-Mar.		Apr.-Jun.		Jan.-Jun.		Jul.-Sep.		Jan.-Sep.			Oct.-Dec.		Total 2003					
	EBS/03/98	Act.	In percent of GDP	EBS/03/98	Act.	EBS/03/98	Act.	EBS/03/98	Act.	EBS/03/98	In percent of GDP	Act.	In percent of GDP	Rev. Prog.	EBS/03/98	In percent of GDP	Rev. Prog.	In percent of GDP	
Repayment of arrears	2,120	2,120	0.1	563	3,560	2,683	5,680	563	1,487	3,247	0.1	7,167	0.3	563	724	3,810	0.2	7,891	0.3
Central Bank of the Congo (BCC) treasury deficit	4,667	4,666	0.2	1,778	7,739	6,445	12,405	1,778	5,378	8,222	0.4	17,783	0.8	1,778	-2,783	10,000	0.4	15,000	0.7
Unconsolidated domestic primary balance (cash basis)	2,566	2,487	0.1	7,953	-11,187	10,519	-8,700	7,731	2,082	18,249	0.8	-6,618	-0.3	20,755	18,810	39,004	1.7	12,191	0.5
Consolidated primary balance (cash basis)	-850	-1,810	-0.1	3,423	-18,468	2,573	-20,278	2,812	-5,710	5,385	0.2	-25,988	-1.1	-1,303	23,240	4,082	0.2	-2,749	-0.1
Unconsolidated balance (cash basis)	2,779	1,818	0.1	-2,219	-20,211	561	-18,393	-20,085	-2,275	-19,525	-0.8	-20,668	-0.9	-2,884	3,047	-22,408	-1.0	-17,621	-0.8
Consolidated balance (cash basis)	-1,888	-2,848	-0.1	-3,996	-27,950	-5,884	-30,798	-21,863	-7,653	-27,747	-1.2	-38,451	-1.7	-4,661	5,830	-32,408	-1.4	-32,621	-1.4
Total financing	1,888	2,848	0.1	3,996	27,950	5,884	30,798	21,863	7,653	27,747	1.2	38,451	1.7	4,661	-5,830	32,408	1.4	32,621	1.4
Nonbank (certificates of deposit net)	-3,225	-344	0.0	960	0	-2,265	-344	960	0	-1,304	-0.1	-344	0.0	960	0	-344	0.0	-344	0.0
BCC and other banking system 3/	-6,584	-6,584	-0.3	2,680	24,634	-3,904	18,050	26,443	4,520	22,539	1.0	22,570	1.0	-22,540	-13,026	0	0.0	9,544	0.4
Foreign financing	11,697	11,697	0.5	356	10,024	12,053	21,721	-5,541	-5,894	6,512	0.3	15,827	0.7	26,241	6,484	32,753	1.4	22,311	1.0
Nondomestic nonresident bank	0	0	0.0	0	0	0	0	0	0	0	0.0	0	0.0	0	0	0	0.0	0	0.0
Amortization (net payment) 2/	-2,549	-2,549	-0.1	-9,053	-8,795	-11,602	-11,344	-25,500	-6,521	-37,102	-1.6	-17,865	-0.8	-11,414	-21,511	-48,516	-2.1	-39,376	-1.7
Additional financing	14,246	14,246	0.6	9,409	18,819	23,655	33,065	19,959	627	43,614	1.9	33,692	1.5	37,654	27,995	81,268	3.5	61,687	2.7
Project loans	3,253	3,253	0.1	2,753	0	6,006	3,253	8,188	627	14,194	0.6	3,880	0.2	10,728	11,995	24,922	1.1	15,875	0.7
Budget loans	10,993	10,993	0.5	6,656	18,819	17,649	29,812	11,771	0	29,420	1.3	29,812	1.3	26,926	16,000	56,346	2.5	45,812	2.0
Discrepancy	0	-1,921	-0.1	0	-6,708	0	-8,629	0	9027	0	0.0	398	0.0	0	712	0	0.0	1,110	0.0

Sources: Congolese authorities; and staff estimates and projections.

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

2/ Includes deposits of HIPC resources at the BCC in November and December.

3/ Net banking system credit to the government plus treasury balance of the central bank. End-September numbers are based on the audited accounts of the BCC, including an amount of about CGF 1.5 billion (0.1 percent of GDP) of accounting corrections suggested by the audit and not included in the monetary survey at end-September 2003.

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2004

(In millions of Congo francs, unless otherwise indicated)

	Jan. Prog.	Feb. Prog.	Mar. Prog.	Jan.-Mar. Prog.	Apr. Prog.	May Prog.	Jun. Prog.	Apr.-Jun. Prog.	Jul. Prog.	Aug. Prog.	Sep. Prog.	Jul.-Sep. Prog.	Oct. Prog.	Nov. Prog.	Dec. Prog.	Oct.-Dec. Prog.	Total 2004 Prog.	In percent of GDP
Total revenue and grants	26,716	23,275	26,125	76,116	25,496	25,155	24,931	75,582	33,632	28,698	29,151	91,481	29,522	32,940	29,598	92,060	335,238	13.2
Total revenue	16,705	16,280	18,739	51,723	17,758	17,104	18,007	52,868	21,654	20,290	19,384	61,327	19,179	21,852	20,124	61,155	227,073	9.0
Customs and excise (OFIDA)	6,842	7,059	7,819	21,720	8,362	8,688	9,448	26,499	10,209	11,186	9,448	30,843	9,774	9,774	9,991	29,540	108,602	4.3
Direct and indirect taxes (DGC)	5,402	4,289	5,451	15,141	4,256	4,247	4,325	12,829	6,767	4,513	5,177	16,458	5,231	7,654	5,687	18,572	63,000	2.5
DGRAD (including revenue from public enterprises)	1,564	2,025	2,555	6,145	2,217	1,237	1,294	4,748	1,731	1,634	1,794	5,159	1,201	1,443	1,457	4,101	20,153	0.8
GECAMINES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
MIBA	417	417	417	1,250	417	417	417	1,250	417	417	417	1,250	417	417	417	1,250	5,000	0.2
Petroleum	2,481	2,489	2,497	7,467	2,506	2,514	2,522	7,542	2,531	2,539	2,547	7,617	2,556	2,564	2,572	7,692	30,319	1.2
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Total grants	10,012	6,995	7,386	24,393	7,738	8,051	6,924	22,714	11,978	8,408	9,768	30,154	10,343	11,089	9,474	30,905	108,165	4.3
Project grants	3,770	4,433	4,244	12,446	4,258	4,272	4,369	12,899	5,693	5,794	6,563	18,050	6,751	6,815	6,872	20,439	63,834	2.5
HIPC debt relief	6,242	2,562	3,142	11,946	3,480	3,779	2,555	9,815	6,285	2,614	3,205	12,104	3,591	4,273	2,602	10,466	44,331	1.7
Total expenditure 1/	30,847	29,146	32,795	92,789	32,600	33,839	34,526	100,965	36,857	34,094	37,990	108,942	35,672	36,035	37,823	109,529	412,225	16.3
Current expenditure	18,500	15,373	17,469	51,342	16,750	17,502	17,059	51,311	17,573	14,711	16,208	48,492	15,042	16,083	15,625	46,750	197,895	7.8
Wages	5,987	5,987	5,987	17,961	6,654	6,654	6,654	19,961	4,956	4,956	4,956	14,867	4,956	4,956	4,956	14,867	67,655	2.7
Military and police	2,591	2,591	2,591	7,773	2,591	2,591	2,591	7,773	1,616	1,616	1,616	4,848	1,616	1,616	1,616	4,848	25,241	1.0
Civilians	3,396	3,396	3,396	10,188	4,063	4,063	4,063	12,188	3,340	3,340	3,340	10,019	3,340	3,340	3,340	10,019	42,414	1.7
Interest payments	4,570	1,564	2,921	9,055	1,974	2,793	2,232	6,998	4,658	1,593	2,975	9,226	2,035	3,003	2,285	7,323	32,603	1.3
External debt (interest payment after debt relief) 2/	4,403	1,398	2,754	8,555	1,807	2,626	2,065	6,498	4,492	1,426	2,809	8,726	1,868	2,837	2,119	6,823	30,603	1.2
Domestic debt (interest payment)	167	167	167	500	167	167	167	500	167	167	167	500	167	167	167	500	2,000	0.1
Other current expenditure	7,003	6,928	7,666	21,598	7,078	7,078	7,278	21,435	7,016	7,016	7,204	21,236	7,016	7,129	7,129	21,273	85,542	3.4
Institutions	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	18,000	0.7
Ministries	2,500	2,500	2,900	7,900	2,500	2,500	2,700	7,700	2,400	2,400	2,400	7,200	2,400	2,400	2,400	7,200	30,000	1.2
Centralized payments (utilities)	2,071	2,019	2,252	6,342	2,123	2,123	2,123	6,368	2,148	2,148	2,278	6,575	2,148	2,226	2,226	6,601	25,885	1.0
Provinces	933	909	1,014	2,856	956	956	956	2,868	968	968	1,026	2,961	968	1,002	1,002	2,972	11,657	0.5
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Transfers and subsidies	940	894	895	2,728	1,044	978	896	2,917	943	1,147	1,073	3,163	1,036	995	1,255	3,287	12,095	0.5
MIBA and GECAMINES				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Transfers to public agencies and budgets annexes	125	125	125	375	125	125	125	375	125	125	125	375	125	125	125	375	1,500	0.1
Retrocessions to revenue- collecting agencies	815	769	770	2,353	919	853	771	2,542	818	1,022	948	2,788	911	870	1,130	2,912	10,595	0.4
Capital expenditure	9,427	10,311	11,772	31,510	10,990	11,230	12,790	35,009	12,899	13,022	15,144	41,065	14,315	14,401	15,699	44,415	151,999	6.0
Foreign-financed investment	8,786	9,669	11,130	29,585	10,348	10,588	12,148	33,084	12,257	12,381	14,502	39,140	13,673	13,759	15,058	42,490	144,299	5.7
Congoese-financed investment	642	642	642	1,925	642	642	642	1,925	642	642	642	1,925	642	642	642	1,925	7,700	0.3
Net lending	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Other operations				0				0				0				0	0	0.0
HIPC-related expenditure	1,847	1,847	1,847	5,541	3,694	3,694	3,694	11,083	4,618	4,618	4,618	13,854	4,618	4,618	4,618	13,854	44,331	1.7

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2004 (concluded)

(In millions of Congo francs, unless otherwise indicated)

	Jan. Prog.	Feb. Prog.	Mar. Prog.	Jan.-Mar. Prog.	Apr. Prog.	May Prog.	Jun. Prog.	Apr.-Jun. Prog.	Jul. Prog.	Aug. Prog.	Sep. Prog.	Jul.-Sep. Prog.	Oct. Prog.	Nov. Prog.	Dec. Prog.	Oct.-Dec. Prog.	Total 2004 Prog.	In percent of GDP
Repayment of arrears	0	0	0	0	0	0	0	0	333	333	333	1,000	333	333	333	1,000	2,000	0.1
Central Bank of the Congo (BCC) treasury deficit	1,073	1,615	1,708	4,396	1,166	1,413	983	3,562	1,434	1,410	1,687	4,531	1,364	600	1,548	3,511	16,000	0.6
Unconsolidated domestic primary balance (cash basis)	2,133	1,829	3,550	7,512	2,340	1,752	2,537	6,630	7,764	6,196	5,176	19,136	5,197	7,797	5,809	18,803	52,081	2.1
Consolidated primary balance (cash basis)	439	-4,307	-3,749	-7,617	-5,130	-5,891	-7,364	-18,385	1,433	-3,804	-5,864	-8,235	-4,115	-91	-5,940	-10,146	-44,384	-1.7
Unconsolidated balance (cash basis)	-3,058	-4,256	-4,962	-12,276	-5,938	-7,271	-8,612	-21,822	-1,791	-3,987	-7,152	-12,930	-4,786	-2,495	-6,677	-13,959	-60,987	-2.4
Consolidated balance (cash basis)	-4,131	-5,871	-6,670	-16,672	-7,104	-8,684	-9,595	-25,384	-3,225	-5,397	-8,839	-17,461	-6,150	-3,095	-8,225	-17,470	-76,987	-3.0
Total financing	4,131	5,871	6,670	16,672	7,104	8,684	9,595	25,384	3,225	5,397	8,839	17,461	6,150	3,095	8,225	17,470	76,987	3.0
Nonbank (certificates of deposit net)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
BCC and other banking system 3/	12,059	3,545	-19,546	-3,941	4,742	6,196	-4,922	6,015	9,783	1,779	-10,243	1,319	3,039	444	-6,876	-3,393	0	0.0
Foreign financing	-7,928	2,326	26,216	20,614	2,362	2,489	14,518	19,368	-6,558	3,618	19,082	16,142	3,111	2,651	15,101	20,862	76,987	3.0
Nondomestic nonresident bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Amortization (net payment) 2/	-12,944	-2,910	-7,684	-23,538	-3,728	-3,827	-3,565	-11,121	-13,123	-2,968	-7,838	-23,928	-3,811	-4,293	-3,568	-11,672	-70,259	-2.8
Additional financing	5,016	5,236	33,900	44,152	6,090	6,316	18,083	30,489	6,564	6,586	26,920	40,071	6,922	6,944	18,668	32,534	147,246	5.8
Project loans	5,016	5,236	6,886	17,138	6,090	6,316	7,779	20,185	6,564	6,586	7,940	21,090	6,922	6,944	8,185	22,051	80,465	3.2
Budget loans	0	0	27,014	27,014	0	0	10,304	10,304	0	0	18,980	18,980	0	0	10,483	10,483	66,781	2.6
Discrepancy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0

Sources: Congolese authorities; and staff estimates and projections.

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

2/ Includes deposits of HIPC resources at the BCC.

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

Table 3A. Democratic Republic of the Congo: Progress in Implementing
the Central Bank of the Congo Action Plan

Measures	Status
Bank supervision	
Clarification of the responsibilities of BCC staff engaged in bank supervision and restructuring functions.	Completed. The units involved in bank supervision and restructuring were merged into the Directorate of Supervision of Financial Institutions (DSIF) and an organizational chart was adopted for this directorate by senior management.
Thorough reexamination of the nature and composition of prudential ratios, taking account of the situation of institutions, relevant international standards, and in accordance with regional initiatives (Southern African Development Community—SADC and the Common Market for Eastern and Southern Africa—COMESA).	Completed. The new prudential ratios were published in July 2003.
Definition of a precise framework for preparation of periodic statements to provide the supervisory authorities with the information they require, in cooperation with the Congolese Banking Association.	Related to reform of the chart of accounts for banks and to implementation of a framework for supervision in conformity with regional initiatives. Adoption of the chart of accounts for banks is expected by end-March 2004 and of periodic statements by end-May 2004.
Inventory of cooperatives and other financial institutions presently not covered by bank supervision.	Partially completed. A partial inventory of microfinance institutions in Kinshasa and Bas-Congo was conducted. Search for financing to continue the inventory in the other provinces, including the reunified provinces.
Formalization of the process of preparing the on-site supervision program (statement of purposes and order of priority, depending on the risks incurred).	Process formalized; implementation of the on-site supervision program for 2004.
Formalization of the mode of operation for off-site supervision and implementation of a standardized permanent record framework. Strengthening of on-site supervision and undertaking of general purpose missions.	Partially completed. Full completion linked to implementation of the on-site supervision program.

Table 3A. Democratic Republic of the Congo: Progress in Implementing
the Central Bank of the Congo Action Plan

Measures	Status
Combating money laundering and the financing of terrorism	
Raising of the awareness of the Congolese Banking Association so that it can define the rules of vigilance and good conduct applicable to all of its members.	Completed. A joint seminar was organized by BCC and the IMF in April 2003. An anti-money-laundering unit was created within the BCC and a national committee was created to fight terrorism (CNLCT) and transnational organized crime. A BCC instruction on standards related to the CNLCT was published on March 4, 2003.
Law on combating money laundering and transnational organized crime.	In early 2003, the BCC established a study group on money laundering (GREB) under the authority of the director of the DSIF, and comprising officers from different directorates of the BCC, as well as external individuals. A draft law in line with international standards was prepared for adoption by parliament by end-January 2004. Implementing legislation should be established for the anti-money-laundering law, guaranteeing, inter alia, the independence of the financial information unit and the absolute confidentiality of data transmitted to it.
Accounting and internal audit	
Establishment of methods for bookkeeping and account reconciliation with the IMF.	Partially completed. The procedures manual was finalized in June 2003 and is pending approval by the Governor.
Production of financial statements at December 31, 2002 according to accounting rules meeting international accounting standards (IAS)/international financial reporting standards (IFRS).	Requires intervention of the CPCC (Conseil Permanent de la Comptabilité Congolais), which should integrate the IAS reference framework into the national accounting regulations.
Completion of the audit for fiscal-year 2002 and publication of the audited accounts	Completed. Publication in the official gazette is expected by end-December 2003.
Strengthening of the role of the Accounting Directorate in respect of the accounting units of directorates.	Completed. Accounting documents are now validated by the Accounting Directorate.
Appointment of the BCC board and auditors.	Completed. The board was appointed in May 2003 and its first meeting was held on May 24, 2003. Auditors will be selected by end-November 2003.

Table 3A. Democratic Republic of the Congo: Progress in Implementing
the Central Bank of the Congo Action Plan

Measures	Status
Adoption by the board of internal regulations providing for the (i) establishment of an Audit Committee; (ii) adoption of international audit standards; and (iii) systematic audits in accordance with international audit standards after fiscal-year 2002.	Completed. Decision adopted by the board on July 12, 2003.
Publication of a legal instrument providing that, in addition to their own findings, the auditors rely on an audit report prepared by an internationally reputed audit firm.	Publication planned no later than end-December 2003.
Adoption by presidential decree of the agreement between the BCC and the government cashier.	Partially completed. The new agreement was signed on March 20, 2003 by the Minister of Finance and Budget and the Governor of the BCC. It will be adopted by presidential decree before end-December 2003.
Production by the BCC of financial statements reflecting all adjustments resulting from audits of the 2000 and 2001 fiscal years, including the settlement of pending accounts.	Completed. Statements were produced and will be published in the official gazette by December 2003.
Follow-up and systematic resolution of issues mentioned in audit reports, including discrepancies with treasury accounts or between other accounts, elimination of accounts not provisioned or uncollectible, and settlement of all interim accounts, including the miscellaneous item in the integrated monetary survey.	Completed.
Adjustment and correction of data related to the program (stocks and flows) at September 2002 and December 2001, and of errors observed in connection with the external audit of fiscal-year 2001 and by the Internal Audit Directorate (DAI).	Completed.
Involvement of the DAI in the review of program-related data through its participation in the semiannual audit entrusted to an international audit firm, and quarterly reviews of program performance indicators. The DAI will be required to produce reports on these audits.	Completed.

Table 3A. Democratic Republic of the Congo: Progress in Implementing
the Central Bank of the Congo Action Plan

Measures	Status
Follow-up of the settlement of accounts and review of outflows and adjustments of the balance sheet in coordination with the committee established to that end. Production of a final report on these adjustments.	Completed.
Completion of an internal audit on exchange reserves management.	Completed.
Preparation of manuals on monitoring payments in domestic and foreign currencies, specifically establishing the division of labor between the staff involved, describing payment orders, and providing for regular reconciliation with correspondent banks.	Completed.
Adoption of procedures for reconciling monthly data on assets and liabilities denominated in foreign exchange with statements prepared by correspondent banks.	Completed.
Reduction in the number of correspondent banks locally and abroad.	Completed. The number of correspondents was reduced from 30 to 20, 9 of which are local. The number of accounts was reduced from 60 to 30, 12 of which are local.
Adoption by the board of guidelines for foreign exchange reserves management.	Partially completed. Preparatory work in progress. Directives will be adopted by end-December 2003.
Definition of the duties of the Audit Committee.	Completed. Decision of the Board of Directors of July 12, 2003.
Monetary and exchange operations	
Preparation of a monetary program on flows of notes in Congo francs and foreign exchange.	Completed.
Preparation of a reorganization plan for the Treasury Directorate.	In progress.
Conversion of free reserves of banks into cash and reimbursement of outstanding certificates of deposit.	Completed.
Establishment of a new deposit facility.	Completed. Launch of BCC bills (<i>billets de trésorerie</i>) in December 2002.

Table 3A. Democratic Republic of the Congo: Progress in Implementing
the Central Bank of the Congo Action Plan

Measures	Status
Drafting of the initial versions of procedural guide for the two subdirectorates of the Foreign Services Directorate (DSE).	Partially completed. The outline of the draft procedural guide for the SDO has been prepared.
Approval by senior management of the plan to restructure the DSE into two subdirectorates: the Operations Subdirectorate (SDO) and Support Subdirectorate (SDA).	Completed. The two subdirectorates have been operational since March 2003.
Adoption by senior management of procedural guides for the DSE.	Reform linked to the general accounting reform. The procedural guide prepared by the DSE (which also addresses accounting in respect of DSE operations) should be reviewed by an expert to ensure conformity with the international standards in the area of reserves management. To be finalized by end-March 2004.
Approval by senior management of the accounting reform on operations of the DSE.	Access software and recruitment of an information technology (IT) specialist were completed. Delays in financing led to postponement of the modernization of IT services and telecommunications; implementation is scheduled for June 2004.
Installation of computer and telecommunications facilities for the DSE operations room.	Completed. An IMF technical assistance mission took place in April 2003.
Beginning of technical assistance concerning operations to upgrade the back office of the DSE.	In progress.
Definitive fine-tuning of reserves and exchange management operations of the DSE front office.	

Table 3B. Democratic Republic of the Congo: Updated Action Plan for Modernizing the Central Bank of the Congo

Measures	Objectives	Implementation
BCC accounting information system		
Submit analyses prepared by the external auditors and the mission to the CPCC (Conseil Permanent de la Comptabilité Congolais) to enable the latter to begin the work of incorporating the international accounting standards (IAS) into the national regulations.	Allow for migration of BCC accounting to IAS standards.	Immediate
Establish a charter defining the division of roles and responsibilities among the various players in accounting production, and ensure its dissemination to all BCC units.	Strengthen efficacy of the accounting information system.	December 2003
Adoption by senior management of the accounting application, focusing on a solution entailing a "single accounting application with decentralized input."	Maximize the cost-effectiveness ratio of the accounting and financial information system.	December 2003
Enable BCC offices to directly access the future accounting application at headquarters and to upload their entries, rather than providing balances that are difficult to reconcile and generate pending items.		
Establish a steering committee and team for the accounting software replacement project.	Implement the new computerized accounting system.	December 2003
Strengthening of financial intermediation		
Irrevocably commit to guaranteeing the convertibility of banks' free reserves into currency and launch an information campaign in this connection.	Establish normal operation of banks' accounts with the BCC as an initial condition for development of financial intermediation.	Ongoing
Establish a strategy for communication and dialogue with private transactors.	Encourage private initiative, reduce the uncertainty that private operators face, and increase acceptance of the authorities' decisions.	Ongoing
Conduct self-assessment of compliance with the Code of Good Practices on Transparency in Monetary and Financial Policies.	Identify weaknesses in the procedures to ensure transparency in monetary policy.	June 2004
Financial system		
Explicitly assign bank supervision staff to one of the two functions (off-site supervision or on-site supervision).	Improve professionalism and the acquisition of specialized experience.	December 2003

Table 3B. Democratic Republic of the Congo: Updated Action Plan for Modernizing the Central Bank of the Congo

Measures	Objectives	Implementation
Continue the work of preparing the new system for generating periodic statements, reflecting the reform of the chart of accounts for banks by the CPCC as part of the project to implement the computerized Bank Supervision Application (BSA).	Provide the supervision authorities with reliable, relevant, and timely information.	September 2004
Conduct on-site supervision mission with the assistance of MFD expert.	Enhance the level of competence of the inspectors.	During 2004
Formalize the operating mechanism for off-site supervision and implement a normalized framework for permanent files.	Ensure continuous monitoring of banks and facilitate the detection of irregularities, so that corrective measures can be taken.	June 2004
Implement a formalized procedure for addressing irregularities detected in the situation of credit institutions.	Ensure that penalties are applied consistently and that the application of corrective measures is monitored.	March 2004
Establish a BSA steering committee and project team.	Ensure that the timetable for BSA deployment is followed.	December 2003
Establish an RMA (Réseau Multi Applications) steering committee and project team.	Manage the increase in remote transmissions of periodic statements.	December 2003
Establish a joint working group with the BCC, CPCC, banks, and Congolese accounting firms to prepare the new chart of accounts applicable to banks.	Provide the banking system with a chart of accounts that guarantees reliable financial information.	December 2003
Monetary policy and liquidity management		
Complete a study on restructuring the BCC balance sheet to assess the remuneration of government securities and to ensure recurrent revenues, with a view to ensuring sustainability of the operating account.	Strengthen the BCC's operational autonomy.	December 2003
Purchase Congo francs banknotes and inputs through requests for competitive bids from several suppliers.	Reduce printing costs.	Immediate
Ensure preparation by the Research Directorate of Table 7, "Monitoring Liquidity in CGF".	Facilitate implementation of liquidity forecasting.	Immediate
Abolish the ceiling on refinancing allocated to each bank	The ratio is no longer relevant.	Simultaneously with the reform of guarantees
Accept only foreign exchange as collateral to BCC refinance credit.	Improve the BCC's protection against counterparty risk.	March 2004

Table 3B. Democratic Republic of the Congo: Updated Action Plan for Modernizing
the Central Bank of the Congo

Measures	Objectives	Implementation
Consolidate into a single 24-hour call money window the current "call money" and "advances" refinancing windows. Accept only foreign exchange as collateral. In the exceptional case when loans are not guaranteed with foreign exchange (debit balance at close of business), charge a higher/deterrent rate.	Improve the quality of guarantees for refinancing purposes.	March 2004
Replace the rediscount window with a permanent foreign exchange swap facility not to exceed seven days. Foreign exchange would initially be delivered in cash.	Improve the BCC's protection against counterparty risk.	December 2003
Reserve management and exchange operations		
Fine-tune the methodology used to compile statistics on the exchange market.	Eliminate double counting and make a distinction between customer and interbank operations.	December 2003
Reduce the number of local banks with which foreign exchange accounts are opened from nine to three.	Reduce the costs of bookkeeping and the workload.	March 2004
Sell foreign exchange through single-rate competitive auctions.	Improve transparency and ensure equal treatment for counterparties.	December 2003
Finalize the trading room procedures manual.	Comply with best practices	March 2004
Establish a steering committee and project team for the trading room application (front/back offices).	Effectively coordinate implementation of the trading room application.	End-November 2003
Implement the information technology (IT) infrastructure (hardware) for the trading room.	Ensure that implementation will permit application of the trading room procedures manual.	First half of 2004
Information technology and project management		
Establish project teams and a project steering committee to supervise them.	Improve project management and systematize relations between users and computer specialists.	Beginning December 2003, for all computer applications
Establish an IT Committee.	Prepare and manage the IT strategy.	December 2003
Standardize computer hardware and software to the extent possible.	Facilitate IT management.	Ongoing
Provide adequate training for IT specialists and users.	Optimize the implementation and use of IT.	Ongoing

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

(In millions of Congo francs, unless otherwise indicated)

	Stock End-December 2002	Cumulative Changes 2/								
		End-June 2003 indicative targets			End-September 2003 performance criteria					End-December 2003 indicative targets
		Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Act. Adj. 3/	Prog.	Rev. Prog.
Floor on net foreign assets of the Central Bank of the Congo (BCC) (in millions of U.S. dollars) 4/ 5/	-609	31	44	-22	-72	-20	-69	-54	0	-39
Ceiling on net domestic assets of the BCC 4/ 5/	250,692	-4,393	-8,503	17,037	30,586	14,198	29,747	24,594	10,625	16,777
Ceiling on net bank credit to the government 5/	2,328	-3,904	-8,014	18,050	22,539	6,150	23,059	24,509	0	12,544
Ceiling on BCC credit to nonfinancial public sector enterprises	0	0	0	0	0	0	0	0	0	0
Ceiling on BCC credit to nonfinancial private sector	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 6/	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 7/	0	0	0	0	0	0	0	0	0	0
Ceiling on wage arrears	0	0	0	0	0	0	0	0	0	0
No accumulation of external debt arrears 8/ (in millions of U.S. dollars)	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	0	0	0
The BCC will make no purchase of Congo franc 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
Memorandum item: Base money	52,376	5,277	5,277	9,749	7,915	7,915	8,876	8,256	10,553	13,838

Source: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the Poverty Reduction and Growth Facility (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/ Based on the audited accounts of the BCC at end-September 2003, including an amount of about CGF 1.5 billion (0.1 percent of GDP) of accounting corrections suggested by the external auditors, and not included in the monetary survey at end-September 2003.

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

5/ 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.

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "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/ 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 CIRRs.

8/ This is a continuous performance criterion.

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

Table 4B. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2003-04 1/

(In millions of Congo francs, unless otherwise indicated)

	Stock	Cumulative Changes 2/				
	End-Sep.2003	End-Dec. 2003 indicative targets	End-Mar. 2004 performance criteria	End-Jun. 2004 indicative targets	End-Sep. 2004 indicative targets	End-Dec. 2004 indicative targets
Floor on net foreign assets of the Central Bank of the Congo (BCC) (in millions of U.S. dollars) 3/ 4/	-678	60	75	78	86	109
Ceiling on net domestic assets of the BCC 3/ 4/	280,439	-12,970	-12,768	-8,881	-6,554	-8,939
Ceiling on net bank credit to the government 4/	23,447	-11,575	-12,381	-9,501	-8,182	-11,575
Ceiling on BCC credit to nonfinancial public sector enterprises	0	0	0	0	0	0
Ceiling on BCC credit to nonfinancial private sector	1,146	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with an original maturity of more than one year by the government or the BCC 5/	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
Ceiling on wage arrears	0	0	0	0	0	0
No accumulation of external debt arrears 7/ (in millions of U.S. dollars)	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 8/	0	0	0	0	0	0
The BCC will make no purchase of Congo franc notes or foreign currency in the market at a discount rate against payment in deposit money 8/	0	0	0	0	0	0
Memorandum item:						
Base money	61,252	4,962	9,781	14,600	19,419	24,238

Source: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the Poverty Reduction and Growth Facility (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-September 2003 onward.

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

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 CIRRs.

7/ This is a continuous performance criterion.

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

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

Measures	Timetable	Progress
Structural performance criteria		
Completion of the audits of five commercial banks: BCD, Citibank, BIAC, Banque Congolaise, and First Banking Corporation.	End-September	Completed.
Structural benchmarks		
Preparation of a draft reunification and pro-poor budget for 2004.	End-September	Completed.
Effective implementation of the new government expenditure procedures, restoring and streamlining the entire expenditure chain, including commitment, verification, payment order, and payment.	End-September	To be completed with a delay in February 2004.
Elimination of identified "ghost workers" from the government payroll.	End-September	Completed.
Adoption of a circular stipulating that external debt contracted without the approval and signature of the Minister of Finance will not be guaranteed by the government.	End-September	Completed.
Finalization of the plans for reorganizing the banks considered viable on the basis of external audits.	End-December	To be completed with with a short delay in January 2004.
Preparation of a reorganization plan for COHYDRO.	End-December	Ongoing.
Adoption by parliament of the Law on Corruption, Money Laundering, and Transnational Organized Crime.	End-December	Adoption expected by end-January 2004.
Submission to parliament of the General Accounting Office's audit of the execution of the 2001 and 2002 budgets.	End-December	The 2001 audit submitted in December, 2003. The 2002 audit to follow by end-January 2004.

Table 5B. Democratic Republic of the Congo: Prior Actions and
Structural Performance Criteria and Benchmarks, 2004

Measures	Timetable
Prior action	
Submission to parliament of the draft 2004 budget law, reflecting the policy thrusts defined with IMF staff and presented using the new nomenclature.	January 2004
Structural performance criteria	
Adoption by the Central Bank of the Congo of the list of commercial banks to be liquidated and reorganized.	March 2004
Structural benchmarks	
Submission to parliament of the draft law on the harmonized classification system rationalizing the number of taxes collected by the General Directorate of Administration and State Revenues (DGRAD).	February 2004
Effective implementation of the new expenditure procedures, from commitment through payment.	February 2004
Submission to parliament of the new customs code.	March 2004
Selection of an international firm to conduct the external audit of MIBA.	March 2004
Finalization of the plans for reorganizing commercial banks considered viable and putting into liquidation nonviable commercial banks.	June 2004
Finalization of the COHYDRO reorganization plan.	June 2004
Completion of the strategic audit of the Public Enterprises Council (Conseil Supérieur du Portefeuille).	June 2004
Adoption of a double entry government accounting framework.	June 2004
Finalization of the Law Governing Public Institutions and of the Law Governing Divestment by the State of Public Enterprises.	December 2004
Reorganization of the procedures for paying civil servants based on the recommendations of the external audit of the payroll system.	December 2004

DEMOCRATIC REPUBLIC OF THE CONGO

Technical Memorandum of Understanding

Kinshasa, December 10, 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 December 10, 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 74 and 75 and Tables 4B and 5B of the MEFP of December 10, 2003.

B. Definition of Quantitative Performance Criteria and Indicators

3. The quantitative performance criteria and benchmarks described in Table 4B 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) for the civil service (civilian and military) and the BCC;

The following criteria will be monitored on a continuous basis:

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

(j) 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

(k) 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 program exchange rates, which are as follows: SDR 1 = US\$1.26537; US\$1 = 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 No. 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 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 Memorandum on Economic and Financial Policies:

(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 expenditures, 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 picture 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 I-PRSP and detailed in Annex II.

C. Structural Performance Criteria and Benchmarks

16. The structural performance criteria and benchmarks are described in Table 5B of the Memorandum on Economic and Financial Policies.

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 *billets de trésorerie* 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 treasury bills (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 January 2004, and following implementation of the new expenditure procedures, the budget tracking statements mentioned in Annex III 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 the business environment (new decrees, circulars, and laws) and price policy, as well as the official gazette, will also be reported to Fund staff.

J.-C. Masangu Mulongo
Governor
Central Bank of the Congo

M.F. Muamba Tshishimbi
Minister of Budget

André-Philippe Futa
Minister of Finance

Kinshasa, December 10, 2003

Definition of External Debt

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.

Definitions of Poverty-Reducing Spending

1. The concept

Poverty-reducing spending comprises all actions by the government for the good and well-being of the people, in the spirit of the priorities set out in the Interim Poverty Reduction Strategy Paper.

2. Criteria

To identify poverty-reducing spending in the budget, the government has based its choices on the **classification by the general functions of government defined as targets in favor of the people.**

From this point of view, spending on the following functions and sub-functions shall be considered to be poverty-reducing spending:

02		Defense
02.	30	Reintegration of demobilized soldiers
03		Security
03.	20	Courts
04		Economic Affairs
04.	21	Agriculture, livestock
04.	22	Forestry
04.	23.	Hunting and fishing
04.	24	Rural development
04.	32	Electricity (in the provinces)
04.	51	Roads
04.	52	Sea, river and lake transport
04.	53	Railroads
05		Environmental protection
05.	11	Waste management
05.	30	Sanitation
05.	40	Pollution control
05.	50	Protection of fauna and flora
06		Public Housing
06.	10	Development of housing
06.	20	Development of community facilities
06.	30	Water supply
06.	40	Electricity supply

07		Health
07.	10	Medicines, prostheses, and medical equipment and supplies
07.	20	Local medical services
07.	30	Hospital services
07.	40	Public health services
07.	50	Research and development in the field of health
09		Education
09.	10	Basic education
09.	20	Secondary education
09.	30	Higher education (only equipment and rehabilitation of infrastructure)
09.	70	Other educational matters (only SECOPE: Wages of Primary and Secondary School Teachers)
09.	80	Continuing professional education
10		Welfare
10.	40	Targeted protection
10.	50	Unemployment programs
10.	60	Housing and housing conditions
10.	70	Social exclusion programs

Budget-Tracking Statements

Statement 1: Main budget-tracking statement. Monthly, starting in January 2004.

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 January 2004.

Based on the main statement, this document will present expenditures by administrative classification (2003 revised nomenclature rather than classification by type). Additionally, the statement will keep expenditures initiated by, and earmarked for, the Offices 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 January 2004.

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 the distribution of expenditures among the ten provinces and Kinshasa.

Statement 4: Main budget-tracking statement, "Poverty-Reducing Expenditures." Monthly, starting in January 2004.

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 January 2004.

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 December 31, 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	5.35	6.20

IV. Outstanding Purchases and Loans:	SDR Million	In Percent of Quota
Poverty Reduction and Growth Facility (PRGF) arrangement	473.37	88.81

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	473.37
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 (without HIPC Assistance)

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

	Forthcoming			
	2004	2005	2006	2007
Principal	0.00	0.00	0.00	42.00
Charges/interest	3.64	3.64	3.66	3.63
Total	3.64	3.64	3.66	45.63

VII. Projected Payments to Fund (with Board-approved HIPC Assistance)

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

	Forthcoming			
	2004	2005	2006	2007
Principal	0.00	0.00	0.00	42.00
Charges/interest	3.08	3.64	3.66	3.63
Total	3.08	3.64	3.66	45.63

VIII. Implementation of HIPC Initiative:

	<u>Enhanced Framework</u>
I. Commitment of HIPC assistance	
Decision point date	July 2003
Assistance committed by all creditors (millions U.S. dollars)	6,311.00
Of which: IMF assistance (millions U.S. dollars)	318.90
(SDR equivalent millions)	228.30
Completion point date	Floating
II. Disbursement of IMF assistance (millions SDRs)	
Assistance disbursed to the member	1.13
Interim assistance	1.13
Completion point balance	--
Additional disbursement of interest income	--
Total disbursements	1.13

IX. 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 December 31, 2003, the rate was US\$1=CGF 372.52. 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 vis-à-vis other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries(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. On December 24, 2003, the Executive Board approved an extension until December 31, 2004 of the period to phase out remaining exchange restrictions subject to approval under Article VIII.

X. 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).

XI. 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 3, 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.

XII. 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
Article VIII obligations	MFD/LEG	Ms. De Boeck Mr. Leimone	Oct. 21–29, 2002
Capacity-building assistance to the central bank	MFD	Mr. Laurens Mr. Sarr Mr. Akitoby Mr. Paul Mr. Bussers Mr. Tavernier	Oct. 12–26, 2001 Feb. 1–14, 2002 Aug. 8–Sep. 20, 2002
Monetary policy/ foreign exchange management, bank supervision and budget	MFD	Mr. Paul Mr. Beaumé Mr. Laurens Mr. Sarr Mr. Paul Mr. Beaumé Mr. Régnard Mr. Tavernier	Feb. 1–7, 2002 Jul. 15–25, 2002 Oct. 29–Nov. 12, 2002

Action plan for developing the financial system in the DRC	MFD	Mr. Laurens Mr. Fonteyne Ms. Nkhata Mr. Saffré Mr. Paul Mr. Regnard Mr. Vandecan Mr. Pauwels	Nov 5-15, 2003
Tax administration/ policy	FAD	Mr. Corformat 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	Aug. 4-18, 2001
		Mr. Fournel	
		Mr. Barrier	
		Mr. Bouley	Aug. 31-Sep. 10, 2002
		Mr. Calcoen	
Revenue administration	FAD	Mr. Bouley	Nov. 11-25, 2003
		Mr. Lepage	
		Mr. Kwent	
		Mr. Benon	Dec. 3-17, 2002
		Mr. Jolibert	
Real sector and government finance statistics	STA	Mr. Montagnet-Rentier	
		Mr. Benon	Jul. 13-26, 2003
		Mr. Lesprit	
		Mr. Benon	Sep. 16-20, 2003
		Mr. Marie	June. 4-13, 2001
Government finance statistics	STA	Mr. Gorter	
		Mr. Maiga	Mar. 19-Apr. 13, 2002 Sep.4-25, 2002

Multisector statistics	STA	Ms. Fisher Mr. Tanase Ms. Noukovska Mr. Fiévet Mr. Maiga Mr. Ntungwanayo (World Bank)	Oct. 8–21, 2003
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XIII. Long-Term Resident Experts:

Expenditure management	Mr. Catalan	Since Jan. 2002
Customs administration	Mr. Bremeersch	Jan. 2002—Jan. 2004
Tax administration	Mr. Schlotterbeck	Jan. 2002—Mar. 2003
	Mr. Raouya	Since Sep. 2003
Monetary policy and programming	Mr. d'Ambrières	Apr. 2002—Dec. 2003

XIV. 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 Group¹

Introduction

1. This annex first underscores the importance that the Government of the Democratic Republic of the 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 the DRC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

Partnership in the DRC's Development Strategy

2. The DRC was cut off from major international financial assistance from 1993 until 2001, primarily due to economic and financial mismanagement, and conflict and war. From 1997-2001, the conflict and its socio-economic impacts led to over three million deaths, extensive destruction of infrastructure and the collapse of institutions.

3. When President Joseph Kabila took office following his father's death in January 2001, he sought to re-establish relations with international financial institutions. IDA and the IMF responded: (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). Progress towards peace and good performance under the SMP has led to substantial financial reengagement by multilateral and bilateral institutions.

4. The SMP (June 1, 2001 to March 31, 2002) was satisfactorily implemented. The Interim PRSP (I-PRSP) was discussed by the IDA Board on June 11, 2002. Following clearance of arrears to the IMF, a three-year PRGF, the HIPC preliminary document and the I-PRSP were approved by IMF Executive Directors on June 12, 2002. IDA's Economic Recovery Credit became effective following arrears clearance on July 3, 2002. The Paris Club granted significant relief on bilateral debt at its September 2002 meeting. The first review of the PRGF was completed on March 24, 2003 at the same time as the 2002 Article IV consultation. The decision point under the enhanced HIPC Initiative was approved by IMF Executive Directors on July 23, 2003 and, one day later, by IDA's Executive Directors. In December 2003 at the Consultative Group Meetings in Paris, donors pledged \$3.9 billion in financial assistance to the DRC over the next few years.

¹ This document was approved by the World Bank's Africa Region ROC on January 27, 2004. Questions should be addressed to Mr. Horton (202 473 5587) or Mr. Nelson (202 473 6699) at the World Bank.

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 the DRC for the following 2 years, which included the EERP, ERC, and EMRRP (as described below). A new TSS is scheduled for Board discussion on February 26, 2004.

Financial Assistance

6. **IDA** provides financial assistance through grants and credits. On July 31, 2001, Directors approved a US\$50 million IDA Grant for the DRC in support of the **Emergency Early Recovery Project (EERP)**. The project includes support to economic reforms (in particular those under the SMP), a pilot CDD initiative, rehabilitation of the Kinshasa-Matadi road, and HIV/AIDS activities. Disbursements were completed by the end of CY 2003.

7. The Board approved an **Economic Recovery Credit (ERC)** in the amount of SDR 360.4 million (US\$450 million equivalent at the time of negotiations) on June 13, 2002. Its components include budgetary/foreign exchange support, and forestry and mining sector reforms in the context of the Government's 2001-2003 economic program. The project was satisfactorily implemented and all tranches released. It closed on June 30, 2003.

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 supports the long-term process of reconstruction and rehabilitation of critical infrastructure, increase in service delivery, institutional capacity strengthening, development of sectoral strategies and creation of mechanisms for monitoring and evaluation of program implementation.

9. **Demobilization and reintegration** of ex-combatants are preconditions for peace, enabling sustainable growth and poverty reduction. IDA began providing support via a Post-Conflict Fund US\$2 million Development Grant, executed by ILO. The DRC is now expected to be the largest beneficiary of the Multi-country Demobilization and Reintegration Program (MDRP), which is supported by a multi-donor trust fund, and aims to **support** demobilization and reintegration 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).

10. **Support to private sector development** will be provided through the **Private Sector Development and Competitiveness Project** in the amount of US\$120 million, approved by the IDA Board in July 2003. The project aims to increase the competitiveness of the economy

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

by improving the investment climate, supporting reform of public enterprises, stimulating economic diversification in Katanga, and providing job search support for the unemployed, and thereby contributing to economic growth.

11. **Regional Power Project.** The \$178 million Southern Africa Power Pool program is expected to increase availability and reliability of low cost environmentally friendly electric energy in the Southern Africa Development Community (SADC), thereby increasing competitiveness by strengthening the capacity of the Coordination Center of the Southern Africa Power Pool (SAPP) to promote and manage electricity trade in the region; removing transmission bottlenecks; and connecting member countries to the regional grid, which will foster economic growth. The DRC component is the largest, and will enable the DRC to supply electricity to neighboring countries. It was approved in November 2003.
12. **Economic and Social Reunification.** The Emergency Economic and Social Reunification Support Project was approved by IDA's Executive Board on September 11, 2003 for a total amount of US\$214 million. The Project aims to help extend implementation of the reforms passed by the Government over the last two years to the entire DRC territory and in particular to the reunified provinces- as well as to finance emergency rehabilitation activities in these areas (large infrastructure, urban rehabilitation, community development).
13. **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 DRC through prevention of transmission, support and care for persons living with the virus (PLV). The project will be multi-sectoral and will support and amplify the initiatives of the public and private sectors, NGOs, and local communities. It is scheduled for Board presentation on March 25, 2004.
14. **Post-conflict and IDF grants.** Post-conflict grants support the reintegration of street children in Kinshasa, rehabilitation of roads and social infrastructure in Kisangani, and the financing of a pilot national living conditions survey in preparation for the PRSP. Other Post-conflict grants are being considered for emergency rehabilitation in the East. In addition, IDA is providing support through its Institutional Development Fund (IDF) grant facility, which has supported the drafting of a new mining code, and the elaboration of a Mining Cadastre and of a transport policy framework.
15. **Emergency Trust Fund.** Since October 2000, an Emergency Trust Fund has financed the Emergency Stabilization and Recovery Project to help out communities via projects in the health, education, food security, water, and infrastructure rehabilitation sectors; to support capacity building; to assist the Government in implementing its economic reform agenda and in coordinating donor assistance. IDA is administering this US\$13.544 million trust fund on behalf of other donors. The FED committee of the European Union has recently provided a new contribution of 9.5 million Euros for Capacity Building Support to the DRC, which includes support to the Ministry of Finance and Central Bank of the Congo, and technical assistance to the Central Coordination Bureau (BCECO).

Non-lending activities

16. For several years prior to, and during the TSS, IDA assistance has emphasized **non-lending activities and advisory services**, 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. FY02 activities included a public expenditure review, strengthening of public expenditure management systems, support to the PRSP process, especially the consultation and participatory diagnostic processes. FY03 activities included an update of the poverty profile, a debt sustainability analysis for the HIPC program undertaken in collaboration with the IMF, and a second Public Expenditure Review focusing on the issues of fiscal deconcentration and decentralization. For FY04, a Public Expenditure Concept note is scheduled to be prepared; an Institutional Governance Review will focus on service delivery issues; and a Country Procurement Assessment Report will be completed by April 2004.

New TSS

17. Looking ahead, support in the coming period is expected to aim to accompany the Government's efforts during the transition period, with a particular focus on: (i) social stability and security; (ii) high and shared growth; (iii) governance and institutional strengthening; and (iv) social development. It supports the following projects, in FY04: Emergency Economic and Social Reunification Support Project, Southern Africa Power Pool Project, HIV/AIDS Project, and a Post-Reunification Economic Recovery Credit, scheduled for Board presentation in late February 2004; in FY05: Demobilization and Reintegration Project, Health Sector Rehabilitation Project, Education Sector Rehabilitation Project, Social Fund, Emergency Living Conditions Improvement, and an adjustment operation; and in FY06: a multi-sector transport project, a public utilities project, an agriculture project, a private sector development/financial sector development project, and a second Post-Reunification Economic Reform Credit.

IFC

18. 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. In the financial sector, IFC plans to assist banks operating in the 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. IFC has also spent considerable effort to resolve outstanding disputes in the DRC, one of which, UTEXAFRICA, was settled in 2002. However, two others remain on the books: SOTEXKI, a textile business in Kisangani, in the North East, and the Grand Hotel de Kinshasa (formerly Inter Continental).

MIGA

19. MIGA can now issue guarantees for projects, because the DRC has paid its initial capital subscription in full. Several projects are under consideration, notably in the mining, power and telecommunications sectors.

Bank-Fund Collaboration in Specific Areas

20. In addition to its direct assistance to the 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.

21. **External Debt.** The DRC's external debt increased significantly in the 1990's to reach an estimated US\$12.9 billion in 2001, of which about US\$10.1 billion was in arrears including about US\$1.9 billion to multilateral donors. IDA and the Fund have worked closely together, along with the DRC authorities and other multilateral and bilateral donors, to resolve this unsustainable debt burden. The clearance of arrears to the IMF, the World Bank Group and AfDB (1.8 billion dollars) became effective in the summer of 2002. In September 2002, arrears to Paris Club creditors amounting to US\$ 8.2 billion were cleared through a flow rescheduling on Naples Terms. The HIPC decision point, approved by the Boards of the World Bank and IMF in July 2003, grants a debt relief of US\$6.3 billion in NPV terms (or US\$10 billion in debt service savings over time). Following the decision point, the World Bank, the IMF and the Paris Club have already begun providing HIPC relief.

22. **Donor Coordination.** IDA and the IMF have been collaborating closely in the monitoring of public external aid flows to the DRC on an annual basis. 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.

23. **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, budget execution and fiscal reporting, in particular, on the **expenditure** side. To complement ongoing technical assistance in public finance management, IDA will provide assistance, if needed, to the reform of the public sector accounting system, expected to be operational by January 2005, as well as technical assistance to the 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 overall structure of expenditures; specific issues in the health, education and transport sectors; and the evaluation of the DRC's ability to monitor execution of poverty related expenditures. Collaboration is particularly close with respect to public expenditure tracking and monitoring, poverty related spending monitoring, and evaluation and use of resources from HIPC debt relief. On the **revenue** side, the IMF has

taken the lead 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 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.

24. IDA teams are also providing assistance to the Government with drafting decentralization legislation, in preparation for the future deconcentration and decentralization of public finances and public service delivery and to improve the tracking of public expenditures to measure the level of impact on the people of the DRC.

25. **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; and (ii) improving the legal, regulatory, judicial and fiscal environment for private sector development. There is close IDA-IMF collaboration on the public finance aspects of these reforms (e.g., cross arrears, corporate tax regimes).

26. **Financial Sector.** The IMF is taking the lead on monetary issues and the central bank, and IDA has provided assistance on information systems. IDA is taking the lead with the restructuring of commercial banks.

27. **Governance and Anticorruption.** IDA has aided in the preparation of workshops and seminars on the formulation of an overall governance and anticorruption strategy, while the IMF has taken 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, and the draft laws on money laundering and anti-corruption are currently under preparation. The Institutional Governance Review will primarily address service delivery issues. Also, 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.

28. **Preparation of the PRSP.** The Government prepared an interim PRSP during the period September 2001-May 2002, which has been assessed by IDA and IMF staff. IDA has also provided assistance on the preparation of consultations and the National Poverty Survey in 2003. To this end, in June 2003 the Government prepared a PRSP Preparation Status Report. Since June, the authorities have given major attention to: (i) the mobilization of external resources needed to finance the preparation of the PRSP, a process which is now complete; and (ii) the holding of preparatory workshops in December 2003 and January 2004 for the launching of the PRSP process.

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

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

	IBRD	IDA	IDA Grant	Total
Original Principal	330,000,000	2,573,794,621	258,000,000	3,161,794,621
Cancellations	28,484,478	259,852,030	0	288,336,508
Disbursed	301,515,521	1,752,279,763	58,516,098	2,112,311,382
Undisbursed	0	764,880,262	217,900,019	982,780,281
Repaid	247,045,474	182,719,791	0	429,765,265
Due	0	1,771,056,546	0	1,771,056,546
Exchange Adjustment	0	0	0	0
		1,771,056,546		1,771,056,546
Borrower's Obligation	0		0	
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 (OGEDP). 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.

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 National Statistics Institute (INS), 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. 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; monetary statistics for end-November 2003 are to be published in the February 2004 *IFS*. The multisector statistics mission that visited Kinshasa in October 2003 recommended a new charts of accounts for the BCC and the other deposit-taking institutions, including information needed for the sectorization of economic units and classification of financial assets.

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. However, the recent multisector mission found that, due to computer problems, data have not been processed since 1999. As a result, the balance of payments is currently compiled using data from different sources, supplemented by estimates.

The mission suggested that the BCC implement a system of quarterly surveys of those corporations that are authorized to hold accounts overseas. Further, the mission recommended the reinvigoration of a working group comprising staff of the Customs and

other relevant agencies to prepare quarterly foreign trade data and other measures to improve data on services and transfers. 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, although Fund missions are provided some information on the operations of 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, poverty, and gender-related development indices. Two multiple indicator cluster surveys carried out between 1996 and 2001 in collaboration with the United Nations Children Fund (UNICEF) also provide important social indicators. 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 comprehensive database for social indicators.

Democratic Republic of the Congo: Core Statistical Indicators
(As of January 23, 2004)

	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 Government Balance	National Accounts	External Debt
Date of latest Observation	11/03	12/03	11/03	11/03	11/03	6/7/03	5/31/03	2002	2002	3/31/03	2002	Dec. 2001
Date received	1/12/04	1/12/04	1/12/04	1/12/04	1/12/04	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.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

**Third Review Under the Three-Year Arrangement Under the Poverty Reduction
and Growth Facility and Request for Waiver of Performance Criteria**

Supplementary Information

Prepared by the African Department

(In consultation with the Legal and Policy Development and Review Departments)

Approved by Donal Donovan and Anthony Boote

March 2, 2004

1. A staff team visited Kinshasa from January 31-February 7, 2004 to review developments in the last quarter of 2003 and the implementation status of the measures included in the memorandum of economic and financial policies (MEFP) for the third review of the PRGF-supported program. The contents of this supplement are based on the information obtained during and after this visit and do not alter the thrust of the staff appraisal.
2. On the political side, intensive political discussions among all components of government are ongoing and are expected to lead to key decisions in the near future regarding the legal framework for the upcoming elections, the creation of a leaner national army and police, and the formulation of a decentralization law, all of which are key to achieving effective reunification. Parliament has already passed the law on the organization of the Independent Election Commission, and the draft law on the organization of the army was submitted to parliament on February 19. With Belgian and other bilateral assistance, the restructuring and retraining of the new national army have started, while France is involved in creating a national police force.
3. Concerning the disarmament, demobilization, and reintegration (DDR) of ex-combatants, a working committee comprising the Congolese Joint Chiefs of Staff, Belgium, the UNDP, and a World Bank-led donor steering group is working, *inter alia*, on defining eligibility criteria for retention in the new army and for demobilization. Appointment of a national DDR coordinator is imminent. The World Bank's Executive Board is to consider an IDA credit in support of a DDR program for the Great Lakes region in May. Sporadic fighting has continued in the East. The United Nations Observation Mission in the DRC (MONUC) has announced its intention to repatriate the remaining 10,000 Rwandan ex-Interhamwe soldiers by April 2004. Meanwhile, some social tensions have developed. In the second week of

February, civil service unions called a strike that was followed by about two-thirds of the civil service. The unions suspended the strike after one week, following the government's promise to grant a salary increase starting April 1, 2004 in line with the 2004 budget (see Table), and the situation is gradually returning to normal.

4. On the economic front, real GDP growth for 2002 has been revised upward from 3 percent to 3.5 percent, while preliminary data for 2003 indicate real growth of 5.3 percent compared with a program projection of 5 percent. As indicated in the staff report, the end-of-period inflation rate was 4.4 percent in December 2003, well below the 8 percent projected for the year. In the first eight weeks of 2004, the cumulative rate of inflation was 0.7 percent, or an annualized rate of 4 percent, compared with the program projection of 6 percent. In line with the deceleration in inflation, the Central Bank of the Congo (BCC) in late 2003 further lowered its refinancing rate from 15 percent to 8 percent. In turn, the commercial banks have lowered their lending rates for prime customers from 20 percent to 10-15 percent. The exchange rate remained relatively stable in the first eight weeks of 2004. Following the Paris Club's decision of November 2003 to top up debt relief to Cologne terms in the context of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, seven Paris Club creditors have indicated their preparedness to cancel the entire stock of debt at the completion point, while one other has already decided to do so. The surge in economic activity has created bottlenecks in the country's only seaport at Matadi, prompting the authorities to further simplify procedures and use the services of private subcontractors.
5. On the fiscal side, very preliminary estimates for end-December 2003 show a relatively small shortfall in revenue (0.4 percent of GDP), mainly due to delays in tax payments, and a modest excess (also 0.4 percent of GDP) in current expenditure, mainly related to the cost of reunification. Overall, net credit to the government, taking into account a somewhat larger net financial deficit of the BCC, may have exceeded the revised program indicators by 0.8 percent of GDP. This seems not to have compromised the inflation target, given the increased demand for the Congo franc. However, to ensure achievement of the program's fiscal objectives, the authorities have taken a number of supplementary revenue and expenditure measures. The revenue measures include (i) accelerated collection of overdue taxes and of taxes falling due from large companies in the oil distribution, mining and telecommunication sectors; (ii) review of all existing tax exemption agreements to bring them in line with existing codes; and (iii) strict application of the tax reforms throughout the whole territory and strengthened accountability (with incentives and sanctions) for the provincial directors of tax-collecting agencies. On the expenditure side, the measures include (i) strict control of expenditure commitments and payment orders consistent with the monthly treasury cash plan and a reduction in government mission, utility, and sovereign spending; (ii) strict application of the new budget execution procedures; and (iii) monitoring and limitation of the BCC's cash deficit consistent with the limits set in the Government Economic Program.

6. The 2004 budget, which is in line with the macroeconomic framework included in the MEFP, has been adopted by the government and submitted to parliament (a prior action). The fiscal measures included in the MEFP for early 2004 are being implemented, albeit with delays in some cases, mainly reflecting some technical and procedural complications (Attachment).
7. The implementation of structural reforms is progressing (see Attachment). Notably, the draft law on money laundering and the financing of terrorism is expected to be adopted by government in the next few days, while the draft anticorruption law is being discussed. Both laws are expected to be submitted to parliament soon. The external audit of the civil service pay system started in early February 2004. Restructuring plans have been proposed by all commercial banks to the monetary authorities, who have drawn up a list of banks that could be restructured or liquidated.

Table: 2004 Budget

(In percent of GDP)

	Prog. EBS/04/26	2004 budget submitted to Parliament
I. Total Revenue	9.0	9.0
Customs and Excises	4.3	4.3
Direct and indirect taxes (DGI)	2.7	2.5
DGRAD(including revenue from public enterprises)	0.8	0.9
Petroleum producers	1.2	1.3
II. Loans and Grants	10.1	10.1
Project grants	2.5	2.5
Project loans	3.2	3.2
HIPC debt relief	1.7	1.7
Budget loans	2.6	2.6
Total Revenue and loans/grants	19.0	19.0
I. Current expenditures	7.8	7.8
1.1 Salaries	2.7	3.0
<i>civil service workers (active)</i>	1.2	1.6
<i>civil service workers (retired)</i>	0.1	0.1
<i>Institutions</i>	0.3	0.3
<i>Army</i>	0.7	0.6
<i>Police and security services</i>	0.3	0.3
<i>Retirement program</i>	0.1	0.1
1.2 Operating expenses	5.1	4.8
Institutions	0.7	0.7
Ministries	1.2	1.3
<i>of which defense</i>	0.6	0.6
<i>of which food rations</i>	0.3	0.3
Provinces	0.5	0.5
Interest payments	1.3	1.3
<i>Domestic debt</i>	0.1	0.1
<i>External Debt (payments after debt relief)</i>	1.2	1.2
Centralized payments (utility outlays)	1.0	0.7
Retrocession to revenue collecting agencies	0.4	0.4
Transfers to public agencies and budgets annexes	0.1	0.1
II. Public debt	2.8	2.8
Domestic Debt	0.1	0.1
External debt (Principal)	2.8	2.8
III.HIPC expenditures	1.7	1.7
IV.Capital Expenditures	6.0	6.0
Domestically financed investment	0.3	0.3
Foreign financed investment	5.7	5.7
V. Central bank's cash deficit	0.6	0.6
Total Expenditures (I+II+III+IV+V)	19.0	19.0
Overall Balance	0.0	0.0
Memorandum Items:		
Domestic Primary Balance	2.1	2.1
Defense and Security Expenditures	2.0	2.0
Sovereign Expenditures	1.1	1.0
Pro-poor spending	6.3	6.5

**Democratic Republic of the Congo—Implementation Status of Fiscal and
Structural Measures Included in the MEFP for Early 2004
As of February 27, 2004
(Timetable Envisaged in the MEFP Indicated in Parentheses)**

A. Fiscal

1. The ministerial decree concerning the nation-wide use of tax identification numbers was issued on January 13 (in line with staff report, para. 10 and MEFP, para. 7)¹;
2. The audit of the 2002 budget was presented to parliament in early February (staff report, para. 10 and MEFP, para. 8: January);
3. The legislation relating to the enactments of the March 2003 tariff reforms (eliminating excise taxes on sugar, cement and matches, abolishing the proportionality principle for the turnover tax (ICA) deductibility and confining it to large enterprises, and eliminating the ICA on exports), was submitted to parliament on February 22, for adoption in March (MEFP, para. 7: adoption by end-January);
4. The new revenue classification for the Directorate of Administrative and State Revenues rationalizing the number of taxes was sent to parliament on February 16 (a structural benchmark for February 2004, see MEFP, Table 5B);
5. Submission of the new customs code to the ministerial steering committee is expected before end-March (MEFP, para. 7: by end-January);
6. The daily electronic transfer of debit/credit memoranda and account statements between the Central Bank of the Congo (BCC) and the Ministry of Finance has been delayed because of a strike and technical difficulties but is expected to be fully effective in March (MEFP, para. 8: end-February);
7. The agreement between the Ministry of Finance and the BCC concerning the latter's function of government cashier was signed in mid-February (MEFP, para. 8: end-January);
8. The payment for utility consumption and any services rendered is expected to be operational before end March (MEFP, para. 26: starting January 1, 2004);
9. An interministerial decree on the increase in the area tax from US\$0.0625 per hectare to US\$0.11 per hectare (taking into account the views of large foreign forestry firms), while lowering quasi taxation and modifying export taxes and stumpage fees, is expected before end-March (MEFP, paras. 38 and 59 assume an increase to US\$0.15 per hectare by January 1); and

¹ Staff report, 2/17/04.

10. The Office of the Inspector General of Finance (Inspection Générale des Finances (IGF)) was again brought under the auspices of the Ministry of Finance (presidential decree signed on February 20), but its role needs to be reviewed (MEFP, para. 39: IGF's role will be reviewed).

B. Structural

1. The decentralization law is expected to be submitted to parliament in March, for adoption in June (MEFP, para. 1);
2. The draft law on money laundering is expected to be adopted by the government in the next few days, while the draft anti-corruption law is being discussed by the political committee before it goes to government. Both laws are expected to be submitted to parliament soon (MEFP, para. 18: adoption of both laws in January);
3. The audit of government debt to the domestic private sector that accumulated prior to June 30, 1997 was completed in February (MEFP, para. 26: end-December 2003);
4. The decision to join OHADA was announced on February 4. (MEFP, para. 56);
5. The creation of the Commission for the Validation of Mining Titles is still pending (MEFP, para. 60: January 2004); and
6. In February, restructuring plans have been proposed by all commercial banks to the monetary authorities, who have drawn up a list of banks that could be restructured or liquidated (MEFP, Table 5B).



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IMF Completes Third Review Under the Democratic Republic of the Congo's PRGF Arrangement and Approves US\$39 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the third review of the Democratic Republic of the Congo's performance under a SDR 580 million (about US\$858 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 02/27). The completion of the review enables the release of a further SDR 26.7 million (about US\$39 million), which will bring the total amount drawn under the arrangement to SDR 500.1 million (about US\$740 million).

In completing the review, the Board waived the nonobservance of performance criteria pertaining to the floor on the net foreign assets of the Central Bank of the Congo (BCC), the ceiling on net domestic assets of the BCC, and the ceiling on net bank credit to the government.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on the Democratic Republic of the Congo's economic performance, Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"The authorities are to be commended for their determined implementation of the PRGF-supported program. Performance under the program thus far has been broadly satisfactory. Real GDP growth in 2003 picked up, inflation fell sharply, and progress was made in carrying the reform program forward.

"As envisaged in its interim Poverty Reduction Strategy Paper, the country has moved on from the stabilization phase to the reconstruction phase, and the authorities have continued to make major progress in consolidating the peace process. The inauguration of the new, all-inclusive Government of National Unity in mid-2003 marks the formal completion of the peace and reunification process that was initiated in early 2001.

“Despite these impressive achievements, the Democratic Republic of the Congo (DRC) faces considerable challenges ahead. As regards economic policies, the main tasks will be to preserve macroeconomic stability, deepen structural reforms, promote an environment that is conducive to private-sector led growth, and combat widespread poverty. In the reconstruction process, it will be important to achieve the demobilization and reintegration of ex-combatants, the creation of an integrated army and police, and the rehabilitation of administrative capacity at the provincial level. In particular, it will be essential to pave the way toward free and transparent elections in two years’ time. Timely, well coordinated, and generous support from the international community, including technical assistance, will be crucial for achieving these goals.

“A key priority under the program during 2004 will be to further consolidate the public finances, reduce spending on non-priority areas, and shift resources toward pro-poor spending. Full implementation of the new expenditure procedures and the continued strict adherence to a monthly cash plan should allow for improved expenditure control and more effective tracking of expenditure. On the revenue side, the authorities need to continue to implement their comprehensive tax reform, eliminate tax exemptions, and improve tax compliance. Fiscal sustainability will also require careful attention to debt management.

“The policies of the Central Bank of the Congo (BCC) have been successful in controlling inflation, within the framework of the floating exchange rate system. The BCC is encouraged to persevere in implementing its action plan aimed at improving its accounting, operations and management, and to carry out in a timely fashion the restructuring of the banking system.

“While progress has been made, the structural reform process needs to be deepened and extended to the reunified provinces, in particular as regards the promotion of good governance and the fight against corruption, and the creation of an appropriate economic and security environment for private investment. The authorities are encouraged to end promptly, with the help of the international community, the misuse of the DRC’s natural resources. It will also be important to conduct an audit of the diamond sector, and continue the reform of the mining sector, implement the reform of public enterprises, strengthen the legal system and the judiciary, and reduce red tape,” Mr. Kato said.