

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

DEMOCRATIC REPUBLIC OF THE CONGO

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund (IMF)
and the International Development Association (IDA)

Approved by Robert Corker and Anthony Boote (IMF)
and Hartwig Schafer (IDA)

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I. OVERVIEW

- 1. The government of the Democratic Republic of the Congo (DRC) completed its first full Poverty Reduction Strategy Paper (PRSP) in July 2006.** The new government, which was elected in November 2006 and took office in February 2007, has confirmed its commitment to poverty reducing strategies outlined in the document. This note provides comments and advice from the staffs of the International Development Association (IDA) and the International Monetary Fund (IMF) on the PRSP and plans for its implementation.
- 2. The full PRSP builds upon the Interim PRSP (I-PRSP), adopted in 2002, and reflects the priorities of a country emerging from prolonged armed conflicts,** which ended in 2003 with the exception of continuing violence in the eastern provinces. The short but intense regrettable violence that erupted in Kinshasa in March 2007 is a symptom of the yet to be resolved tensions. These conflicts and decades of poor economic management led to a dramatic drop in national living standards: per capita income collapsed from approximately US\$380 in 1960 to a little over US\$100 in 2004 (in 2000 constant US dollars). The full PRSP aims at restoring political stability, consolidating peace, and reducing poverty through fostering accelerated growth. The implementation of the PRSP will depend, inter alia, on the political support that the new government is able to muster, and on its ability to weather the challenges posed by the difficult political environment.
- 3. The PRSP sets an ambitious development policy agenda,** to be implemented with public capital and pro-poor spending estimated at US\$3.4 billion for the first three-year period (2006-08). Public investment is projected to increase from US\$236 million (3 percent of GDP) in 2005 to US\$1.3 billion (13 percent of GDP) in 2008. Even if financing of this

magnitude is forthcoming, it is not clear that the country has the capacity to absorb such a rapid expansion in public investment.

4. **The strategy comprises five pillars:** (i) promoting good governance and consolidating peace; (ii) maintaining macroeconomic stability and growth; (iii) improving access to social services and reducing vulnerability; (iv) combating HIV/AIDS; and (v) improving community dynamics. The choice of these pillars is based on a number of considerations, including: (a) the recent emergence of the country from armed conflict; (b) the state of governance; and (c) the need to invest in critical productive sectors.

II. DOMESTIC PROCESS, POVERTY DIAGNOSIS, AND THE STRATEGY

A. Participatory Process

5. **The process for preparing the PRSP has been genuinely participatory.** Quantitative and qualitative surveys were undertaken in all eleven provinces, and extensive grassroots consultations were held with the support of the National Institute of Statistics and ten partner non-governmental organizations, with funding from development partners. Participants comprised civil society, private sector, local communities, women and youth associations, churches, and labor unions. Equally importantly, in view of the territorial vastness of DRC, the geographic coverage included areas that are not often polled, such as Ituri, North and South Kivu, and Katanga, which were affected by civil war and insecurity. The participation process also aimed at bringing the rebel groups and political opposition factions into the overall reconstruction dialogue and priority setting. Provincial and sectoral summaries of survey results were prepared as inputs to the national PRSP in an effort to capture the diversity of this immense country and to prepare the ground for eventual decentralization.

B. Poverty Diagnosis

6. **The poverty diagnosis, which resulted from the surveys and consultations as well as other available information, is forthright and rich in insights.** The richness comes from an ambitious series of surveys undertaken by the government over the previous years, including the Multiple Indicators Cluster Survey (MICS), household and labor survey (1-2-3 survey), and participatory poverty analysis. The outcomes of the surveys revealed that poverty is overwhelming, affecting more than 70 percent of the overall population and over 90 percent in the province of Equateur. Its dimensions varied substantially across regions given the vast size of the country. The surveys also helped to detect institutional weaknesses including poor governance and the lack of transparency and accountability as contributors to poverty. Areas most affected by the armed conflicts considered lack of security to be the most important cause of poverty, whereas the isolated provinces are most concerned about scarce food and means of transportation.

7. **The poverty diagnosis could be improved further** through additional work such as surveys on the sources of livelihoods of households and the structure of the economy, and analytical work along the lines of poverty and social impact analysis (PSIA) on gender

aspects of poverty, which could be supported by development partners. These would help devise poverty reduction programs appropriate for the target population.

C. Key Aspects of the Strategy

8. **The results of the poverty diagnosis are reflected in the pillars of the PRSP.**

Particular focus was given to addressing security concerns and promoting good governance, fostering private sector-led growth, and rehabilitating social service delivery.

9. **Improving governance is a complex and long-term agenda.** The PRSP proposes to address it in various ways such as security sector reforms, civil service overhaul, anti-money laundering measures, procurement system improvements, and capacity reinforcement programs. It will be necessary to prioritize and to specify concrete actions in order to achieve the objectives stated in the PRSP. Consolidating security and enforcing property rights by a working judiciary will be essential first steps for private sector development and growth.

10. **The PRSP emphasizes the role of growth as an important part of poverty reduction.** In particular, it accords priority to rehabilitating road and energy infrastructure, including electrification of urban and rural areas. These sectors are expected to receive high shares of the poverty reduction budget, comparable to that allocated to primary and secondary education (PRSP, Table 6). The stated reason is that road infrastructure maintenance has been neglected for many years, which made transportation between and within provinces extremely difficult and often impossible. The energy sector development strategy includes the rehabilitation of Inga dam, promulgation of an Energy Code, and inviting private participation to the sector. In addition to unleashing the potential for growth, rehabilitation of road and other infrastructure is also critical for making social services accessible to the poor. As the vastness of the country inevitably makes such rehabilitation costly, the staffs believe the high allocation is appropriate. This belief is reinforced by the recent findings in the literature that inaccessibility within national territories increases the probability of violence recurring in post-conflict countries.¹

11. **The potential contribution of the mining sector to economic growth is noted in the PRSP.** The sector is particularly important because it has the potential to attract private capital in the near future, and to kick-start private sector-led growth. The role of the government would be to provide an environment conducive to private investments, macroeconomic and political stability, and improved governance of the sector.

12. **An essential element for improving the living standards of the population is rural development:** over 70 percent of the population lives in rural areas, and the sector produces 63 percent of overall output. The government has coauthored an Agricultural Sector Review with the World Bank, and developed a program aimed at diversifying production and improving productivity. Increased agricultural production and trade would help alleviate the serious household food insecurity problems facing the country, along with information

¹ Paul Collier and Nicholas Sambanis “Understanding Civil War, Evidence and Analysis,” Volume 1, Africa-2005.

campaigns to prevent malnutrition by improving the utilization of food by vulnerable groups. The PRSP also recognizes forestry as a critical sector in achieving the poverty, governance, and sustainable growth objectives, and spells out the fundamental policy directions. The continued implementation of these reforms could be used as a progress indicator. The staffs also believe that it will be essential to continue the dialogue among all stakeholders, and in particular to ensure that the indigenous people and other marginalized groups have equal opportunities to participate in managing forest resources, and to access benefits. In the future, more focus should be placed on developing new models to reward and sustain the DRC's global environmental services such as biodiversity conservation and carbon sequestration. The study prepared by the Bank and other development partners could be drawn upon to develop concrete action plans to achieve the objectives stated in the PRSP.²

13. **The PRSP states that accelerated and sustainable economic growth will not be possible without a dynamic private sector engaged in job creation, development of industries, and competitive export sector.** Creating an environment conducive to private sector development is hence an important objective, which will be achieved through: (i) improving the investment climate for both local and international investors; (ii) finalizing the labor and commerce codes; (iii) settling the internal debt due to enterprises; (iv) further reducing the role of the state in key sectors, including by divesting state-owned enterprises (SOEs), and increasing transparency of partnership and management contracts between SOEs and private companies; and (v) reducing the commercial debt through the buyback operation with the London Club. These activities will be accompanied by strengthening of the institutional and regulatory framework. The staffs urge the authorities to observe the comparability of treatment principle among all creditors.

14. **Improving social service provision is a priority in the PRSP,** demonstrated by the proposed increase in budgetary allocations to education and health sectors (including spending on fighting the HIV/AIDS epidemic) from a combined 15 percent of the State budget in 2006 to 40 percent in 2008 (Table 6). The education sector strategy contains many worthwhile objectives, but it might be difficult for the country to attain all of them within the defined timeframe. During the PRSP cycle, the government is expected to reach a decision on a credible financing plan and improve budget allocation for education in line with the sector priorities, as well as take measures to ensure that allocated funds reach their intended recipients. In this regard, external partners appear prepared to step up their support to meet the financing gap on the condition that the education sector financing plan is credible and that there is increased evidence of improved efficiency as well as efforts to reduce dependency on external assistance overtime. The recently completed Education Sector Review and ongoing analyses focused on issues of teacher financing and deployment, and school fees. They will provide guidance on how to prioritize among the many objectives. The health strategy proposes to expand health care coverage by creating new infrastructure and further increasing the number of “health zones.” While they are worthy goals in the medium

² The World Bank is currently assisting the DRC through a series of initiatives, many of which are co-financed by and involve collaboration with international partners. These initiatives focus on analytical work, policy dialogue, and workshops aimed at informing decision making and setting the stage for future collaboration. The World Bank is also financing ongoing services of an expert to assist in the legal review of logging concessions.

to long run, the staffs believe that it would be more effective in the first few years to focus on rehabilitating, reequipping, and rationalizing the existing health facilities network, particularly in rural areas where most of the poor live. In addition, the government would need to form a strategy on how to improve financial accessibility to health and education services. The objective of making these services affordable to the poor should be weighed carefully against the availability of funds.

D. The Macroeconomic Framework

15. **The macroeconomic objectives set for the medium term in the PRSP appear now overambitious, when taking into account the outcome for 2006 and revised projections for 2007.** To achieve an average real GDP growth of 7.7 percent for 2006-08, the strategy identifies priority sectors for growth such as mining, construction and public works, and trade. The development of these sectors is to be sustained by private sector investments particularly in the mining sector, as well as foreign-financed public investment, with total public investment projected to increase by 10 percentage points of GDP between 2005 and 2008. Real GDP grew by an estimated 5 percent in 2006 and is projected to grow by 6.5 percent in 2007. As a result, the average growth rate for 2006-08 is unlikely to be more than 6.5 percent.

16. **In light of the outcome for 2006, the government needs to put greater emphasis on stabilizing the macroeconomic situation in the short term, and subsequently on preserving it and laying the groundwork for growth.** To achieve stability will require bringing down inflation, which rose to more than 20 percent (year over year) in early 2007, and building up international reserves, which fell to only 1½ weeks of imports at end-February 2007. It will be necessary to exercise tighter fiscal discipline and better control of budget execution with the view of avoiding recourse to domestic bank credit to finance the fiscal deficit.

17. **High and sustainable growth is an important element of the poverty reduction strategy outlined in the document.** It is feasible if the country takes advantage of its natural wealth efficiently. In this respect, improvements in governance would be critical as it would help alleviate public sector capacity constraints as well as bolster investor confidence. However, given the level of investment envisaged, it may be difficult to achieve the stated objective of reducing inflation to 6 percent in 2007-2008 from 21 percent in 2005. It could also run against the need for the central bank to build up the stock of international reserves to be able to smooth out the impact of exogenous shocks.

18. **Several issues relating to growth and sustainability merit further analysis.** These include the need for: (i) better definition of the sources of growth and accompanying sectoral policies; (ii) more in-depth discussion of the capacity constraints in the DRC to manage a large increase in public investment; (iii) an assessment of the country's ability to mobilize substantial external financial support; (iv) an in-depth analysis of the reforms needed to develop the trade sector to play a stronger role in promoting growth and reducing poverty; and (v) understanding of the potential consequences of large capital inflows on the economy, including on: (a) the demand for imports and domestically-produced goods, (b) the real

effective exchange rate and competitiveness, and (c) the overall balance of payments and debt sustainability.

19. **Fiscal policy is designed to avoid recourse to domestic bank financing and largely relies on external assistance to finance the development agenda.** In this context, the proposed reforms are in line with the current government plan being implemented with the assistance of development partners:

- **Tax and revenue administration reforms** include increasing tax revenues by broadening the tax base and by strengthening the tax and customs administration. To achieve this, the authorities intend to (i) increase excises, and limit customs exemptions, on oil products; (ii) introduce a VAT in the medium term (the latter hinges on improvements in tax administration); and (iii) reduce tax exemptions. However, greater emphasis needs to be put on increasing non-tax revenues by improving the contribution of the DRC's natural resources to the budget—which would entail a stronger fight against corruption.
- On **expenditures**, the challenge is to improve the efficiency of current spending in favor of pro-poor outlays without jeopardizing macroeconomic stability. In this regard, the implementation of the public financial management plan prepared with the assistance of the Fund is a priority measure to strengthen governance and improve the quality of pro-poor spending. In addition, increases in the wage bill need to be compatible with preserving macroeconomic stability, and should be approved in the context of an overall civil service reform strategy. The strategy should aim at improving the quality of public service delivery and the effectiveness of its workforce—including the application of the census results to the payroll and the removal of ghost workers. The new government should undertake a public expenditure review to improve the efficiency of public spending.

20. **The impact of devolution on the macroeconomic framework merits greater attention.** Under the constitution, 40 percent of government revenue collected in a province is to be retained at the province and an additional 10 percent transferred to finance an equalization fund for investment purposes. It is essential in implementing this that there is sufficient capacity at all levels of government to preserve macroeconomic stability.

21. **Monetary policy reforms should be strengthened to give a greater role to the banking system in private sector development.** The strategy proposes improvements to micro-finance as a way to help pro-poor growth. More emphasis should be put on the reform of the banking system to improve financial intermediation as this will be critical in the long run. The strategy could also include current plans for improving the operations of the central bank and completing its restructuring and recapitalization; strengthening the banking sector supervision function of the central bank; and completing the restructuring of commercial banks.

22. **An alternative scenario is briefly sketched out in the PRSP.** Although less ambitious, it still requires very large external assistance. It assumes slightly lower external financing and government capital spending. However it is unclear to what extent it is

consistent with the outlined poverty reduction objectives; which sectors will be affected by the lower spending; and what the reform priorities under such a scenario would be. It would be useful to flesh out its implications in more detail.

III. IMPLEMENTATION, MONITORING, AND EVALUATION

23. **Implementation, monitoring and evaluation plans for the poverty reduction strategy have yet to be defined.** The Joint Staff Assessment (JSA) of the I-PRSP recommended establishing implementation mechanisms, and spelling out the details of participatory monitoring in the full PRSP. The PRSP presents an organizational chart of multi-layered implementation, monitoring, and evaluation apparatus. It describes the roles of the first five layers, consisting of five ministers, an inter-ministerial commission, and a national coordination unit, which perform essentially supervisory and coordinating functions. The paper states that the government intends to put in place participatory implementation, monitoring and evaluation mechanisms, but their modalities and the role of non-governmental entities have yet to be determined.

24. **The choice of adequate progress indicators will be essential to evaluate implementation.** The PRSP provides a list of such indicators in the annex (Table 8). They consist of target expenditures and two to four measurable progress indicators for five priority sectors (health, primary education, transport, energy, and environment), and partially overlap with the quantitative objectives for reducing poverty (Table 4). The discussion in the main text states that wide consultations were held to select these indicators. It would be useful to also provide such details as why these indicators were chosen, how they contribute to achieving the goals, what their precise definitions are, and how often they will be evaluated.

IV. PRIORITY AREAS FOR STRENGTHENING THE POVERTY REDUCTION STRATEGY AND ITS IMPLEMENTATION

25. **To strengthen the poverty reduction strategy the authorities should concentrate their efforts in a number of key areas.** These include (i) the need to improve the poverty reduction programs and undertake and design surveys to better identify the poor; (ii) the prioritization of measures identified by the PRSP to improve governance; (iii) the development of plans to attain the objectives for the forestry sector; (iv) the development of a strategy on how to improve financial accessibility to health and education services; (v) an improvement in budgetary reporting, as well as strengthening of budgetary controls; (vi) the analysis of issues relating to growth and sustainability; and (vii) the choice of adequate progress indicators and the type of mechanisms to monitor implementation. With the assistance of donors, the authorities should also identify the areas in which donor resources are or could be available.

26. The new government recently presented to the Parliament its program for 2007-11, which, consistent with the pillars of the PRSP, selected five priority sectors: (i) infrastructure, (ii) employment, (iii) education, (iv) water and electricity, and (v) health. **The government now needs to develop a working plan with specific actions, costing, timing, and definition of the entity in charge** at least for the first year, and preferably for the first few years. The plan should be developed by the existing entities for planning and

budgeting, so as to integrate the poverty reduction process into the country's national and local systems. This plan should (i) take into account the realistic amount of financial and human resources available, which means that the reform agenda included in the PRSP should be prioritized and properly sequenced; (ii) assign priorities even among the actions included in this plan, so that less urgent programs can be cut or postponed, should the available financing fall short; (iii) clarify the links among the overall goals, the proposed programs, the macroeconomic framework, and the progress indicators; (iv) develop a matrix of goals, programs, progress indicators, and the entity in charge, which the PRSP does not have currently; and (v) include an external debt management strategy in anticipation of potential additional space for borrowing post-HIPC/MDRI. Preparing the working plan will also help prioritize the needed capacity reinforcement program.

27. Improving governance has been identified as the priority by the population, and therefore, should be an important part of the working plan for the initial years. The government's program included a "Governance Compact" between the Government and the population. The compact is consistent with the priorities identified by international partners on governance issues. It is advisable to concentrate in the first years on measures aimed at securing peace and increasing transparency. Improved governance is particularly important in public finance management, as the authorities currently do not have a systematic mechanism to track spending after the funds are disbursed by the Ministry of Finance. Increased efforts should aim at enhancing transparency and accountability, including the improvement of the technical and managerial quality of the civil service. The execution rate of expenditures in targeted areas is a progress indicator: a meaningful measure would be the arrival rate of funds to end service providers, rather than the departure rate from the Ministry of Finance.

28. There is also a need to formulate an action plan for eventual decentralization. The PRSP does not reflect the transfer in the macroeconomic framework, discuss the devolution of the responsibilities from the central government, nor specify how the equalization fund would function. The staffs believe how the decentralization process is managed would have an important impact on the poor, especially on those who live in poorer provinces, and urge these details to be worked out as early as possible. In this connection, the broad architecture of intergovernmental relations should be appropriately settled before decentralization is initiated—including clear revenue and expenditure assignments and fiscal transfers, the timing and pace of devolution of powers, and the administrative and institutional capacity necessary at subnational levels. The staffs encourage the authorities to first concentrate on improving implementation and monitoring capacity of the local governments. The broad principles and plans to improve local capacity mentioned in the PRSP as well as the survey results from the provinces could serve as a starting point.

29. Providing an environment conducive to private sector development is an important challenge to the government. DRC ranked last in the world according to "Doing Business indicators." The transitional government has taken some measures to improve the situation, such as allowing the entry of private competitive mobile telephone service providers. However, more needs to be done in other sectors, such as railroads, airports, and port management. The transition to a vibrant competitive private sector-led economy needs to be managed in an orderly and transparent manner. To this end, the regulatory framework

must be strengthened, and in particular, for critical sectors such as mining and power. In addition, financial sector development will be an important element for the long term growth of the private sector.

30. **Arrangements for monitoring and evaluating implementation of the PRSP must be made as soon as possible.** Efforts should aim at integrating the poverty reduction process into the existing national and local systems while addressing capacity weaknesses. The creation of new entities to take over the tasks of the existing ones is not recommended unless the existing ones are dismantled. The new entities create parallel structures, and often end up with the same problems as those they replaced, because merely creating new entities does not address the underlying problems that made the existing entities ineffective.

31. **Meanwhile, capacity reinforcement should happen in parallel.** Decades of poor management and conflicts are likely to have deprived the government officials of adequate experience for implementing development programs, and for collecting and analyzing reliable statistics. Other stakeholders such as local communities, media, and non-governmental organizations also require training in order to fulfill their roles effectively in implementation, monitoring, and evaluation. The staffs urge development partners to assist the government in shaping the capacity reinforcement plan that would complement the ongoing poverty reduction programs, and provide the necessary technical assistance and financing. It behooves the development partners to coordinate their activities to provide the best support and not overstrain local capacities.

V. CONCLUSION AND SUGGESTED POINTS FOR DISCUSSION

32. **The preparation of the PRSP provided a framework for holding a national dialogue on poverty reduction strategy, and coordinating the reform agenda.** The surveys conducted during the preparation stage produced valuable information in a country that lacks systematic and reliable data in many areas. The identification of comprehensive outcome indicators will require additional work. In the interim, intermediate outcome indicators will need to be defined. However, the PRSP provides a good starting point to continue the dialogue and to implement reforms so that the country's wealth can be harnessed to improve social welfare in DRC. Operationalizing the broad principles set out in the PRSP will be a challenge, but is essential for achieving progress in combating poverty in the country. The IDA and IMF staffs urge the authorities to take necessary steps to address the wide-ranging issues summarized in the previous section.

33. **Implementation of the PRSP faces serious risks.** These include: (i) insufficient improvements in security and governance to create an environment conducive to private sector investments; (ii) difficulties in mobilizing the external financing required to achieve the social and poverty reduction targets; (iii) inadequate coordination of donor assistance—to avoid duplication of efforts and inconsistent programs; and (iv) inability to develop local capacity in line with desired implementation and available financing.

34. Do the Executive Directors concur with the staffs' identification of priority actions? Do they agree with the recommendations made by the staffs?