



The World Bank

DRC Foundational Economic Governance Reforms DPO series (P179141)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Feb-2023 | Report No: PIDA35692

**BASIC INFORMATION****A. Basic Project Data**

Country Congo, Democratic Republic of	Project ID P179141	Project Name DRC Foundational Economic Governance Reforms DPO series (P179141)	Parent Project ID (if any) P177460
Region EASTERN AND SOUTHERN AFRICA	Estimated Board Date 31-Mar-2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Democratic Republic of Congo	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

Supporting the Government's program of reforms to address DRC's key governance challenges in public finances, market opening, and forestry, in order to accelerate inclusive and climate resilient development.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

DRC's development challenges are enormous. DRC, the largest country by surface area in Sub-Saharan Africa (SSA) and a population estimated at 92.4 million¹, is a deeply fragile country. DRC has a long history of conflict, political upheaval and instability, and authoritarian rule, which have impacted economic growth, led to weak institutions and deep-rooted governance challenges, and hampered the delivery of services to the Congolese people. Almost twenty years after the official end to the Congo Wars (1996-1997, 1997-2003), DRC suffers from a grave humanitarian crisis and human development indicators are among the lowest in the world. A recent surge in insecurity and violence in the East of the country has further exacerbated humanitarian needs and the population's suffering, with more than 5.5 million people currently being internally displaced throughout the country.² Despite abundant and diverse natural resources, including critical minerals for the global energy transition, conflict and insecurity have prevented DRC from converting its ample potential into sustainable economic growth and shared prosperity. The global energy transition – and DRC's positioning as a "solutions' country",³ considering its large critical minerals reserves, hydropower potential and forest – provides a vital opportunity for DRC to transform its vast potential into reality, driving an economic transformation that benefits the Congolese population at large.

Real GDP growth in DRC economy picked up to about 8.6 percent in 2022 as mining production expanded strongly. The mining sector expanded by 20.8 percent in 2022, compared to 10.1 percent in 2021, as a result of domestic capacity expansion and a recovery in global demand. Copper and cobalt production which account for over 80 percent of the DRC exports expanded by 33.3 percent and 24.0 percent respectively in 2022, owing to an ongoing phased expansion of the Kamoa-Kakula copper mine, launched in mid-2021, and which is set to become the world's third-largest copper mine by 2024. However, growth in non-mining sectors was modest, slowing down to 3.0 percent in 2022 (2021: 4.5 percent), due to disruptions in industry and services sectors caused by the war in Ukraine. On the demand side, growth has been led by public investment and exports, while higher inflation reduced the purchasing power of households and constrained private consumption. The macroeconomic framework is deemed adequate for the purpose of the proposed operation, based on improved fundamentals and the Government's prudent policy stance and commitment to implementing reforms as reflected by a strong performance in the IMF's program.

Relationship to CPF

This DPO series is closely aligned with the WBG CPF for DRC for FY22-26 (No. 168084-ZR) discussed by the Board of Executive Directors in February 2022, as it contributes to each of the three focus areas: (i) Strengthen stabilization efforts for reduced risk of conflict and violence; (ii) Strengthen system for improved service delivery and human capital development; and (iii) Strengthen economic governance for increased private sector investment. The 2021 RRA has identified governance failures as a major driver of fragility in DRC. Efforts at strengthening governance are cutting across the three CPF pillars and are at the core of the new DRC CPF. The DPO series includes a strong governance focus across all policy areas and it complements governance milestones supported under the Poverty and Resilience Allocation⁴ (PRA).

¹ World Bank (October 2022): Macro Poverty Outlook (estimate, the latest census took place in 1984).

² UNHCR: as of 31 October 2022: 5.52 million Internally Displaced People.

³ <https://drcprecop27.medd.gouv.cd/en/yangambi.php>

⁴ In October 2021, DRC approved its first national conflict prevention and stabilization strategy. This strategy (based around underlying factors of fragility – governance, justice, security and stabilization, and socioeconomic inclusion, and aligned with the drivers of fragility identified in the World Bank 2021 Risk and Resilience Assessment, RRA) serves as an anchor for the additional resources mobilized under the IDA19 Fragility, Conflict, and Violence Prevention and Resilience Allocation (PRA).



approved for DRC as part of the CPF. The governance PRA milestones are complementary to DPO Pillar 1 and 2 with a focus on enhancing fiscal decentralization, strengthening of the Supreme Audit Institution (*Cour des Comptes*), and increasing access to information. Further, the PRA milestones on socio-economic inclusion are complementary to DPO Pillar 1 with a focus on land management and development of the artisanal mining sector. In addition, reforms supported under the DPO series aim to improve service delivery, with a focus on infrastructure (power, water, roads, telecom) and social sectors (education and health). Reforms also focus on ensuring sustainable management of natural resources and achieving climate resilient development, with a focus on the extractive sector and forests. The new CPF considered resuming the use of DPF in DRC, if there is an adequate macroeconomic and policy framework and government track record and commitment to a substantive policy reform program.

C. Proposed Development Objective(s)

Supporting the Government's program of reforms to address DRC's key governance challenges in public finances, market opening, and forestry, in order to accelerate inclusive and climate resilient development.

Key Results

The scope and level of ambition of the program have been tailored to DRC's country context characterized by deep fragility and ongoing conflict in parts of the country and are aligned with the engagement strategy defined in the CPF. The DPO series supports foundational reforms which play a central role in the implementation of the DRC CPF, explaining its relative breadth, tackling PFM, SOEs, telecoms, climate change and forest. Focusing on key governance drivers of fragility also permits the DPO series to address conflict prevention as a wider objective of its proposed interventions. The scope and level of ambition of the policy actions have been carefully balanced to support fundamental reforms as well as ensure reform realism cognizant of the implementation capacity of the DRC administration. While DPO1 initiated key structural reforms, DPO2 aims to accelerate and deepen implementation of these critical reforms. It supports in particular: the operationalization of the core treasury and accounting functions through key implementing regulations and staffing; the roll-out of digitalization of non-tax revenues across the country; the implementation of the modernized telecom legal framework to allow increased competition; the completion of the competitive recruitment process in key public institution; the strengthening of transparency and oversight mechanisms in the mining sector (mining fund for future generations and mining SOEs); and increased transparency in the forestry sector.

D. Project Description

The DPO series is anchored in three pillars covering seven policy areas:

- Pillar 1: Strengthening the management of public expenditure and mining royalties. Policy areas include: (i) Strengthening expenditure management through the establishment of core treasury and accounting functions and improvements in the public procurement legal framework; (ii) Strengthening domestic revenue mobilization and management of mining royalties.
- Pillar 2: Accelerating digital transformation and strengthening SOE transparency and governance. Policy areas include: (i) Deepening the liberalization of the telecom sector and accelerating digital transformation through the removal of the State monopoly on long-distance fiber optic cables; and (ii) Increasing SOE transparency and strengthening the corporate governance of SOEs.
- Pillar 3: Strengthening governance for sustainable forestry. Policy areas include: (i) Improving governance for sustainable forest management; (ii) Addressing deforestation and forest degradation; and (iii) Supporting climate resilient development.



E. Implementation

Institutional and Implementation Arrangements

The program will be coordinated by the Ministry of Finance (MOF), which will assume the monitoring and evaluation responsibility. The MOF is playing a key role in coordinating economic governance reforms through its Technical Committee for Reforms Monitoring and Evaluation (*Comité Technique de suivi et évaluation des Réformes, CTR*), which is also the technical counterpart of the IMF for the ECF. In addition, PFM reforms are piloted by the MOF Steering Committee for Public Finance Reforms (*Comité d'Orientation de la Réforme des Finances Publiques, COREF*) which is also implementing the ENCORE operation. The Cabinet of the MOF has been leading the preparation of this DPO series, gathering on a regular basis key institutions responsible for the various policy areas (e.g., CTR, COREF, DRC EITI national secretariat, Ministry of Mines, Ministry of PTNTIC, COPIREP, CSP, MEDD, Ministry of Agriculture).

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

This proposed second operation in the DPO series supports reforms that aim to strengthen revenue mobilization and public expenditure management (Pillar 1); accelerate digital transformation and strengthen SOE management and transparency (Pillar 2); and slow deforestation and promote sustainable agriculture (Pillar 3). None of the reforms is likely to have significant adverse social or distributional impacts, and several of the reforms have the potential to have positive poverty and distributional consequences under certain conditions (if, for instance, improved revenue collection leads to higher spending on pro-poor sectors). There are however some risks of negative impacts, mainly related to reforms in Pillar 3, but these can be managed with appropriate reform implementation and the use of mitigation strategies.

Environmental, Forests, and Other Natural Resource Aspects

As per 2017 DPF Policy, the World Bank has assessed whether the country policies supported by this DPO series are likely to have an impact on the environment, forests and natural resources. This assessment shows that the Prior Action #6, given its focus on strengthening transparency and governance of forest resources, is likely to have a positive impact on the country's environment, forest and natural resources if proper mitigation measures are in place. Prior Actions #3 on the Mining Fund for Future Generations (FOMIN), #4 on the liberalization of the telecom sector and #7 on sustainable agriculture development will likely lead to additional or more future investments with their associated potential downstream environmental risks and impacts. However, per the Law no. 11/009 of July 9, 2011, on the fundamental principles of environmental protection, for such initiatives, an Environment Assessment is mandatory and must be done before any project or policy is adopted and implemented. Adopting a National Sustainable Agricultural Policy, under Prior Action #7, will likely lead to significant pest and disease risks, and environmental occupational health risks. To identify and mitigate these risks, a policy centric Strategic Environment and Social Assessment (SESA) has been finalized by the Recipient with FAO support. Prior Action #3 will likely lead to more future investments in provinces, ETDs and communities and their potential downstream impacts are expected to be addressed by an impact-centered Strategic Environment and Social Assessment (SESA) to be prepared under DRC Enhancing Collection of Revenue and Expenditure Management Project (P171762). The Recipient shall go beyond this SESA to ensure that the FOMIN design includes best practices for good environmental, social, and economic governance of any investments associated with FOMIN. The revised FOMIN decree requires the development of an Environment, Social and Governance Policy to inform FOMIN investments. Prior Action #1 on public procurement could lead to adverse environmental impacts, however these risks are mitigated as the standard procurement templates under development (including for direct contracting) will include Health, Safety and



Protection of the Environment requirements.

G. Risks and Mitigation

The overall risk rating for the proposed DPO series is High. The medium- and long-term outcomes of the supported reform measures are highly dependent on continued political stability, combined with political commitment to and progress in the implementation of the reform agenda. This commitment may be affected by the 2023 Presidential elections. Institutional capacity for reform implementation may also impact sustainability and progress. These factors may be compounded by impacts from the heightened conflict in Eastern DRC and the war in Ukraine. The focus of the DPO series to enhance transparency and accountability aim to help preventing slippages in governance in times of crisis. However, mitigation measures may fall short of addressing the shifts in alliances and/or in priorities that may result from intensified political tensions in the context of the heightened conflict in Eastern DRC and forthcoming Presidential elections (scheduled for December 2023). In this uncertain context, it is critical to remain engaged in these priority areas to take advantage of windows of opportunities for major reforms and to pursue technical work when the environment is less conducive for reforms, thus getting ready for the next window of opportunity.

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APPROVAL

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Approved By

Country Director:	Issa Diaw	16-Feb-2023
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